

The NewsLine

November 7, 2018

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GERMANY

Industry records weakest quarter in four years

Seasonally adjusted industrial production rose by only 0.2% in September compared with the previous month. On average in the third quarter, production was thus 0.9% below the level of the second quarter. It last recorded a similarly weak development in the second quarter of 2014.

The disappointing third quarter can certainly be explained to a considerable extent by special factors. In the automotive sector, for example, there were major problems with the certification of vehicles according to a new emission test procedure, which led to a very sharp drop in production in the automotive sector. On average in July and August, production was 9% below the level of the second quarter. Excluding the automotive sector, industrial production would have stagnated at least during this period.

There is no doubt that the economic prospects for the German economy have deteriorated in recent months. This can be seen both in sentiment indicators such as the ifo business climate index and the purchasing managers' indices and in "hard" economic data such as production, incoming orders and retail sales. In our view the main reasons for this are the continuing uncertainty over the outcome of the trade dispute with the US and sluggish progress in the Brexit negotiations. The further development in these problem fields will play a decisive role in determining whether the German economy will noticeably gain momentum or not following a likely stagnation in the third quarter. In principle, the domestic economic conditions are good for a continuation of the upswing. This applies in particular to private consumption, which continues to benefit from strong employment growth.

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