



Chart in focus

Order slump in the metals industry: Is a double dip on the way?

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Order intake in the metals industry slumped on a seasonally adjusted basis in May by more than 14% compared to the preceding month. This was the second biggest decline in the last 20 years. The only other comparable declines occurred at the beginning of the last economic crisis in late-2008 and in 1995 and 1998. Furthermore, the contraction was far greater than that of the manufacturing sector as a whole (-0.5%). However, the slump follows a strong period of recovery that set in at the start of 2009. That is why orders are also still 22% higher than the average posted during the crisis-ravaged year of 2009 (orders are 20% higher for the manufacturing sector as a whole).

The metals industry's role as an important supplier to manufacturing companies in Germany makes it one of the early-cycle sectors. When there is a worsening of the order situation and output level in this manufacturing segment this can indicate that an economic downturn is imminent. Is the slump that has now occurred thus a sign that the macroeconomic recovery is over and that recession is set to recur? Or does this merely show that the high growth rates posted in the metals industry are due to the inventory cycle and that the latter is coming to an end?

There are several indications that the decline represents the first step towards stabilising output at a higher level and not the start of a renewed crisis. The sharp decline is partly due to special factors: order intake for tube steel for instance dropped by 56% after rising nearly 150% in the preceding month. However, since the metals industry is driven by major orders, sharp fluctuations in order intake are not unusual. In other segments of the metal production and processing industry, by contrast, the declines were relatively small or orders even increased. One major reason for the decline was the worsening of the order level in the important pig iron and steel production segment, where new orders fell 15% compared with the preceding month. This is largely due to the sharp expansion in the previous months. The early and simultaneous commissioning of blast furnaces and other production facilities in this sector boosted output faster than in other sectors. Customers were thus able to rebuild their inventories early on, and orders should now settle at a slightly lower level.

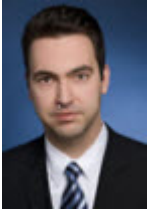
Further evidence suggesting that the upward trend is not over is the stable order intake situation in the chemicals industry, which – like the metals industry – is a leading cyclical indicator. New orders in this segment rose in May by more than 1% compared with the previous month and thus already almost reached 2008 levels. Expectations in both segments do not point towards a slump either. Although they have trended downwards or held steady in recent months their levels are still high. Of course there are macroeconomic risks that could trigger a renewed marked decline in output. These are not, however, yet reflected in the marked decline in orders in the metals sector: it is more likely that the inventory cycle for segments of the sector is nearing its end and that customers are adjusting their orders to an appropriate level.

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Metal production and processing, Germany, 2005=100



Source: Federal Statistical Office



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