

German industrial production drops in May

German industry is still stagnating and needs an activity surge in June to avoid an extension of the recession



German industry remains stagnant. In May, industrial production dropped by 0.2% month-on-month, from +0.3% MoM in April. For the year, industrial production was up by 0.7%. Industrial production is still 5% below its pre-pandemic level, more than three years since the start of Covid-19. Production in energy-intensive sectors dropped by 1.4% MoM in April and was down by more than 12% over the year.

Recession risk remains

The optimism at the start of the year seems to have given way to more of a sense of reality. Production expectations have continued to weaken, order books have thinned out significantly despite the May rebound and the inventory build-up is not over, yet. This is a toxic combination, which suggests more industrial disappointments in the months ahead.

And if that wasn't enough, well-known structural factors including the ongoing war in Ukraine, demographic changes and the current energy transition will continue to weigh on the German

economy in the coming years. The country's international competitiveness has deteriorated in recent years and is likely to continue to do so. In a recent study, the German Economic Institute concluded that, even prior to the start of the pandemic, Germany saw net outflows of Foreign Direct Investments. This trend accelerated in 2021 and 2022.

All in all, the monthly data for the first two months of the second quarter have not taken away the risk of a further contraction of the German economy. This would make it the first time since 2008 that the economy shrinks for more than two consecutive quarters.

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