

# Germany

## Industry enjoys strong growth in March, but upturn may prove short-lived

- **Better-than-expected growth of industrial production in March add to signs of economic upturn in Q1**
- **Surveys suggest growth is set to wane again**

Government data showed an improved performance of the German industrial sector in March, led by a strong upturn in manufacturing. However, the official data look set to weaken again, just as the survey data have also fallen back after showing promising signs of growth earlier in the year.

Industrial production rose 1.2% in March, according to official data, defying expectations of a downturn. Analysts had been anticipating a 0.1% decline according to Reuters. February's increase was also revised up from 0.5% to 0.6%.

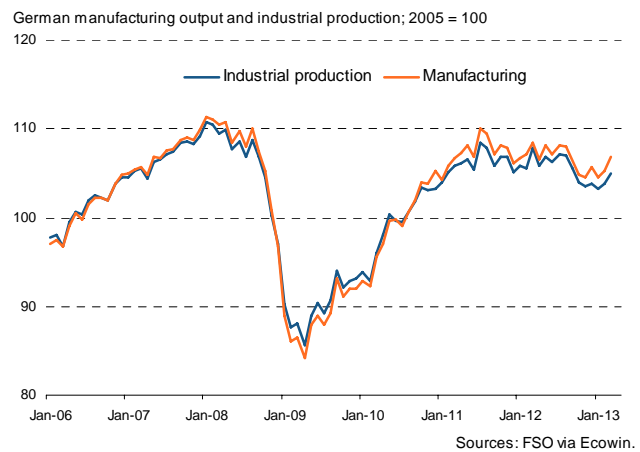
The improvement was driven by a 1.4% increase in manufacturing output, building on a 0.9% upturn in February. The manufacturing gain was in turn fueled by strong growth in the capital goods sector, where output rose 2.1% in March, reflecting Germany's ongoing prowess in the production and export of plant and machinery.

Construction acted as a drag, down 3.1% in March, but the fall was at least in part attributed by the Economics Ministry to adverse weather.

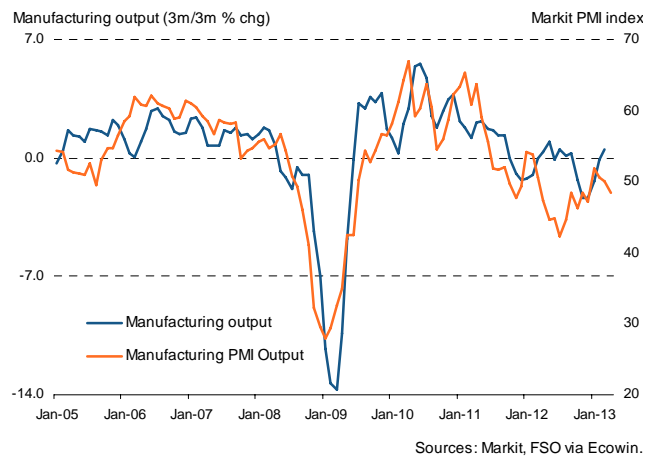
The March gains indicate that manufacturing output rose 0.5% in the first three months of the year, pointing to an impressive turnaround from the 2.4% contraction seen in the final quarter of last year. The wider measure of industrial production was up a more modest 0.2% in the first quarter, though that compares well with a 2.6% decline in the three months to December.

The official data therefore add to a picture of the German economy having returned to growth in the first quarter, having suffered from falling manufacturing output in four of the six months up to January. However, the improvement in the first quarter had already been signaled by the business surveys, which

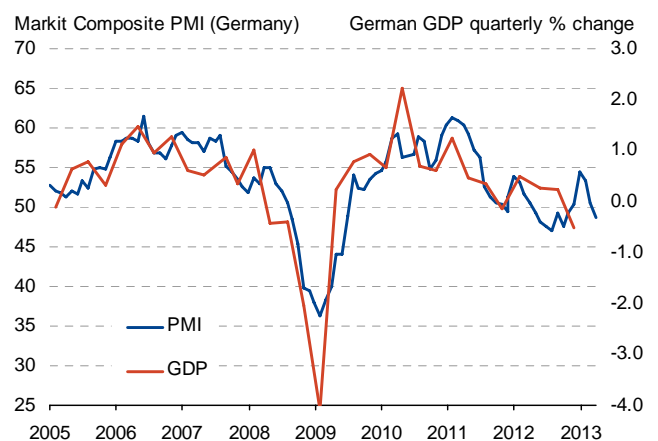
### Production levels



### Manufacturing output



### PMI points to 0.3% GDP growth in Q1



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have since fallen back again, suggesting the upturn in these official data may prove short-lived.

### Short-lived upturn

Having hit a 13-month high in February, Markit's Manufacturing PMI has since fallen steadily to reach a four-month low in April. Output fell for the first time in four months after new orders dropped for a second month running. Exports have been hit by weakening global demand, declining at the fastest rate since December.

The survey data (including services) even raise the possibility of the German economy returning to contraction in the second quarter if the data continue to weaken. The PMIs signaled a 0.3% increase in GDP in the first quarter, but in April fell to a level consistent with a 0.1% quarterly rate of decline.

The ECB has already responded to the weakening economic picture, cutting its main policy rate to an all-time low of 0.5% earlier this month. However, the cut is unlikely to make a material impact on the pace of economic growth, and the latest survey data suggest that – rather than picking up – growth is weakening again in Germany, accompanying ongoing steep downturns in France, Italy and Spain.

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