EUROPEAN DATA RESPONSE

German Industrial Production (Jan.)

Weakness in German industry likely to persist

- **January's decline in industrial production adds to the evidence that the economy made a weak start to 2019. And timelier indicators suggest that output is unlikely to increase strongly in the coming months.**

- The 0.8% m/m decline in production was not quite as bad as our forecast of a 2.0% drop, but it was still much worse than the consensus forecast of a 0.5% *rise*. What's more, January's fall would have been even sharper had it not been for a 3.6% increase in energy output, which tends to be volatile from one month to the next. (See Table.) Production of motor vehicles fell by 9.2%, so despite the increase in car *orders* in recent months, the sector's woes are far from over.

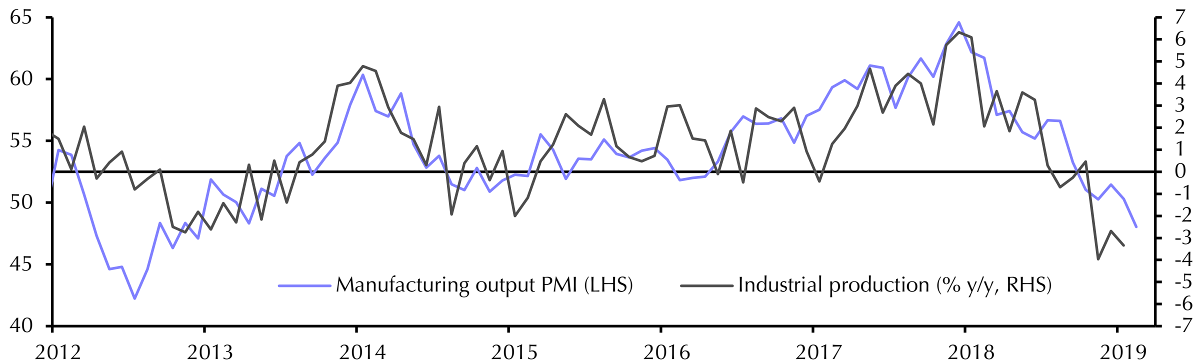
- Admittedly, we should take these data with a pinch of salt. In contrast to today's release that showed a 0.8% increase in output in December, the first estimate released a month ago showed a 0.4% fall. **But a range of evidence suggests that Germany's industrial sector has continued to struggle.**

- Data published last week showed that in January, overall industrial orders in Germany fell by 2.6% in m/m terms and 3.7% in y/y terms. The survey measures of activity are pretty weak too. The manufacturing index of the German Ifo survey fell to a 34-month low in February, while the manufacturing PMI declined to a 74-month low, consistent with production falling by 2% to 3% in year-on-year terms. (See Chart.)

- The upshot is that the German economy is likely to return to growth in Q1, but only just, after performing very poorly in the second half of last year. And we still think that growth will pick up later in the year, but our forecast that GDP increases by 1.0% this year is now beginning to look optimistic.

- **Together with other national data published last week, the German data suggest that euro-zone industrial production rose by about 1.5% in January.** (Data released on Wednesday.) But that still would still leave output below its level in October.

German Industrial Production & Manufacturing PMI



Sources: Refinitiv, Markit

German Industrial Production

	Industrial Production		Construction	Energy	Capital Goods	Intermediate Goods	Consumer Goods
	% m/m	% y/y	% m/m	% m/m	% m/m	% m/m	% m/m
Oct.	-0.7	0.5	-1.2	-2.2	0.1	-0.1	-3.3
Nov.	-1.3	-4.0	-0.5	0.2	-1.3	-0.6	-4.0
Dec.	0.8	-2.7	0.0	0.0	1.8	0.5	-0.5
Jan.	**-0.8**	**-3.3**	**0.2**	**3.6**	**-2.5**	**-0.7**	**1.5**

Source: Refinitiv

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