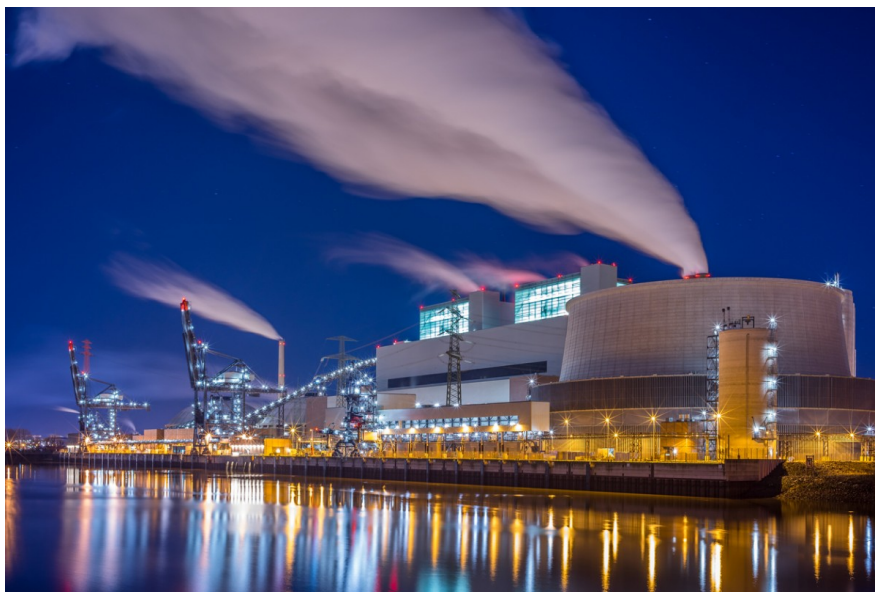


Germany: Too little too late

Slightly positive September industrial production data probably came too late to avoid a disappointing performance of the entire economy in the third quarter



Source: iStockphoto

Industrial production increased by 0.2% month-on-month in September, from a slightly upwardly revised 0.1% MoM in August. On the year, industrial production was up by 0.8%. Growth was mainly driven by stronger production of investment goods. Also, production in the energy and construction sector improved. The increase in the construction sector is particularly noteworthy as it is one of the few sectors which seems to have contributed positively to overall GDP growth in the third quarter.

Levelling off, not a slowdown

Stagnation at a very high level. This is the characterisation of Germany's industrial performance this year. A deflating order book has gone hand in hand with inventory build-ups and stagnating industrial production. In the first nine months of the year, industrial production remained flat. In our view, this is still more a levelling off at high levels and normal for a late-cycle recovery than the beginning of a severe slowdown.

Where will German industry go from here? Obviously, an escalation of the trade tensions or a

significant slowdown in the US and China, as well as temporary supply-chain complications due to Brexit, could further weaken German industry. On top of that, there are also signs of a broader slowing of the country's industry. Capacity utilisation dropped from record highs and production constraints are also disappearing. At the same time, however, order books are still richly filled, near-term production growth is assured and car sales should pick up again once the adjustment to the new emission norms has been fully implemented. In sum, risks to the outlook have clearly increased but history tells us that most risks tend to remain risks without actually materialising.

Too little too late - at least for the third quarter

With this week's batch of industrial data for the month of September, the countdown to next week's 3Q GDP has clearly started. Already released data for the eurozone as a whole and several member states has suggested that either the first estimate for the eurozone (+0.2% QoQ) was too low or the German economy almost came to a standstill. All available data suggests that the latter seems to have been the case. Compared with the second quarter, retail sales and industrial production were down. Don't forget that there was a huge inventory build-up in the second quarter, contributing 0.4 percentage points to QoQ growth and fully offsetting the negative impact from net exports. All of this means that only the construction sector, public consumption and net exports can still prevent the worst performance of the German economy since the first quarter of 2015.

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