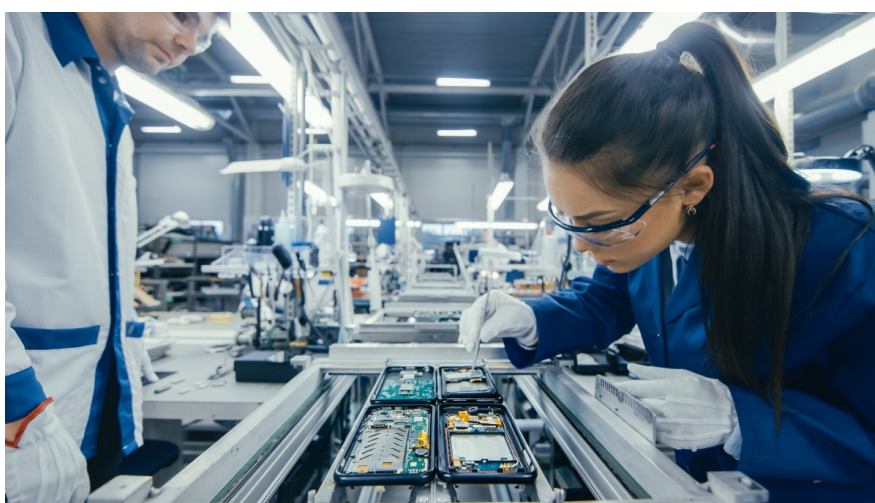


Weak German industrial production marks end of another disappointing week

Another disappointing macro week suggests that the German economy is on track for another quarter of contraction



After a drop in exports and a sharp fall in new orders, it is now the turn of industrial production to disappoint, signalling a very weak start to the fourth quarter. In October, industrial production fell by 0.4% month-on-month, from -1.3% in September, the fifth consecutive monthly drop. On the year, industrial production was down by 3.5%. Industrial production in energy-intensive sectors dropped by 1.4% MoM and is down by more than 7% on the year. Even worse, production in the construction sector decreased by more than 2% MoM. To make a disappointing report even worse, industrial production is some 7% below its pre-Covid level, almost four years since the start of the pandemic.

Fiscal woes add to recession risks

This week's data confirms that it will not be easy for the German economy to gain fresh growth momentum. Even if the worst of the weakening in sentiment seems to be behind us, the hard economic reality does not look pretty. In fact, the economy seems to be on track for another quarter of contraction. And the list of dampening factors for the German economy is long; be it the still-unfolding impact of the European Central Bank's monetary policy tightening, the potential slowing of the US economy or new uncertainty regarding already-announced fiscal stimulus measures and potential new austerity measures. Only a turn in the inventory cycle could bring

some relief in early 2024, although this turn has not happened yet.

In the meantime, the fiscal woes continue. In yesterday's regular weekly government meeting, the coalition could not agree on a budget for next year. Time is running out and the government needs to find a solution to what currently looks like a €17bn hole in the 2024 budget. The problem is clear, the solution isn't. Either the government declares an emergency situation for the fifth year in a row to get a deviation from the constitutional debt brake or it will have to agree on expenditure cuts and/or tax increases.

So far, the liberal FDP has opposed declaring another emergency for 2024, fearing further deterioration of support from its own party members as well as voters. For the Greens and the SPD, expenditure cuts for flagship projects like the green transition and social benefits also look like a no-go. It currently looks unclear as to how the coalition wants to square the circle. Deviating from the debt brake would be the least harmful for the economy. Austerity measures would clearly push the economy further into recession, leaving aside that it would lead to an unprecedented fiscal policy stance across the eurozone - austerity in a low-debt country and rather loose fiscal policies in high-debt countries. In any case, recent fiscal woes have clearly damaged the credibility and reliability of policy announcements and at least in the short term, will lead to more investment and consumption being held back.

All in all, we expect the current state of stagnation and shallow recession to continue. In fact, the risk that 2024 will be another year of recession has clearly increased. It would be the first time since the early 2000s that Germany has gone through a two-year recession, even though it could prove to be a shallow one.

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