

## Strong industrial data alleviates recession risk in Germany

German industrial production rose much more than expected in February. A technical recession has now been avoided, but we're expecting only subdued growth in the months ahead



This week's batch of hard economic data for February shows a strong comeback for German industry. Industrial production is the latest data point, released this morning, coming in at 2.0% month-on-month, from 3.7% MoM in January. On the year, industrial production was up by 0.6%. Production in the energy-intensive sectors increased by 1.9% MoM but is still down by some 12% compared with February 2022. Activity in the construction sector increased by 1.5% MoM.

German industry seems to have woken up from hibernation and has by now more than made up for the sharp plunge in December. The strong rebound seems to be driven by the reopening of China, strong activity in the automotive sector and a more general ongoing reduction of backlogs. Despite the strong rebound, however, industrial production is still slightly below its pre-pandemic level.

## Technical recession avoided but only subdued growth ahead

Earlier this week, both exports and imports – in nominal terms – also surged in February. More importantly, the trade surplus was significantly higher in the first two months of the year than in the final quarter of 2022. At the same time, however, retail sales continued their winter descent. Taking all these data points together paints an economy that is en route to avoiding stagnation in the first quarter. It is, however, also an economy with a growing divergence between consumption and industrial activity. While the former looks like a structural feature on the back of still high inflation, the jury is still out whether the latter is just a short-lived rebound or a somewhat longer-lasting catching up.

Yesterday, leading German economic research institutes slightly revised upward their growth forecasts for 2023 to 0.3%, from -0.4%. While this created a collective sigh of relief in German media, we remain more cautious. Admittedly, this week's strong industrial data take away the risk of a technical recession. However, despite the recent surge in new orders, the inventory build-up as well as the expected slowdown of the US economy argue against too much industrial optimism. It would not be the first time that the German (and the European) economy starts the year on a positive note, just to lose momentum over the course of the year. Finally, don't forget that the recent financial turmoil and broader impact of the most aggressive monetary policy tightening in decades will weigh on economic activity.

More generally speaking, it doesn't really matter whether German GDP growth for the entire year comes in with a small contraction or meagre growth. What is more important is that the ongoing war in Ukraine, ongoing structural changes, continued geopolitical tensions and an ongoing energy transition are the main drivers of what seems like subdued growth for a long time.

Nevertheless, ahead of the long Easter weekend, today's industrial production data are a welcome sign of relief and evidence that German industry is more resilient than often feared.

### Author

#### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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 <http://www.ing.com>.