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MACRO NEWS

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GERMAN ORDERS: HOW BAD IS THE JANUARY PLUNGE?

Berenberg Macro Flash

German factory orders, January, in %

	mom	yoy
Actual:	-2.6	-3.9
Previous:	0.9 (from -1.6)	-4.5 (from -7.0)
Consensus:	0.5	-3.2

The German manufacturing sector has not hit bottom yet. German factory orders dropped by 2.6% mom in January and 3.7% yoy (see chart). Orders for capital goods, which make up more than 50% of total orders, fell by -3.6% mom. Machine tools and cars were the main drags. While orders for both sectors are trending down, the 5.9% mom plunge in orders for cars and car parts in January is partly a correction after strong gains in November and December, respectively.

Monthly data is volatile and should be taken with more than just a pinch of salt. Recently, German data has been especially difficult to judge as the very weak retail sales in December (-3.1% mom) followed by a strong rebound in January (+3.3% mom) have shown.

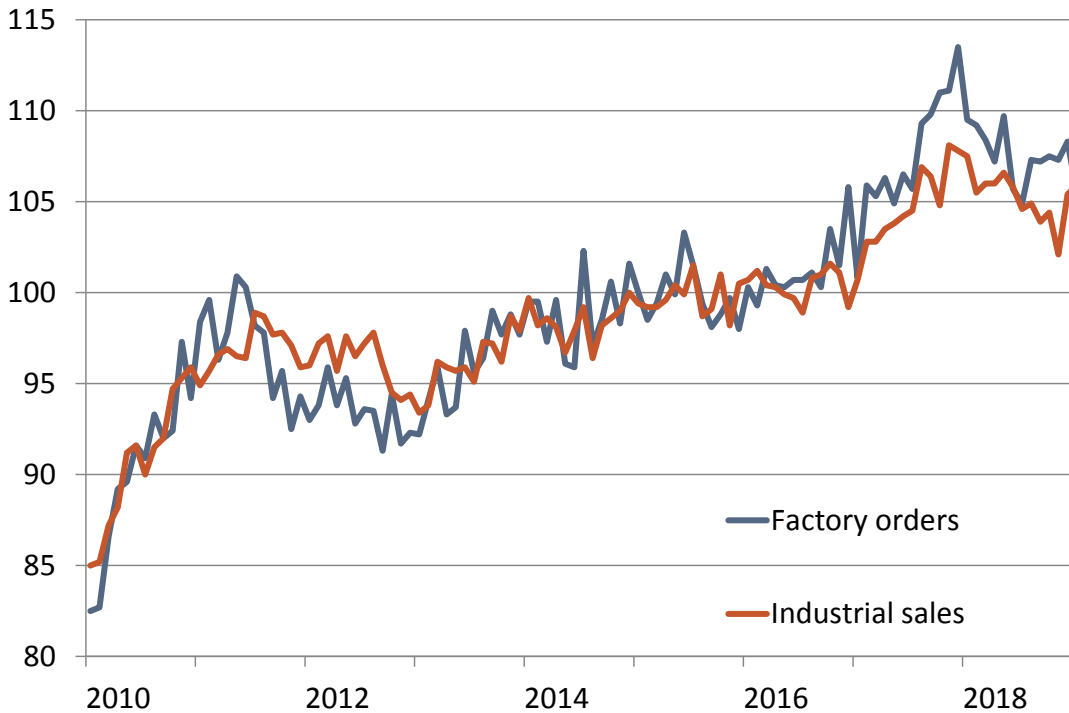
It is easy to join in the doom and gloom comments about German manufacturing after the factory order print. However, we need to put the drop into perspective: 1) the orders data for December was revised up considerably from -1.6% mom to 0.9%; 2) separate data show a 0.5% mom rise in industrial sales in January (see chart); 3) the backlog of unfilled orders continued to rise throughout 2018 to a 4-year peak of 5.7 months in December. As a result, companies need not curtail production much.

German manufacturing is going through a recession. In our view, it will take some easing of trade tensions, better news out of China and an end to the hard Brexit risk to stop the downturn. We expect these three conditions to be met at some time in the next two to three months. Until then, German data can continue to disappoint.



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German factory orders and industrial sales



Orders and sales in volumes. Indexed at 2015=100. Sources: Destatis, BMWi

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