

## Germany: No relief for battered industry

Order book deflation turns into industrial slump. Latest industrial data is another disappointment



Ouch. The downward spiral of German industry continues. Industrial new orders dropped by 2.7% month-on-month in July from +2.7% MoM in June. On the year, new orders were down by 5.6%. Industrial orders data has been highly volatile in recent months with bulk orders often blurring the picture. Excluding bulk orders, July industrial orders would have been up by 0.5% MoM. Still, the trend of industrial orders is anything but encouraging. Since the start of the year, industrial orders have dropped by an average of 1% MoM every month. Looking at the July data, both domestic and foreign orders dropped. Foreign orders from outside the eurozone fell by a dramatic 6.7% MoM, showing once again Germany's exposure and sensitivity to the ongoing trade conflicts and increasing global uncertainty.

The development of industrial orders is a painful illustration of the downward trend of German industry over the last 1 ½ years. While industrial orders dropped by a monthly average of 0.4% MoM last year, the pace of the downswing actually accelerated this year with industrial orders having dropped by 1% MoM on average. What initially only looked like an order book deflation at high levels has become an industrial slump. Interestingly, this downward trend is not only driven by weaker foreign demand on the back of trade conflicts and increased uncertainty. Since the start of the year, domestic orders have actually dropped more than foreign orders, suggesting that global woes have reached the domestic economy.

Today's data is the first hard data for the third quarter and it doesn't bode well at all. While tomorrow's industrial production data could bring some relief and latest confidence indicators still point to weak but positive growth, the combination of shrinking order books and high inventories suggests that the industrial slump will not be over any time soon.

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