Economic Briefing

Germany – Production in the winter slump

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Dr. Ralph Solveen [AC]

Industrial production fell very significantly by 2.4% in December compared to the previous month. However, this follows a fairly strong increase in November, and the production figures around the turn of the year are always very strongly influenced by the Christmas holidays, the effect of which is not fully filtered out by the seasonal adjustment. Nevertheless, today's figures underline the continuing weakness of the industry, which is likely to persist for some time despite the signs of a slight improvement in incoming orders.

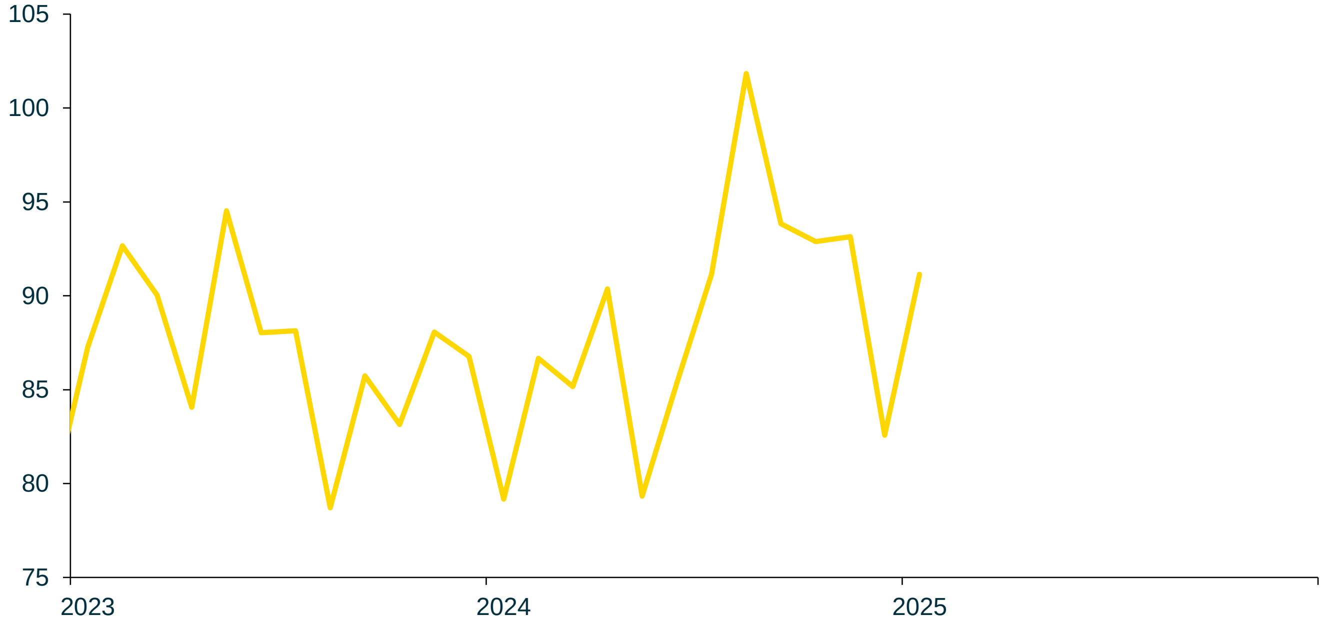
After yesterday's good figures for incoming orders, the December figures for industrial production were clearly disappointing. With a decline of 2.4% compared to November, they were even weaker than expected. This means that production in the fourth quarter was almost 1% lower than in the third quarter, which is an important reason why the German economy as a whole shrank by 0.2% in the final quarter of last year.

However, the significant drop in December is likely to underestimate the underlying trend. The production figures around the turn of the year should always be interpreted with caution, as they are heavily influenced by the Christmas holidays and this effect is only partially factored out by the seasonal adjustment. For example, the drop in December is largely due to a 10% drop in production in the auto industry, and the figures already available for January from the German Automobile Association (VDA) indicate that production in January largely compensated for the drop in December (chart). As a result, the industrial sector as a whole is likely to post a noticeable increase again in January.

Irrespective of this, however, manufacturing remains the weak spot in the German economy. And this is unlikely to change any time soon, even if the signs of an upturn in demand shown yesterday in incoming orders are confirmed in the coming months. This is because many companies continue to rate their order situation in the Ifo survey as too low, meaning that they would probably only react to an increase in demand with higher production after a considerable delay. Added to this are the structural problems of the German economy and the likely continued weak demand from China. As a result, the economy is likely to pick up this year in view of a better monetary policy environment, but the upward trend will be very moderate.

Chart 1 - VDA figures point to higher car production in January

Number of cars produced in Germany, 2019=100, seasonally adjusted monthly figures



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Analysts

Dr. Ralph Solveen [AC]
Senior Economist
+49 69 9353 45622
ralph.solveen@commerzbank.com

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Frankfurt	**London**	**New York**	**Singapore**
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000