

German industrial production still struggles to gain positive momentum

German industrial production is still struggling to gain momentum. Still, an industrial upswing remains in the making, even if surging oil prices could clearly spoil the party



German industrial production disappointed in January

German industrial production started the year on a weak footing, dropping by 0.5% month-on-month in January, from an upwardly revised -1.0% MoM in December. The January drop was mainly driven by weaker production in the metal and pharmaceuticals industries. On the year, industrial production was down by 1.2%.

At the same time, new industrial orders collapsed, falling by more than 10% MoM in January. However, after two strong months driven by bulk orders, the January drop is a reversal of these bulk orders. Excluding bulk orders, industrial orders were down by 0.4% MoM.

Weak start to the year for industry

This morning's industrial data pours cold water on premature optimism. In fact, the data suggests that the shaking of the ketchup bottle will continue a bit longer before the full impact will show up in the data. For the time being, we should prepare for a weak first quarter. This is still the build-up phase of the ketchup bottle effect, with temporary setbacks. Improving production expectations,

the rise in order books since last summer and gradually dropping inventories would all still bode well for German industry – if it wasn't for a new risk on the horizon.

The modestly optimistic outlook for German industry has become more blurred again. The war in the Middle East and, above all, the surge in oil prices could clearly spoil any industrial rebound party in Germany. Even if this is not (yet) 2022, when surging energy prices following fiscal stimulus during the pandemic first fuelled an inflation wave and then a wage-price spiral, the spike in energy prices – if sustained – is a clear stumbling bloc for German industry. Let's not forget that the so-called energy-intensive industries account for some 17% of industrial gross value added and employ just under one million people.

All in all, this morning's data confirms that any industrial rebound is not a given. Order book positions since the summer and some €200bn of fiscal stimulus for defence and infrastructure this year are still strong arguments to expect an unfolding of a decent industrial rebound. Even if today's data as well as surging oil prices show that it will definitely not be a walk in the park.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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