

## German industrial production continues negative trend in September

The only upside of yet another drop in German industrial production is that it can hardly get worse.



Industrial production took another hit in September, dropping by 1.1% month-on-month, from -3.5% MoM in August. German industry is suffering from ongoing supply chain frictions and has become a drag on the economy for two consecutive quarters.

On the year, industrial production was down by 1.0%, from +2.2% in August. With the September drop, German industrial production has dropped in six out of the first nine months of this year. The only upside from this morning's data is that with this dismal track record and filled order books the chances for a rebound in the fourth quarter have increased. It can hardly get worse.

### It's still all about supply chain frictions

With today's data, it is confirmed that industrial production was again a drag on growth in the third quarter, for the second consecutive quarter. Supply chain frictions are not only leaving their mark on actual production but have started to spread and to undermine production prospects. In October, production expectations had come down to their lowest level since February this year, and at the same time uncertainty has increased to its highest level since April.

The fact that, despite filled order books and low inventories, German industry has been a drag and not a driver of economic growth shows the downside of international production processes. Supply chain frictions have completely undermined strong fundamentals and the government's fiscal stimulus. At some point in time the high backlog will have to be reduced and should lead to a surge in industrial activity again. With a fourth Covid-wave currently hitting the country and a consequently very likely slowdown of (hospitality) services and consumption, a quick rebound in industrial activity would clearly be welcome.

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