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Economic Briefing

Germany - Recovery in demand is still a long time coming

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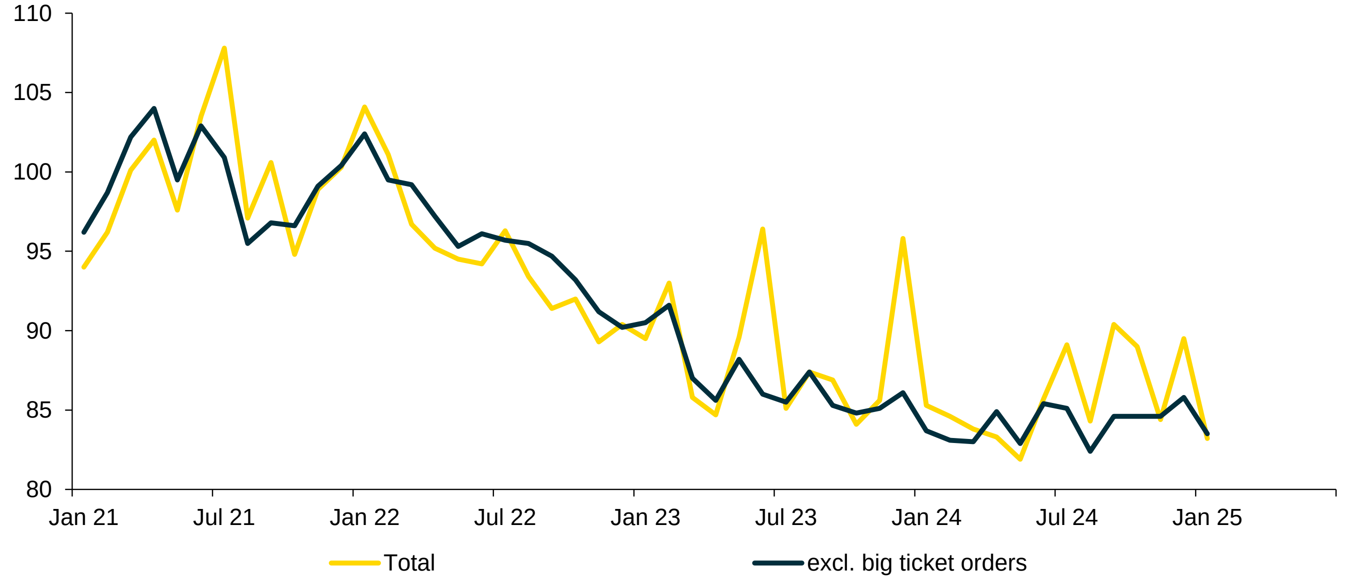
With a slump of 7%, incoming orders in German manufacturing in January gave up the strong growth seen in December. The sharp drop is largely due to fewer large orders. But even if these are factored out, a significant drop of 2.7% remains. Despite today's weak figures, incoming industrial orders appear to have stabilized. However, a revival in demand, which seemed to be on the horizon with the December increase, is still a long way off.

The January figures for incoming industrial orders have once again put a noticeable damper on hopes of an imminent upturn in German industrial production. It is less important that incoming orders fell by 7% overall compared to December. This is because this overall figure has been determined for several months by strong fluctuations in the volume of large orders, which are usually only processed with a considerable time lag and then over a longer period of time, meaning that they have little influence on the short-term development of production. It is rather disappointing that the core figure excluding large orders also fell significantly by 2.7% in January compared to the previous month, meaning that the hopes of a gradual recovery in demand raised by the good December figure have not been fulfilled (Chart 1).

Chart 1 - No revival of demand so far

Order intake in German manufacturing, volumes, 2021=100, seasonally adjusted monthly figures

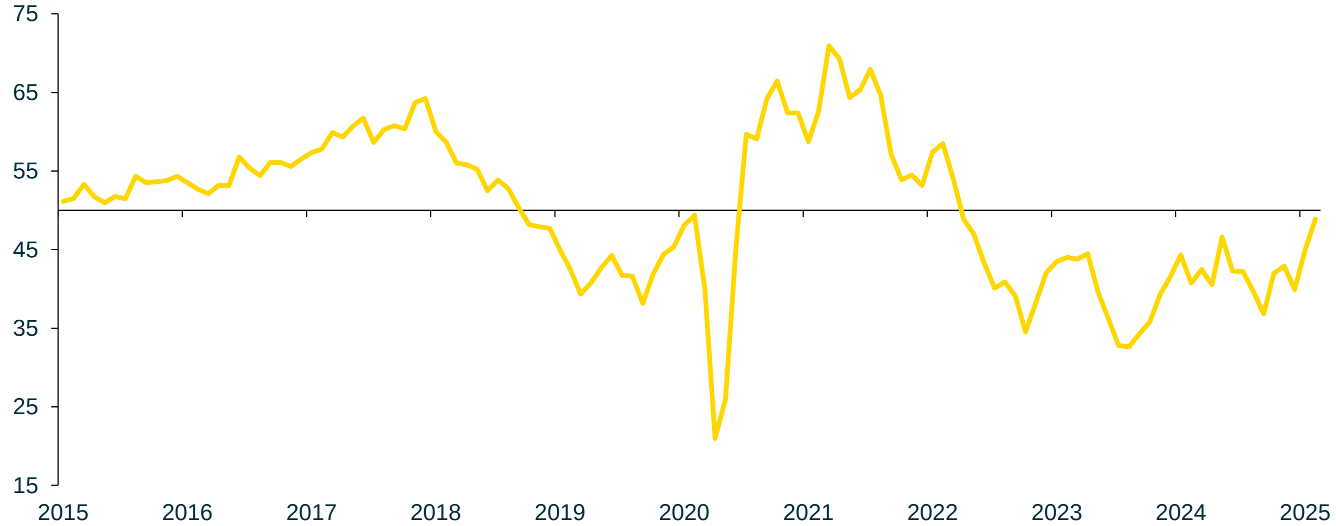


Source: Destatis, S&P Global, Commerzbank Research

However, the weak January figure does not change the fact that incoming orders, excluding large orders, have stabilized for a year now. This is also indicated by the corresponding sub-component of the Purchasing Managers' Index for German manufacturing, which, following a significant rise in recent months, is now only just below the 50 mark and thus signals largely stable demand (Chart 2).

Chart 2 - PMI signals stable orders

PMI for german manufacturing, sub-component for orders, seasonally adjusted monthly figures



Source: S&P Global

Bottom line: there has been no revival in demand so far. However, demand appears to have stabilized on a sustained basis, meaning that production is also likely to will bottom out soon. This would increase the chances of the German economy as a whole picking up again somewhat soon.

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