

## Germany: Too much party leads to too little production

Industrial production took another breather in October on the back of yet another long weekend and more public holidays.



### Sensitive industrial production

German industrial production once again showed how sensitive it is to weather effects and vacation planning. Industrial production dropped unexpectedly by 1.4% MoM in October, after a September drop of 0.9% MoM. On the year, industrial production was still up by 2.7%, from 4.2% in September. The October drop was driven by all sectors except energy production.

### Bigger picture remains positive

Two consecutive drops in industrial production could be grounds for concern. However, in our view, and as strange as it might sound, the October drop is simply the result of public holidays and long weekends. All soft and hard indicators actually point to a strong surge in industrial production in November.

Looking at the bigger picture, despite today's drop developments over 2017 so far confirm that the weak spots of the past few years – investment and industrial production – are gradually returning as strong growth engines. Judging from the data for the first ten months of the year, industrial

production has had its best year since 2011. With capacity utilization back at levels last seen in 2008 and equipment being increasingly mentioned by manufacturing as a limiting factor to production, investment should further pick up.

Yesterday's increase in industrial new orders was another illustration of strong momentum in German industry. In fact, it was the first time since the summer of 2016 that new orders have increased for three months in a row. So, in our view there is no reason to get worried about the current strength of the German economy. Simply keep your seat belts fastened. The fast ride of the German economy looks set to continue.

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*The irony of today's drop in industrial production is that it probably reflects the strength and not the weakness of the German economy. Apparently it is going so well that people and companies can simply afford to take some time off.*

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