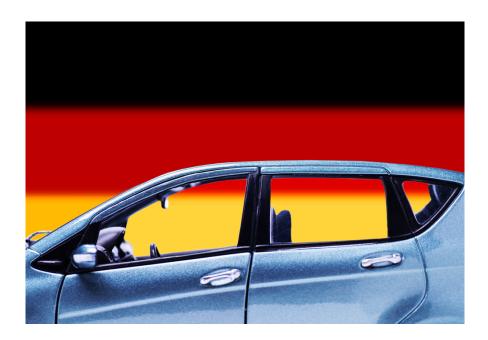


Snap | 7 December 2017

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 groundsfor 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

Snap | 7 December 2017 1 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.

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.

Author

Carsten Brzeski Global Head of Macro carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

 $Additional\ information\ is\ available\ on\ request.\ For\ more\ information\ about\ ING\ Group,\ please\ visit\ \underline{http://www.ing.com}.$

Snap | 7 December 2017