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GERMAN FACTORY ORDERS INCREASE ON STRONGER EUROZONE DEMAND

Berenberg Macro Flash

German factory orders, July, %

Actual:	0.2
Previous:	-0.3
Consensus:	0.5
Berenberg:	0.3

German factory orders rose 0.2% mom in July, recovering from the 0.3% mom drop in June. While orders came in below the consensus estimate for the fourth consecutive month, the outlook for the German goods-producing sector looks promising given the stronger export orders from its Eurozone trading partners.

Factory orders were revised up for June from -0.4% to -0.3% (down 1.3% excluding major orders). Comparing the data on a 3m/3m basis to abstract from monthly volatility, orders dropped by 0.4% in July. This compares to a 0.5% decline on a 3m/3m basis in June.

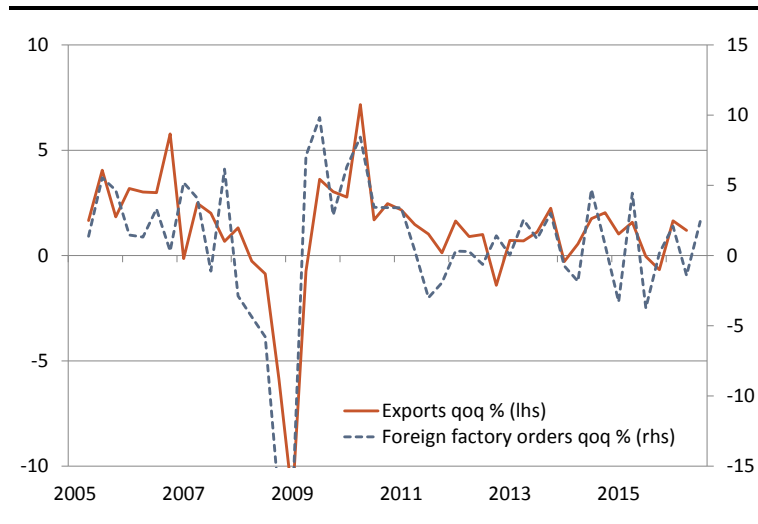
Stronger Eurozone demand: Factory orders were mostly driven by growth in foreign demand (+2.5% mom, +0.4% 3m/3m), especially in the Eurozone (+5.9% mom, +2.3% 3m/3m). The growth in Eurozone demand reflects the continued healthy recovery in the currency union. Domestic orders fell by 3.0% versus June, with the 3-month number also down by 1.4%. While foreign demand pushed capital goods higher (+0.8%) versus the previous month, it failed to provide enough momentum to see a rise in orders of intermediate goods which remained unchanged mom. Orders for consumer goods such as cars (-4.3%) dropped due to lower domestic and foreign demand.

Industrial sector in good shape, outlook for German exports positive: Most recent survey data for August, such as last week's manufacturing PMI, suggest that the German industrial sector should expand in the third quarter. The outlook for German exports looks promising – the orders-to-inventory ratio in July rose to its highest level since early 2014. It helps that survey data indicates that the Eurozone economy remains upbeat and thus far mostly resilient to the Brexit risk. In addition, soft data in the UK, one of Germany's major trading partners, has stabilised and the UK looks set to dodge a recession. We therefore expect industrial output to continue to expand going forward as the German economy benefits from the increase in foreign demand (see chart).



MACRO NEWS

Foreign factory orders vs. exports (qoq, %)



Source: Destatis. July data used for quarterly change of foreign factory orders.

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