

## German industrial data paints mixed picture

Just-released macro data for June sends a mixed message. While falling exports point to ongoing structural weaknesses, the increase in industrial production keeps hopes alive of at least a meagre industrial rebound in the second half of the year



Industrial production increased by 1.4% month-on-month in June, from -2.5% MoM in May. On the year, industrial production was still down by 4%. The rebound in industrial production was mainly driven by strong production growth in the automotive industry. After three consecutive drops, the construction sector had a meagre rebound but far too little to offset the losses of the three months before. At the same time, the slump in German exports continued with June exports falling by 3.4% MoM in June, from -3.1% MoM in May. With imports increasing by 0.3% MoM, Germany's trade surplus narrowed to €20.4 billion from €24.9 billion in May.

German industry has been the best example of the entire economy's problems over the last few years: stuck between cyclical and structural headwinds and finally realising that the old macro business model of cheap energy and easily accessible large export markets is no longer working. This is why even four and a half years after the start of the pandemic, German industrial

production is still some 10% below its pre-pandemic level.

Looking ahead, with both the US and the Chinese economies losing momentum, along with new trade tensions, there is very little hope for a strong export-driven recovery. Also, weak industrial orders, high inventory levels and precautionary savings are still weighing on the economy. On top of that, the increasing number of insolvencies and individual company announcements of forthcoming job restructurings are still hanging like the Sword of Damocles over the labour market this year.

However, despite a weak start to the second half of the year, don't rule out potential positive surprises. Yesterday's increase in new industrial orders as well as today's industrial production data suggest that some rebound is still possible. In fact, inventories have never been at such high levels for such a long time before, still keeping the prospect of a turn in the inventory cycle alive.

All in all, today's macro data out of Germany has something for everyone: the sharp fall in exports once again illustrates that the export-oriented growth model is no longer working, while at the same time, the rebound in industrial production brings some glimmers of hopes for at least a small cyclical improvement in the second half of the year.

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