

Germany

German industry sees payback in December after buoyant November, but trend remains solid

- **Industrial production falls 0.6% in December, but rise over latest two months combined is largest for nearly three years**
- **German trade surplus widens to record high**

German industrial production declined in December, but the drop followed a particularly marked rise in November. The increase in production over the final two months of last year was the strongest for nearly three years, suggesting the underlying trend is one of an economy that is gaining momentum.

The weaker than expected official data for December nevertheless add signs that GDP growth in the final three months of 2013 has not accelerated from the 0.3% in the third quarter. A first estimate of Q4 GDP growth will be released by the Federal Statistical Office Germany (Destatis) on Friday 14 February. However, business surveys indicate the pace is set to gather momentum in the first quarter of 2014.

Unexpected fall in industrial output

Industrial production fell 0.6% in December, according to the Federal Statistical Office (Destatis), after economists' polled by Reuters, had expected a 0.5% increase. The fall in industrial production comes after a solid revised increase of 2.4% in November.

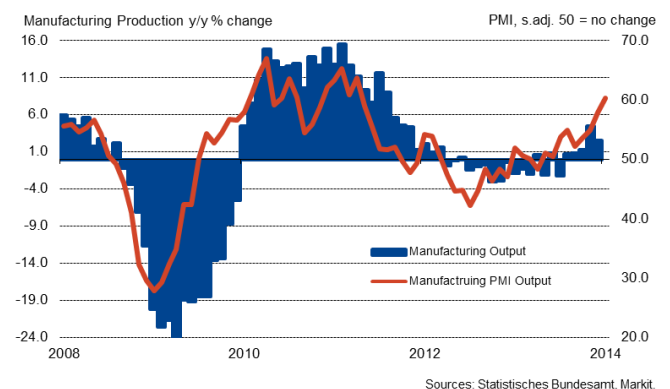
Destatis reported that the drop was largely attributed to a 2.5% decline in the production of investment goods, while construction output saw a 0.5% rise in December. Concurrently, production of intermediate and consumer goods expanded by 2.1% and 1.7% respectively.

On an annual basis, however, industrial production increased 2.6%, down from 4.5% in the previous month, but still pointing to a solid expansion in the sector. The average of the latest two months was still the strongest period of growth for almost three years.

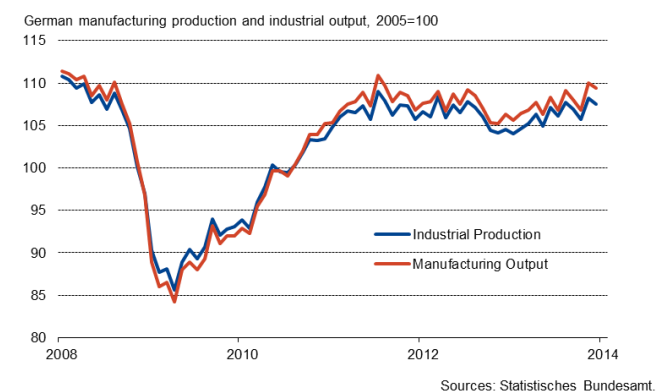
Factory orders fall in December

Official data released on Thursday meanwhile showed that factory orders also fell 0.5% during December,

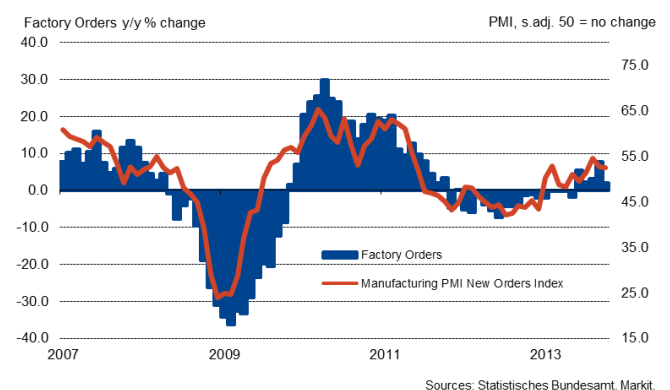
Manufacturing and the PMI



Industrial production falls 0.6% in December



Factory orders and the PMI



following a 2.4% rise in November. While domestic orders declined some 1.6%, new export work rose 0.4%.

These order book numbers, however, like the production statistics, have to be read with caution as the data are historically very volatile. On an annual basis, factory orders rose 6.0%, down from 7.2% in November, but still very strong and extending the ongoing period of growth to seven months.

Germany's trade balance widens to record high

In a different release, Destatis reported that Germany's foreign trade balance reached a new record high over 2013 as a whole. The trade surplus increased to €198.9 bln over the year, a 4.8% rise from 2012. The data showed that exports fell by 0.2%, while imports decreased 1.2%. On a monthly basis, exports fell 0.9%, the steepest drop in seven months, while imports decreased 0.6%.

This record surplus is likely to put some further pressure on the eurozone's largest economy to rebalance its economy away from export-oriented growth, after the U.S.Treasury had criticized Germany's export-led growth model. However, the finance ministry responded stating that the trade surplus was a sign of competitiveness and that *'The innovative German economy contributes significantly to global growth through exports and the import'*. Furthermore, Germany's current trade policy is likely to support other members within the EU: Imports from countries within the European Union increased 0.8%, whereas exports rose a meagre 0.1%, boosting activity at companies inside the EU.

[PMI surveys](#) have likewise shown that rising production in Germany is boosting other countries

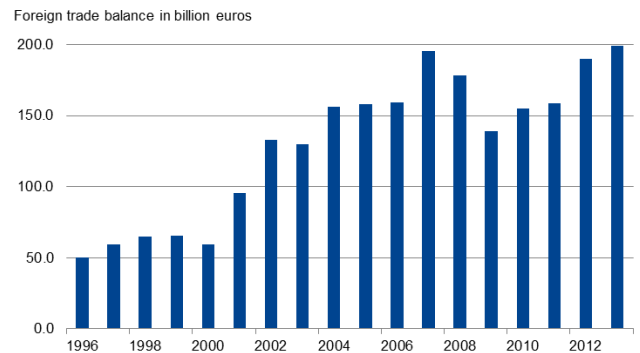
through the export of intermediate goods to Germany via supply chains.

PMI data point to solid start to 2014

While the volatile official data are not as positive as expected and Germany's GDP is thought to have expanded by a mere 0.4% in 2013, following 0.7% growth in 2012, positive signals are meanwhile sent from survey data, with the [Markit/BME Germany Manufacturing PMI](#)® rising from December's 54.3 to a 32-month high of 56.5 in January. The PMI was boosted by sharp output and new order growth and a second consecutive rise in employment levels. The PMI data point to accelerated growth in Germany's goods producing sector at the beginning of 2014.

[Markit's Germany Construction PMI](#)® also pointed to growth in January, with the headline index posting above the no-change mark of 50.0 for a ninth month running. Activity in the commercial building sector was especially strong during the month.

Germany's foreign trade balance widens further



Source: Destatis.

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