

## Germany: Industrial reacceleration

Strong momentum at the start of the fourth quarter suggests that industry and construction are the economy's hopes against a double dip.



German industry entered the fourth quarter with strong momentum. In October, industrial production increased by 3.2% month-on-month, from an upwardly revised +2.3% MoM in September. On the year, industrial production was still down by 3%. 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 1.6% MoM in October.

### Industry is the economy's hope against a double dip

Industry is back as the German economy's biggest hope in the race against the double dip. At least for now. 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. Last week's industrial orders data suggest 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 5% below its pre-crisis level.

The manufacturing and construction sectors are currently the German economy's only hopes to still avoid a contraction in the fourth quarter. At its current level, industrial production is up some 5%, and the construction sector some 4%, compared with the third quarter. And there are two more technical factors which possibly could bring relief in the fourth quarter: the sharp inventory reduction since the summer and the two quarters of contraction for the construction sector. These are two trends which are often reversed in the following quarters, potentially already in the fourth.

Despite some weakening, production expectations were still strong in November and order books are filled again. In our view, industrial production should be the bright spot of the economy in the fourth quarter but given the negative impact from the latest lockdown measures on sentiment, services and consumption, this positive industrial momentum should in our view not be enough to avoid a double dip for the German economy.

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