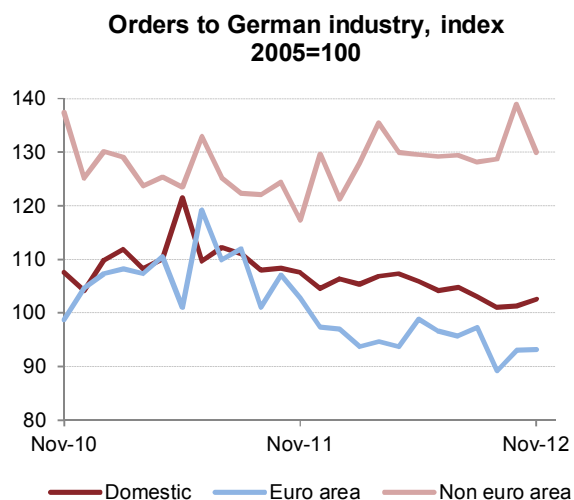


German outlook still weak

Improving sentiment encounters weaker data

It can occasionally be difficult to decide whether to trust sentiment and business surveys; or whether to rely on 'hard data' (not least because much so-called hard data is in any case survey-based). The decision is more complicated by the fact that sentiment tends to be more up-to-date. We have over the last few weeks seen some modestly positive German confidence data. The Ifo business climate index rose for a second month in December to stand at a six-month high of 102.4 (also above its 100.9 long-term average). Significantly, the 'business expectations' index is improving, while the 'business situation' index fell back, implying current weakness but future strength. The European Commission economic sentiment survey, published this week, also showed German confidence improving, overall as well as in industry and services. But consumer, retail and construction sector confidence was flat or falling in December.

By contrast, hard data – from November – is not so good. Leaving aside the notoriously volatile retail sales numbers, both exports and factory orders were weak. The monthly fall in exports was the largest in 13 months (-3.4% by value), but more worryingly, it extended weaker period going back to the late summer after a remarkable post-crisis recovery. Moreover, the main reason for the weakness was softer exports to the rest of the euro area, still by far Germany's most important trading partner. Unfortunately, the breakdown of orders to German industry does not hold out much hope of succour from this part of the world in 2013. Unless foreign orders begin to pick up on a sustained basis, it is likely that domestic orders – notably for capital and intermediated goods – will ease back again.



Stein Brothers (UK) Ltd.
Telephone: +44 (0)7768 094 340
Email: gabriel.stein@steinbrothers.co.uk

Any persons or organisations taking decisions on the basis of facts and opinions in this comment do so at their own risk. Stein Brothers (UK) Ltd. accepts no liability whatsoever for the consequences of such decisions. Stein Brothers (UK) Ltd. does not give any form of investment advice and does not accept liability for any losses that arise from positions taken in securities or asset classes.

Finally, today's industrial production data did show a small rise (0.2%) in November; but that did little to change a downward trend since a peak in output achieved more than a year ago

**German industrial production including construction,
index 2005=100**



Economy Minister Philipp Rösler yesterday said that he expects about $\frac{3}{4}$ % output growth in 2013. Since seems likely that GDP will have contracted in Q4 2012 and will continue to contract in Q1, this implies a pick-up with above-trend growth (assuming German trend growth is in the $\frac{3}{4}$ - $1\frac{1}{4}$ % range, which may be a generous estimate) in H2 2013. There should be some help from a stronger non-euro area world. But German prospects are still very much hostage to other developments, not least in the rest of the EA. And while sentiment has improved and the autumn has been calm, there are still storm clouds on the horizon (eg, the Portuguese Constitutional Court deciding on the country's budget cuts, further problems in Greece where the banking system continues to weaken, weakness in France, etc), all of which could cause sentiment to turn. Certainly, the euro crises are not over; and this will still weigh on Germany.

Gabriel Stein
gabriel.stein@steinbrothers.co.uk

Gabriel Stein is Managing Director of Stein Brothers (UK) Ltd and Chief Economic Advisor to OMFIF. The views expressed are his own.

Stein Brothers (UK) Ltd.
Telephone: +44 (0)7768 094 340
Email: gabriel.stein@steinbrothers.co.uk

Any persons or organisations taking decisions on the basis of facts and opinions in this comment do so at their own risk. Stein Brothers (UK) Ltd. accepts no liability whatsoever for the consequences of such decisions. Stein Brothers (UK) Ltd. does not give any form of investment advice and does not accept liability for any losses that arise from positions taken in securities or asset classes.