



Unfilled orders in German industry

Near their peak

February 19, 2019

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Despite broad-based weakness in recent months, the stock of orders in German manufacturing remained on the uptrend, partly led by the lack of skilled labour and one-off factors in the auto industry (WLTP, diesel). Whilst the high volume of unfilled orders should stabilise industrial production in the current year, the peak ought to be near, as suggested by recent results of the ifo business survey. On balance, manufacturing production in Germany looks set to be virtually flat in 2019.



Unfilled orders in German industry: Near their peak



Sources: ifo, Federal Statistical Office, Deutsche Bank Research

Recent economic data in Germany was lacklustre. In the fourth quarter of 2018, real GDP stagnated compared with the previous quarter. With zero growth following a slightly negative reading in the third quarter, Germany only narrowly escaped a technical recession.

Manufacturing, in particular, has lost considerable steam in recent months. Starting 2018 on a relatively solid footing, industrial production pointed to the downside in the second half of the year, largely driven by the WLTP effect in the auto sector. Order intake also slipped in the course of 2018, and was down slightly on 2017 in annualised terms. Moreover, capacity utilisation in manufacturing is declining for the fourth consecutive quarter in Q1 2019, and business expectations in industry were negative at the beginning of the year.



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In view of current disappointing data, a positive case is that, as reported by the Federal Statistical Office, the stock of orders in manufacturing has continued to rise steadily. On the surface, the high volume of unfilled orders may seem surprising, given weak economic figures, but there are grounds for the uptrend:

- The lack of qualified workers is one of the key reasons why orders on books often cannot be completed in a timely fashion (e.g. in mechanical and electrical engineering). Accordingly, vacancies in German manufacturing hit an all-time high in 2018, despite last year's 2.7% increase in industrial employment.
- Moreover, the WLTP effect looks set to have contributed to higher order backlogs in the auto sector, as not all certifications had already been obtained and some models could not be ordered. With a rising number of new cars being WLTP certified, order volumes can be expected to soar. Moreover, waiting periods for some vehicles are now longer, as demand for petrol-engined vehicles is picking up (at the expense of diesel passenger cars).
- Last, but not least, the increase is also attributable to big-ticket orders in the sector of other vehicles manufacturing (ships, aircraft), where, as a rule, the time span which elapses between a new order and production is relatively long.

In the long-term comparison, the reach of orders is currently at high levels, which should stabilise industrial production over the next few months. However, with the view of companies in the ifo survey deteriorating over the past two months with respect to month-over-month growth of their order backlog, a quick solid recovery of industrial production also seems unlikely. The upshot is that unfilled orders in manufacturing may be at their peak. From the current perspective, we expect real industrial production in Germany to be virtually flat in 2019.

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