

Talking point

German manufacturing sector: Forecast for 2015 output lowered to 1% – only moderate growth also in 2016

August 10, 2015

German manufacturers increased output by 0.2% qoq in real terms in Q2 2015. However, growth will probably be slower in H2 than anticipated to date. Therefore, we are revising our forecast for 2015 output to the downside – from 1.5% so far to 1% (both in real terms). The moderate uptrend is roughly set to continue in 2016. Manufacturing output could climb by 1% again in the coming year. This means its growth rate would continue to fall short of the long-term average. Furthermore, manufacturing's share in Germany's total gross value-added would decline.

In Q2 2015, real manufacturing output in Germany was up by a seasonally adjusted 0.2% on the Q1 level. This was the third quarterly increase in a row. New manufacturing orders surpassed the level of the preceding period by no less than 3.1% (real) in Q2. However, the reading had been relatively weak in Q1 at minus 1.5% qoq. Moreover, the increase in Q2 was partly due to extensive big-ticket orders (in aircraft manufacturing). "Core orders" (excluding big-ticket orders) as well as production registered a noticeable downturn in June in seasonally adjusted terms vis-à-vis the preceding month. So, all in all, there is (still) no visible sign of a stable uptrend in Germany's manufacturing sector.

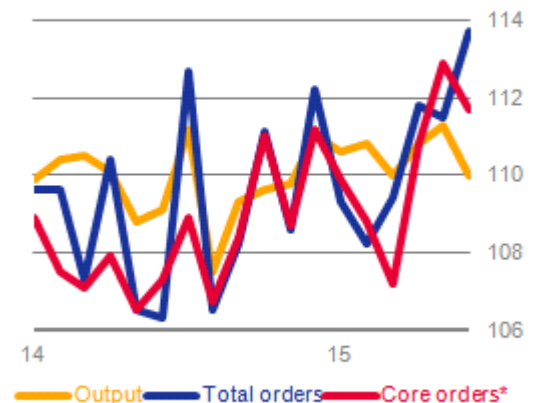
The ifo sentiment indicators suggest, moreover, that manufacturers are somewhat uncertain about their business prospects. True, expectations about the future development of business activity, employment, output and export activity in the German manufacturing sector are, without exception, still in positive territory at present. However, all the indicators have been trending downward for several months. To be fair, it must be noted that ever since the end of 2010 German manufacturing companies have nearly all reported that their expectations of future business were (very much) worse than their assessment of the current situation. Various negative news reports in business and politics (e.g. on the euro crisis, geopolitical events or, most recently, turmoil in the Chinese financial markets) obviously weighed on company sentiment during this period. However, actual business activity appeared to be less heavily impacted than perhaps feared. Nonetheless: the downtrend in the sentiment indicators is a clear warning signal for the economy. In line with this development, capacity utilisation in the manufacturing sector was lower at the beginning of the third quarter for the second time in a row, albeit only slightly.

Exports: A key pillar in 2015

Foreign business has helped boost the German manufacturing sector in the year to date. Real foreign turnover exceeded the corresponding pre-year level by 3.5% in H1. Total nominal goods exports outstripped the year-earlier reading by 5.7% between January and May 2015. Exports to the US picked up particularly noticeably (+21.1% yoy), with the euro's slide vis-à-vis the US dollar lending support. Furthermore, exports to Spain (+9.9% yoy) and the United Kingdom (+7.5%) increased at an above-average pace. By contrast, exports to China grew by only 1.4%; this is partly a consequence of the slowdown in Chinese GDP growth as well as of the increased volumes produced locally by German companies. Germany's goods exports to Russia have fallen in fact by no less than 34% so far in 2015 versus the year-earlier figure for 2014. Russia thus continues to lose importance as an export market for Germany.

