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UPTURN IN GERMAN MANUFACTURING DESPITE NOVEMBER CORRECTION OF FACTORY ORDERS

Berenberg Macro Flash

German factory orders, November in %, mom

Actual:	**-2.5**
Previous:	5.0
Consensus:	-2.4
Berenberg:	-2.4

No reason to worry about the German industrial sector. A monthly decline of 2.5% in factory orders in November partially corrects the previous month's outlier when orders surged by a revised 5.0%. This was broadly in line with our and consensus expectations of a correction of 2.4%. The average for October and November was up by 3.7% versus Q3, suggesting that manufacturing and other industrial sectors will support an acceleration in quarterly GDP growth from the modest 0.2% in Q3.

With more timely survey data improving in December and showing encouraging signs for further growth, the pick-up in economic activity is likely here to stay going into 2017. Surveys indicate companies of the German industrial sector see a robust improvement in both domestic and foreign demand. For Q4 2016 and Q1 2017, we forecast the German economy to expand by 0.5% qoq in each quarter, followed by slightly softer, but still trend growth of 0.4% for the rest of 2017. The German Economy Ministry pointed to "a revival of manufacturing in the winter half".

The decline in total orders was exclusively due to a correction in orders for capital goods which dropped by 4.8% mom, after, however, a jump by 7.3% in October. Bulk orders make monthly data for capital goods volatile. The modest rise of 0.5% of orders for intermediate goods comes also after a strong rise in the previous month (1.9%). Consumer goods – typically less volatile - increased by 1.5% mom, after 1.8% growth in October. For all three goods categories, the average for October and November is comfortably above the level for Q3 (4.0% for capital goods, 3.1% for intermediate goods and 3.8% for consumer goods), indicating the broad-based improvement.

By region, the impulse for industrial production has been strongest so far from non-Eurozone countries (+5.8% for October and November vs. Q3), with the recently weaker euro (down by 3% vs. the US dollar end-of-November vs. the previous month alone) likely driving non-Euro exports. Domestic demand has also been strong, rising by 3.3% (Q4 vs. Q3). Orders from Eurozone countries slipped by 0.6% in the same period, but remain up 3.3% year-to-date.

Retail data, which were also published today, mirrored the up-and-down move of the factory orders, with a 1.8% mom decline partly offsetting the increase of 2.5% in October (in the past, retail data has been revised up quite often). While the improvement of the labour market has slowed down recently, this is no wonder at full or close-to-full employment – and companies look set to hire in an effort to raise operating capacity, as the PMI manufacturing has shown recently. With the unemployment rate hitting record-low month after another, private consumption should continue to provide the positive contribution to the economy it has provided over the last two years. After strong growth, the end of the price tailwind will probably make for slightly less buoyant private consumption in 2017 than in 2016, unless an increase in nominal wages makes up for the rise of prices.

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