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GERMAN FACTORY ORDERS POSITIVE POSE UPSIDE RISK FOR ECONOMY IN Q3

Berenberg Macro Flash

German factory orders, August in %

Actual:	1.0
Previous:	0.3
Consensus:	0.3
Berenberg:	0.3

German factory orders growth accelerated to 1.0% mom from 0.3% in July. The expansion was much stronger than anticipated (0.3% mom) in August as domestic demand rebounded (2.6% mom after -3.2% in July). Demand from Eurozone countries improved for the second consecutive month (4.1% after 5.6% in July) - the biggest increase since March. Orders excluding big ticket items, which occasionally distort the overall number, rose by 1.6%. Today's numbers confirm recent sentiment data which had suggested that the economic slowdown at the beginning of the third quarter may turn out to be a short-lived post-Brexit, summer slump. **We see some upside risk to our call for GDP growth qoq in Q3 of 0.26%.**

Orders for consumer goods surged by 2.9% driven by both domestic and foreign (non-Eurozone) demand. Capital goods orders improved only marginally by 0.3% mom, with strong domestic and Eurozone demand (4.3% and 4.6%, respectively), but with less orders from outside the Eurozone dragging the overall number (-4.9%). Demand for intermediate goods increased by 1.7% mom with Eurozone orders especially strong. The chemical industry and metal production posted strong numbers (1.7% and 2.1% mom, respectively), with metal production positive for the first time since April. The auto industry registered more orders (0.3% mom), but did not recover from its drop by 5.0% in July.

Monthly data can be volatile. A better gauge for underlying dynamics is the 3 month average growth rate. **The index levels for total factory orders in July and August taken together are 0.6% above the Q2 average, thanks to stronger foreign demand from both the Eurozone and elsewhere.** Orders year-to-date compared to 2015 are also up, though only slightly by 0.3%.

Today's report for August is encouraging, as sentiment among German industry according to the Ifo survey slipped in July and August while surging to the highest level in more than two years in September. It seems that the German industry's concerns over the consequences of the UK's decision to leave the EU and the economic outlook are easing as Brexit has hit hard data less bad than expected. Consequently, we see an upside risk to our GDP growth call of 0.26% qoq in Q3, with the growth rate possibly closer to the 0.4% registered in Q2.



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MACRO NEWS

German factory orders, in %

	Total	Domestic	Eurozone	Non-Eurozone
mom	1.0	2.6	4.1	-2.8
yoy	2.4	1.6	2.3	3.3
Jul/Aug vs. Q2	0.6	-2.1	3.1	2.3
ytd vs. ytd 2015	0.3	-0.2	3.2	-1.1

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