

## Germany: Horrible start to the second quarter

Disappointing April data from industrial production and trade suggest that the latest ECB's dovishness is justified



German industry had a disappointing start to the second quarter. Both industrial production and trade fell in April, adding to the latest concerns that the eurozone's largest economy will not be able to maintain its growth pace of the first quarter of the year.

Industrial production fell by a sharp 1.9% month-on-month in April, from 0.5% MoM in March, the first drop since January this year. On the year, industrial production was down by 1.8%. Production in all sectors dropped, except for activity in the construction sector.

At the same time, German exports (seasonally and calendar adjusted) fell like a stone, dropping by 3.7% MoM in April, from 1.6% MoM in March. Imports decreased by 1.3% MoM, from 0.4% MoM in March. As a result, the trade balance shrank to €17.94 billion in April from €22.6 billion in March.

### Two data points - one story

Let's be clear, this is a horrible start to the second quarter for German industry, as global trade tensions as well as temporary problems in the automotive sector and chemical industry have left

their marks. One-off factors should have disappeared by now and even turned into temporary positives. Yet the experience of the last few years shows that there is almost always another disruptive one-off factor waiting around the corner. This means that industry will continue to fluctuate between, on the one hand, low interest rates, high capacity utilisation and a strong need for new investments which eventually should be supportive and, on the other hand, disruption from trade tensions as well as structural changes in the manufacturing sector.

Despite the order book deflation since last summer, businesses still report filled pipelines of assured production. At the same time, however, another sharp increase in inventories brings back memories of last year and should curb the optimism.

The German export sector also continues to suffer from the trade conflict. But it's not all gloom and doom. Maybe it was hoarding in the run up to the first Brexit deadline but exports to the UK increased in the first few months of the year. In fact, German exporters almost sold as much to the UK as to China over this period. Also, the share of exports going to the US slightly increased though this could clearly be a two-sided sword as it shows how vulnerable the German economy is to possible US tariffs. At the same time, the weakening of the effective exchange rate since September 2018 should have partly cushioned the negative impact from global trade tensions. Currently, the effective exchange rate is below its 2018-level, providing some tailwind for exports in the months ahead.

## Down but not out, yet

Looking ahead, the past has often shown that a single month is clearly not a good illustration of German industry or the entire economy. The April data could even be partly distorted by seasonal effects. However, there is no doubt that the German economy had a disappointing start to the second quarter, justifying the European Central Bank's new dovishness. It now needs even stronger domestic demand and a bounceback in May and June to avoid a return to recessionary territory.

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