Germany: Strong industrial data keep hopes of a positive Q4 surprise alive

Neither the light lockdown in Germany itself nor the stricter lockdowns in some neighboring countries impacted German industry in November. Instead, industrial production and exports continued their positive momentum in November, keeping hopes alive that the economy could avoid a double dip in Q4.

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Industrial production continued its positive momentum. In November, increasing by 0.9.% month-on-month, from an upwardly revised +3.4% MoM in October. On the year, industrial production was still down by 2.6%. The increase was driven by almost all sectors; only the production of consumer goods dropped. The construction sector continued its gradual rebound of the summer, seeing activity increasing by 1.4% MoM in November.

At the same time, exports (seasonally and calendar adjusted) increased by 2.2% month-on-month in November, from 0.9% in October. iImports increased by 4.7% MoM and the trade surplus narrowed to €17.2 billion, from €19.4 billion in October.

Today's data keep hopes for a positive surprise in Q4 alive

Since the summer, industrial activity has decoupled from the service sector and other lockdown-hit activities. The nature of the 'smart lockdowns' is clearly one important driver of this divergence. Also, the German manufacturing sector seems to benefit from the strong and continuing recovery of the Chinese economy. Yesterday's industrial orders data suggests that this divergence could still continue. However, don't forget that the manufacturing sector entered the crisis on a much weaker footing than most other sectors. Despite the recent acceleration, industrial production is still some 4% below its pre-crisis level.

Industry is back as the German economy's biggest hope in the race against the double dip. In fact, if it wasn't for the pandemic and the lockdowns, available hard monthly data all point to a strong economic performance in the fourth quarter. At its current level, industrial production is up some 6%, and the construction sector some 5%, compared with the third quarter. Even retail sales were much stronger than in the third quarter. And there is another more technical factor which possibly could bring relief in the fourth quarter: a reversal of the the sharp inventory reduction since the summer. Admittedly, mobility and activity indicators for December suggest a significant slowing in the last two weeks of the year, which should heavily way on the economy. However, it would for example need a collapse in industrial production in December by almost 15% MoM to offset the strong performance in October and November.

Next week, the German statistical agency will release its first preliminary result for 2020 and Q4 GDP growth. Not an easy task for statisticians as no hard data for the month of December is available yet. In any other year and given positive monthly data for the first two months of the quarter, a call for a strong fourth quarter of the German economy would be normal. However, 2020 was anything but a normal year. Given the negative impact from the latest lockdown measures on sentiment and services, particularly in the two last weeks of December, a small contraction and hence a double dip of the German economy is still possible; even if today's strong industrial data keep the hopes of a positive surprise alive.

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