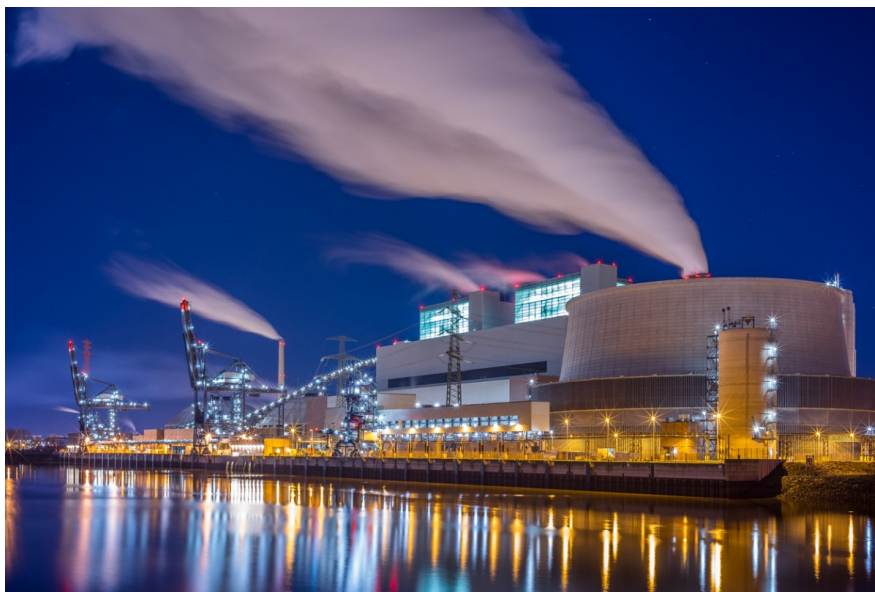


## Germany: Still on vacation break

German industrial production remained flat in July, but there's no reason for concern. The industry was simply still on annual leave



Source: iStockphoto

German industrial production remained unchanged in July, after a 1.1% MoM drop in June. On the year, industrial production was up by 4.0%, from 2.7% in June, due to favourable base effects. While the production of capital goods and consumer goods dropped slightly in July, production of intermediate goods surged, and activity in the construction sector also rebounded.

After yesterday's drop in new orders, today's rather disappointing industrial production data could give rise to doubts about the strength of the German economy. It shouldn't.

In fact, industrial production grew continuously in the first five months of the year. Some pause in this trend was bound to happen. Also, experiences of the past years show that German economic data is more sensitive to seasonal effects than one might believe. It would not be the first time that industrial production data is weak due to vacation effects.

The German industry was simply still on annual leave but should return with a rebound after the summer. Looking ahead, we believe, the prospects for the German industry remain rosy, at least for the short term. Yesterday's drop in new orders was mainly driven by bulk orders, the underlying trend is still positive. In fact, still low inventories and filled orders bode well for industrial production in the coming months.

Also, with capacity utilisation back at levels last seen in 2007 and equipment being increasingly mentioned by the manufacturing industry as a limiting factor to production, investment should also gradually pick up. Even more, if we are right, and the next new German government (no matter what the outcome of the election will be) will deliver some investment programme, both for the public and private sector.

With slightly more than two weeks to go, today's industrial data has once again illustrated why the economy is not an issue in the election campaign. Even though the German economy is in the final stages of a very mature cycle – low-interest rates, a potential investment package and the strengthening of Eurozone peers can easily be extended for a couple of years.

Eventually, all good things come to an end, and the German economy is no different. It needs structural reforms to tackle challenges like ageing, digitalisation, Chinese competition in high-tech manufacturing or a global shift towards a more service-oriented economy. And for the time being, this is a story that most Germans aren't interested in.

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