

## Germany: Weak signs of life

A bit of relief. Both industrial production and exports sent tentative signs of life in May. The upside: the German economy is not falling off a cliff. The downside: the relief is too feeble to justify any optimism



After a disappointing start to the second quarter, both industrial production and trade recovered somewhat in May. Industrial production increased by a meagre 0.3% month-on-month in May, from -2.0% MoM in April. On the year, industrial production was down by 3.7%. Production in the manufacturing sector increased by 0.9% but activity in the construction sector dropped by 2.2% MoM, probably driven by too many holidays in May.

At the same time, German exports (seasonally and calendar adjusted) only partly recovered from the sharp April drop and increased by 1.1% MoM in May. Imports decreased by 0.5% MoM, from -0.9% MoM in April. As a result, the trade balance widened to €20.6 billion in May from €17.9 billion in April.

### Not enough relief

It could have been worse and the increase in production in the manufacturing industry, in particular, indicates that it's not all shock-and-awe in German industry. However, it is obvious that industry continues to suffer from structural changes and the ongoing trade conflicts. This means that industry will continue to fluctuate between, on the one hand, low interest rates, high

capacity utilisation and a strong need for new investments which eventually should be supportive and, on the other hand, disruption from trade tensions as well as structural changes in the manufacturing sector. Despite the order book deflation since last summer, businesses still report filled pipelines of assured production. At the same time, however, the sharp increases in inventories in almost all sectors of industry brings back memories of last year and does not bode well for the second half of the year.

The fact that German industry has not fallen off a cliff unfortunately does not mean that any rebound is in the cards in the near term. The order book deflation, as well as inventory build-up, is a strong warning against too much optimism. Even worse, today's industrial data suggests that, at least for the second quarter, the German economy is running out of powerful growth engines. For the European Central Bank, today's data will not yet flip the coin on whether to deliver a pre-emptive rate cut at the July meeting. The data was not bad enough to panic but definitely not good enough to lean back and enjoy the summer.

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