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105

Germany reports strong rebound

By Ralph Atkins in Frankfurt and Gerrit Wiesmann in Berlin

Germany is heading for a domestic demand-led recovery, the IMF said on Tuesday, as the country reported a much stronger-than-expected rebound in industrial production.

Industrial production rose by 2.8 per cent in March compared with February, after a 0.3 per cent fall in the previous month, according to official data released on Tuesday. The increase took output to levels last seen in mid-2011, before the eurozone crisis led to sharp falls in business and consumer confidence.

Separately, the International Monetary Fund on Tuesday said Germany was on the verge of a "domestic demand-led recovery following the downturn end-2011".

In the concluding statement of its annual country report – the so-called Article 4 Consultation – the fund said rising employment, higher wages and low financing costs meant growth was "poised to reach potential" of about 1.25 per cent on an annualised basis in the second half of the year.

According to the IMF, a shift from export-led to domestic-driven growth would see Germany reduce its "high current-account surplus", which would also contribute to Germany playing "a pivotal role" in heaving the eurozone out of its debt crisis.

Much of March's rise in industrial production was driven by a 30.7 per cent surge in activity in the construction sector, which more than reversed a 16.9 per cent decline in February, when building projects were hit by bitter winter weather. But manufacturing industry still saw production rise by 1.5 per cent compared with February.

The data will come as a relief to eurozone policymakers hoping robust German growth will help ease the region's economic woes.

As the eurozone crisis gathered intensity, German industrial production contracted significantly late last year. German gross domestic product fell by 0.2 per cent in the final three months of 2011.

But Tuesday's strong data boosted the chances that Germany – unlike the UK and much of southern Europe – has escaped falling into recession, defined as two quarters of negative growth.

After March's rebound, industrial production in the first quarter was roughly at the same level as in the final quarter of 2011. Economists said there was a good chance that first-quarter GDP figures, released next week, would show the overall economy had expanded modestly.

Industrial companies' order books also expanded in March, according to separate data earlier this week, lifted by demand from beyond the eurozone. Germany's economic outlook remains uncertain, however. Orders remain below levels seen last year, and in coming months fiscal austerity measures across much of Europe will curb demand for German products.

Reflecting the severity of the eurozone crisis, purchasing managers' indices for the 17-country region – regarded as up-to-date growth indicators – have indicated that private sector activity contracted sharply across the region in April, including in German manufacturing.

"While the upturn in March may help to keep the German economy out of a technical recession, the longer term outlook is probably much bleaker," warned Chris Williamson, chief economist at Markit, which produces the PMIs.

However, the PMIs might have exaggerated the weakness in German manufacturing – especially as the Munich-based Ifo institute's German business confidence index remain at a high levels.

"It still looks like a stabilisation and maybe even a modest improvement in the manufacturing sector in the months ahead," said Alexander Koch, economist at UniCredit in Munich.