Still no sign of a stable uptrend

Manufacturing sector in DE, 2010=100, sa



* Excluding Other transport equipment orders

Source: Federal Statistical Office

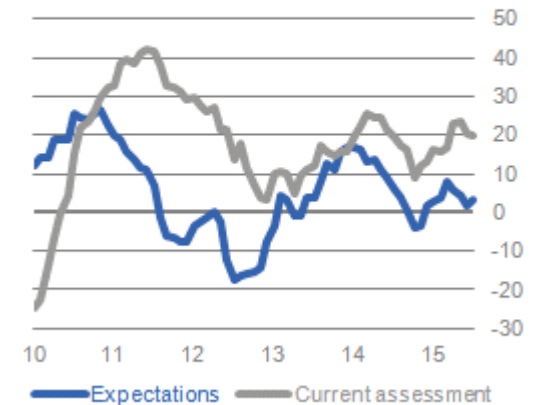


Exports should continue to prop up Germany's manufacturing sector also in 2016. At the same time, their growth momentum is again likely to be lower than in the years leading up to the global economic crisis (2008), not least because world trade has also been growing at a slower pace since then. What this boils down to is that both 2015 and 2016 are set for (merely) moderate export growth.

Germany's overall economy will be driven primarily by private consumption in 2015 in particular. The healthy state of the labour market (high employment coupled with a low unemployment rate), above-average wage hikes as well as real income gains thanks to lower mobility and energy costs all play a key role. Private consumption is set to grow faster in 2016 than it did on average during the past decade. While investment in machinery and equipment is also expected to increase in Germany this year and next, the expansion will be modest compared with earlier upswing phases. Since German manufacturers are major producers of capital goods in particular, the demand stimuli from the domestic market as a whole will remain limited. Real domestic revenues were flat in H1 2015 relative to the year-earlier value.

Expectations only barely still in positive territory

Business climate, manufacturing in Germany, balance of pos. and neg. company reports



Source: ifo Institut

Output forecast for 2015 lowered to 1% – roughly similar increase on the cards for 2016

We predict that domestic industrial output will continue to climb on a quarterly basis also in the remaining months of 2015. However, the growth will probably be slower than anticipated to date. Therefore, we are revising our forecast for 2015 output to the downside – from 1.5% so far to 1% (both in real terms). The moderate uptrend is roughly set to continue in 2016; at least we see little risk of a recession in the manufacturing sector at present. On balance, manufacturing output could increase by 1% again that year. This means its growth rate would continue to fall short of the long-term average and that of the economy as a whole. Manufacturing's share in Germany's total gross value-added would decline accordingly.

Company releases of H1 figures have prompted us to revise our output forecasts for several sectors. For the automotive industry we now look for 3% higher output in real terms (previously +2%). The sector is a beneficiary of the increasing demand from the US and Europe (excluding Russia) in particular. A statistical effect also plays a part: the data for the production index in the automotive industry were recently corrected retroactively to the upside. We have lowered our forecast for mechanical engineering to stagnation (from 2% previously). Given moderate to low utilisation levels in many key markets, investment activity is picking up only sluggishly. Hence, the anticipated positive effects of the euro weakness on Germany's mechanical engineers have been only modest so far. The recession in Russia has hurt the sector in particular. Our forecast for electrical engineering has been reduced from 1.5% to 1%, for the metals industry from 1.5% to 0.5%. Chemicals industry performance (excluding pharmaceuticals) looks set to disappoint for the time being. In this case we have revised our outlook for 2015 output down from 1.5% to stagnation. We have left our forecast for the food sector unchanged at 0.5%.

German original: August 7, 2015



Author: Eric Heymann (+49) 69 910-31730

more information on **Sectors and Resources**
Talking Point - Archive

© Copyright 2015. Deutsche Bank AG, Deutsche Bank Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK's Prudential Regulation Authority (PRA) and subject to limited regulation by the UK's Financial Conduct Authority (FCA) (under number 150018) and by the PRA. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Limited, Tokyo Branch. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.