

More bad news from Germany

Industrial production continued the trend of other macro data this week, illustrating the economic impact of the war in Ukraine on the German economy



If you are in search of bad news, just have a look at German macro data. Industrial production just wrapped up an entire batch of expectedly weak March data. Output fell by 3.9% month-on-month in March, from +0.1% MoM in February. On the year, industrial production was down by 3.5%. Activity in the construction sector increased by 1.1% MoM, from -1.3% MoM in February. Compared with the final quarter of 2021, industrial production was up in the first quarter of 2022. However, with today's data and without any improvement, industrial production would be a drag on growth in the second quarter. We continue to expect a contraction of the German economy in the second quarter.

German industry is clearly suffering from disrupted supply chains on the back of the war in Ukraine and lockdowns in China. Industrial confidence is still close to where it was last spring but production expectations have come down significantly since the start of the war in Ukraine and are now at their historical average. Interestingly, production expectations have plunged while order books are still richly filled. The explanation for this discrepancy could very well be that the new lockdowns in China and the war in Ukraine have not only created new supply chain and energy disruptions but also brought back last year's supply chain frictions. Given the highly internationalised production processes in German industry, expect more semfinished products waiting in Germany for semiconductors or other input materials from Asia.

Looking ahead, the latest drops in new orders, the well-known supply chain problems plus high uncertainty, high energy and commodity prices and potential energy supply disruptions will not make life any easier. The green transition and the need for investment are currently a silver lining not only for German industry but for the entire economy. In the short run, however, the three pillars of Germany's successful economic business model, exports, industry and energy, have become Germany's Achilles' heel.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.