German Industrial Output Drops Most Since 2009 in August

By Jana Randow - Oct 7, 2014

German industrial production (GRIPIMOM) fell more than economists forecast in August in the latest sign that the outlook for Europe’s largest economy is deteriorating.

Production, adjusted for seasonal swings, dropped 4 percent from July, when it expanded 1.6 percent, the Economy Ministry in Berlin said today. That’s the biggest decline since January 2009 and compares with a median estimate of 1.5 percent in a Bloomberg News survey.

Germany’s economy is losing steam as sluggish growth in the euro area, its largest export market, and political tension with Russia weigh on confidence. The European Central Bank has enacted unprecedented stimulus to sustain the regional recovery while calling on governments to press ahead with structural reforms.

While “the setback in industrial production in August was a massive one,” there is “no reason to panic,” said Andreas Rees, chief German economist at UniCredit MIB in Munich. “German industrial activity will soften in coming months as already indicated by business sentiment but not tumble into the abyss. And no, there is no reason to dig up the R-word again.”

Weak economic data released in the past weeks have raised the specter of recession, commonly defined as two consecutive quarters of declining gross domestic product, after the German economy shrank in the second quarter.

Weak Data

Factory orders plunged 5.7 percent in August, also the most since 2009, data showed yesterday. German manufacturing shrank in September, with new orders falling at the fastest pace since 2012, according to a survey of purchasing managers. Business confidence as measured by the Ifo research institute fell to the lowest in almost 1 1/2 years, while unemployment increased for a second month.

Today’s report showed output of investment goods slumped 8.8 percent in August and intermediate goods dropped 1.9 percent. Consumer-goods production fell 0.4 percent and construction slid 2 percent. Only energy output rose, climbing 0.3 percent.

The slowdown was exacerbated by late school holidays in some states that dealt car production its biggest setback since 1984, according to Rees.

Elga Bartsch, chief European economist at Morgan Stanley in London said this effect is unlikely to
account for all of the weakness. “But GDP growth should still be positive in the third quarter.”

The euro was down 0.3 percent today and traded at $1.2612 at 11:53 a.m. Frankfurt time. The yield on German 10-year bonds was at 0.91 percent.

**Gloomy Outlook**

“The German economy will develop rather weakly in the second half of this year,” said Ralph Solveen, head of economic research at Commerzbank AG in Frankfurt, who forecasts third-quarter gross domestic product will be little changed. “And in light of the weak trend in orders, we would not expect a great deal for the final quarter of this year.”

In the U.K., industrial production was unchanged in August as shutdowns at some North Sea facilities sent oil and gas extraction down.

MAN SE, Europe’s third-largest truck manufacturer, said on Sept. 25 that operating profit, revenue and sales volume at the truck and bus division will be “significantly below” last year's level, reflecting weaker demand in markets including Europe and Russia.

The [International Monetary Fund](http://www.imf.org) will cut its German growth forecasts for this year and next to about 1.5 percent from 1.9 percent and 1.7 percent, respectively, according to Spiegel magazine. The Washington-based lender will publish the data, together with updated projections for the euro area, later today.

The 18-nation currency region is still on track for a “modest economic expansion in the second half,” even though risks remain on the downside, ECB President Mario Draghi said last week. The Governing Council kept interest rates unchanged at record lows and said it will start buying covered bonds and asset-backed securities to support the economy.

To contact the reporter on this story: Jana Randow in Frankfurt at jrandow@bloomberg.net

To contact the editors responsible for this story: Fergal O'Brien at fabrien@bloomberg.net Zoe Schneeweiss, Paul Gordon

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