

## Talking point

### German manufacturing output: a good first quarter, but no stable uptrend

May 27, 2016

**Following a strong increase in manufacturing output in Q1 2016, we have raised our forecast for the entire year 2016 to 1% (previously, a marginal increase). Hardly anything has changed in our forecast of generally moderate performance in the manufacturing sector for 2016 as a whole. However, the strong start to the year requires upward adjustments to our forecasts, also at sector level. These are particularly noticeable in the automotive and plastics industries as well as among producers of building materials.**

In Q1 2016 real manufacturing output in Germany was a seasonally adjusted 2% higher than Q4 2015. This was the first rise since Q2 2015 and the strongest quarterly increase since end-2010. The new year started off with manufacturing output undergoing surprisingly strong growth in January compared to the figure for December 2015 (+3%). This was followed by two months of declining production activity with the result that, despite the favourable quarter-on-quarter result, a stable upward trend remains out of sight. The pattern of numerous ups and downs also continues with regard to orders at the monthly level. In Q1 2016 overall orders exceeded the figure for the previous quarter by 0.6% in real terms. This was the second quarterly increase in a row.

On average in Q2 2016, we expect there to be a downward correction in domestic manufacturing output compared to the strong preceding quarter. Furthermore, according to our forecast, growth will remain minimal in the manufacturing industry over the entire course of 2016; volatility is likely to remain high at the monthly level, though. The fact that capacity utilisation in the manufacturing sector fell at the beginning of Q2 2016 testifies to our moderate outlook. What is more, manufacturing's business expectations are currently in negative territory. The modest growth prospects for investment activity and global trade are likely to reflect this. However, due to the favourable results reported for the first quarter, we have revised our forecast for manufacturing output in Germany upwards to 1% in real terms; previously, we had expected a marginal increase for 2016.

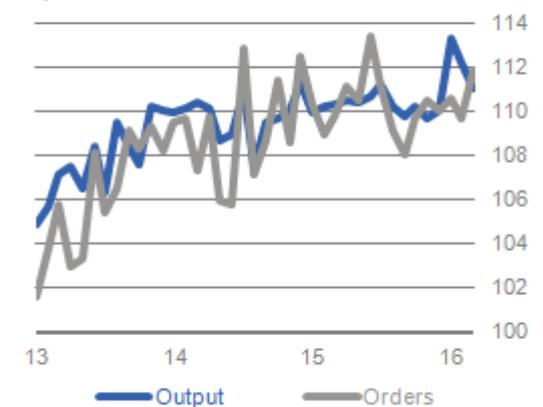
#### Forecasts revised upwards in some manufacturing sectors

The pattern of overall positive production activity in Q1 2016 is also visible in the individual manufacturing sectors. It is particularly noticeable in the automotive industry, where domestic production in the period stated was over 5% higher in real terms than in the preceding quarter (after -2.4% qoq in Q4 2015). Solid growth was also reported by the plastics industry (+4.5% qoq), producers of building materials (among other things, due to weather-related favourable economic conditions, +3.3%) and the pharmaceutical industry (+2.8%). There was somewhat lower, yet still perceptible, growth in the chemical industry in Q1 2016 (+1.9%), in the entire metals sector (+1.7%), electrical engineering (+1.5%) and in mechanical engineering (+1.1%). In this context, at times extremely strong fluctuations in both directions could be observed at the monthly level in a number of sectors. In this case it is clear that, despite the good start to the new year, there are no definite indications of an uptrend in single industrial sectors either.

Ultimately, hardly anything has changed in our forecast of generally moderate performance in the manufacturing sector in 2016. However, the strong start to the year requires upward adjustments to our forecasts, also at sector level. For the automotive industry we now expect 2.5% higher growth in real terms for the full year (previously +0.5%). We are making significant revisions to the plastics and building material sectors. An increase in output of

#### An unstable trend

Manufacturing in Germany, 2010=100, seasonally adjusted



Source: Federal Statistical Office



3% is possible in these sectors (previously stagnation and -1%). In respect of electrical engineering, we are revising our forecast upwards by “only” 1 pp, and by 0.5% pp for chemicals industry and mechanical engineering.

Therefore, on balance, significant positive or negative outliers in manufacturing output are not likely in the full year 2016. The increase in production of 1% we anticipated would roughly correspond to the result for 2015, while once again remaining below expected GDP growth.

### Forecast for the main industrial sectors

Industry	NACE	Gross value added	Export ratio	Business climate*	Capacity utilisation*	Producer prices	2013	Output		
								2014	2015	2016
		EUR bn, 2013	%, 2015	Diff. yoy, Net points	Diff yoy, % points	1etate 12M, % gg. Vj.	% yoy	% yoy	% yoy	% yoy
Food	10	27.5	23.2	-4.2	0.4	-1.7	-0.2	0.1	0.1	0.5
Textiles	13	3.3	50.0	11.4	5.3	0.0	-0.6	2.5	1.9	1.5
Paper	17	9.4	39.6	-15.5	0.6	0.3	-1.4	-1.0	0.7	0.0
Chemicals	20	35.4	58.9	-15.5	0.6	-2.8	0.5	-1.3	-0.4	0.0
Pharmaceuticals	21	16.4	66.5	-2.6	-0.1	0.4	5.3	5.2	4.4	1.0
Plastics	22.2	17.6	39.5	-0.1	1.4	0.1	1.6	0.7	2.3	3.0
Building materials	23	12.8	31.0	-4.4	2.7	0.0	-0.5	2.3	0.0	3.0
Metals production	24	18.1	40.9	-13.4	-3.5	-3.9	-0.6	2.8	0.1	-1.0
Metal products	25	38.5	33.9	-10.5	0.7	0.0	1.1	2.8	0.9	1.5
Electrical engineering	26+27	58.9	56.4	-10.6	-1.0	0.6	-2.1	2.5	1.5	1.0
Mechanical engineering	28	77.2	62.2	-8.1	-0.3	0.9	-1.6	1.2	0.5	0.5
Automotive	29	79.9	64.9	-7.7	3.9	0.3	1.2	4.3	0.6	2.5
Manufacturing	Okt 33	499.6	49.6	-6.8	0.6	-0.4	-0.1	2.0	1.1	1.0

\* Latest figure available

Sources: Federal Statistical Office, Deutsche Bank Research

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