Germany: Summer action continues

Strong industrial production data provide further evidence that the economy has left summer lull behind and has returned to maximum speed

Source: istock

German industrial production surged by 2.6% MoM in August, after a 0.1% MoM drop in July. On the year, industrial production was up by 4.5%, from 4.1% in July. After two weak months, the German industry has left the summer lull behind. While the production of capital goods and consumer goods increased sharply, activity in the construction sector dropped due to the August vacation break.

In fact, the weak spot of the last years – investment and industrial production –has increasingly and steadily shown signs of a revival. With capacity utilization back at levels last seen in 2008 and equipment being increasingly mentioned by the manufacturing industry as a limiting factor to production, investment should further pick up. With the expected investment programme of the new government, the current cycle should be extended by another couple of years.

The German economy could continue to grow above its potential *growth rate.*

The biggest risks, currently, seem to come from the external side: geopolitical risks, the stronger euro, a possible slowdown of the US economy as a result of further absence of tax relief or investment programs, a slowdown of the UK economy as a result of continuing Brexit uncertainty and China's ongoing transition from welcome export destination to serious competitor could spoil the German growth party in the coming years.

While the coalition talks have not even started (and are also unlikely to start before Sunday's regional elections in Lower Saxony), the German economy is powering ahead. In fact, even if the coalition talks could be more complicated and could also take longer than usually, there is no reason to get concerned. In fact, Germany can take comfort from the experience of its Western neighbors which shows that "only" having a caretaking government for a long while is no obstacle to strong growth.

> As so often over the last years, the German industry has proven to be extremely sensitive to weather effects and vacation planning. After two weak months and first doubts about the strength of the industry, August industrial data should have washed away any of these concerns. Hard data are again catching up with buoyant sentiment indicators, boding well for growth in the third quarter.

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