

# German industrial production improved in March

The bottoming out of German industry continues. Combined with frontloading effects in exports, the first quarter of the year ended on a positive note



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German industry continued its erratic performance in March, ahead of expected trade escalations. Industrial production increased by 3% month-on-month, from -1.3% in February, bringing a positive end to the first quarter. On the year, industrial production was still down by 0.2%.

At the same time, the frontloading of exports continued, anticipating a further escalation of trade tensions, with an increase of 1.1% MoM, from 1.9% MoM in February.

## Continued bottoming out

While industrial production is still some 9% below its pre-pandemic level, recent months have shown clear signs of bottoming out. A trend that, despite US tariffs, could continue in the first months of the second quarter, as industrial orders have also improved and inventory levels have started to come down.

However, while these are clear ingredients for a typical cyclical rebound, the imposed tariffs of 10% on European goods as well as higher tariffs on automobiles will still weigh on German (and European) industry. By how much will become clear over the next few months. In this regard, the stronger euro exchange rate is like an additional tariff on top of the official tariffs.

And there are more potential impediments to German industry which have nothing to do with tariffs; water levels in Germany's rivers are currently at almost unprecedentedly low levels for this time of the year. Vessels can currently only transport around 50% of their normal cargo.

On a more positive note, despite the very clumsy start – or maybe because of this – the new German government is likely to speed up its investment plans and possibly also reform plans, which should support industry at least in the second half of the year. Also, the very erratic policy announcements by the US administration seem to have brought some concerns about the rule of law in the US, lowering the risk of German companies actually relocating production to the US. And finally, lower oil prices should also bring some solace to Germany's energy-intensive industry.

All in all, it looks as if German industry will be bouncing between two extremes: a cyclical rebound, supported by fiscal stimulus, and ongoing trade tensions, combined with a stronger exchange rate and high uncertainty.

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