

Germany: This is no rebound

Industrial production disappoints once again, defying any hopes for a quick rebound of the German economy



Hopes for a quick rebound of German industry were short-lived. After yesterday's promising new orders data, industrial production dropped by 0.6% month-on-month in September, from 0.4% MoM in August. On the year, industrial production was down by 4.3%. Activity in the manufacturing industry was down by 1.3% MoM. Activity in the construction sector recovered with an increase of 1.8% MoM in September.

Yesterday, new orders rebounded after two consecutive drops, adding to hopes that the manufacturing sector and with it, the entire economy could finally end the free fall which started in the summer of 2018. However, today's industrial production data shows that any optimism on the outlook for German industry is premature.

Looking ahead, while there has been some stabilisation in confidence indicators, more structural factors in German industry continue to bode ill for industrial production in the coming months. Capacity utilisation has dropped to the lowest level since the first quarter of 2016. In line with lower capacity utilisation, equipment as a limiting factor to production has also eased significantly and even the long pressing issue of the lack of qualified workers is disappearing. The latter clearly provides further evidence that the German labour market is also feeling the economic slowdown. Even in case of some easing of the current trade conflicts and an end to the Brexit uncertainty, it

will probably take until the first quarter of next year to see a significant rebound of German industry.

The only upside from this morning's data is the strong rebound in activity in the construction sector. With the September rebound, construction should have been a weak but positive growth driver in the third quarter. Add to this that retail sales were also up on the quarter and a contraction in the third quarter of the entire economy (and therefore a technical recession) is not yet a done deal. So far, we only know that industry is in recession but not necessarily the entire economy. As so often, it will be the export sector, which decides on the fate of the German economy in the third quarter. Stay tuned.

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