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GERMAN ORDERS: FEELING THE PAIN BADLY

Berenberg Macro Flash

German factory orders, February, in %

	mom	yoy
Actual:	**-4.2**	**-8.2**
Previous:	-2.1	-3.5
Consensus:	0.3	-3.1
Berenberg	0.5	-2.9

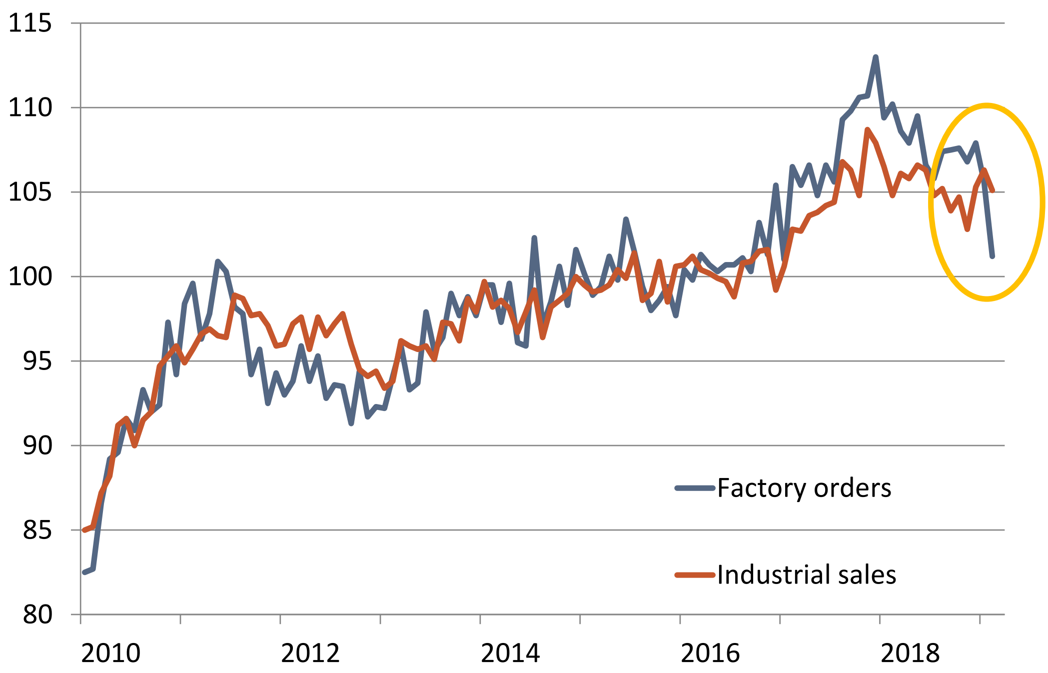
The industrial recession in Germany is still deepening: Weighed down by weak global trade and investment, German factory orders plunged again in February by 4.2% mom after falling by 2.1% in January (see chart 1). It was the worst monthly drop since January 2017. Most prominently, demand from non-Eurozone trading partners (-6% mom and -12.6% yoy) and for capital goods (-6% mom and -9.8% mom) plummeted. The March readings of PMI new orders and the EU Commission's sentiment survey export orders suggest that the worst is not over yet as these surveys recorded the worst falls since 2009 (PMI new orders) or weakest level since autumn 2016 (ESI export orders).

Risks to our GDP calls: Monthly data is extremely volatile, orders excluding major orders dropped by a less jaw-dropping 2.7% mom and industrial sales fell (only) by 1.1%. Still, with the second disappointing month in a row and with the average of January and February 3.9% below the Q4 level, the prospects for GDP growth in Q1 and early Q2 look grim. The risks to our call of 0.2% qoq in Q1 and Q2 remain clearly titled to the downside. Our forecast for German GDP growth of 0.7% in 2019 is, thus, below the Bloomberg consensus of 1.0%.

The key question is how long the domestic side of the German economy can hold up. Consumption benefits from rising incomes and a resilient labour market. If the industrial recession deepens for much longer, service providers will start to suffer soon, too. So far however, the labour market, the service sector and domestic demand continue to hold up rather well.

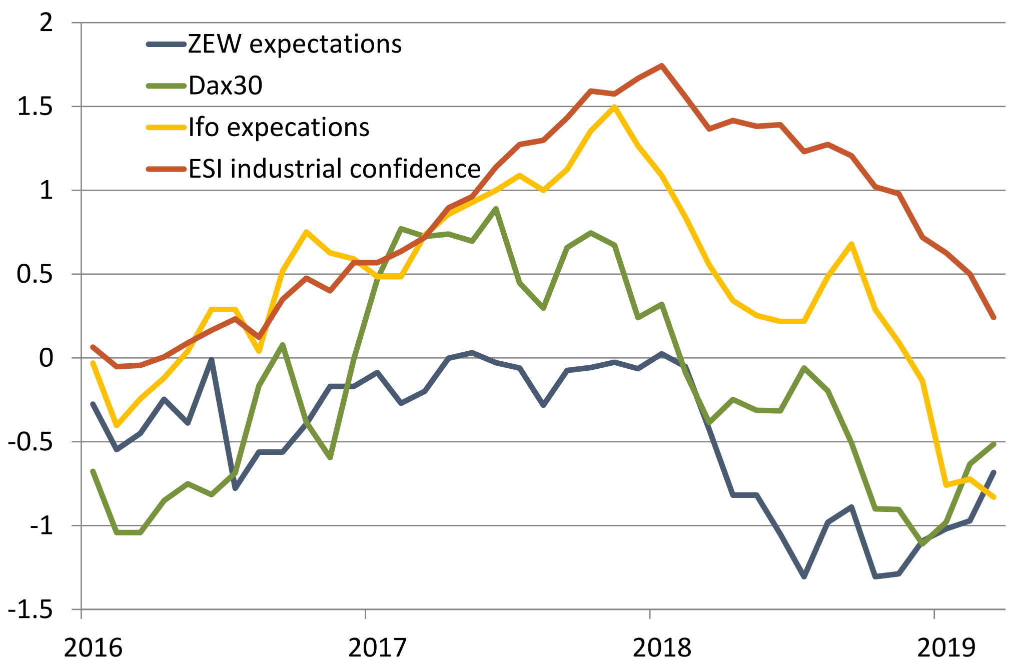
Some silver linings? Despite all the negative news, the external headwinds that have largely driven the industrial recession have started to blow a little less forcefully. The evidence is getting stronger that China's stimulus is starting to work, trade tensions are easing further and – amid some deafening noise, the UK still seems to be on course to avoid a hard Brexit. Reading the tea leaves of the German economy suggests that German industry could return to growth over the course of this year (see chart 2). Forward-looking financial indicators of industrial production and business investment with leads of 6-9 months such as ZEW expectations have stabilised, if not even reversed. Economic expectations such as the Ifo business expectations (industry and trade) are still softening, but could follow suit in the months to come. Industrial confidence is still falling with output. We, therefore, continue to expect German growth to pick-up in H2 2019 to trend at around 0.4% qoq after, however, a weak first half of the year.

Chart 1: German factory orders and industrial sales



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

Chart 2: German leading indicators



Normalised values. Sources: ZEW, Deutsche Börse, Ifo, European Commission

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