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German industrial production shows tentative signs of bottoming out

The second consecutive monthly increase suggests that industrial production has finally reached a period of bottoming out

Industrial orders have now increased for two months in a row, inventories have come down somewhat, and capacity utilisation has started to turn

German industrial production increased by 1.8% month-on-month in October, from a downwardly revised 1.1% MoM in September. The October improvement was mainly driven by activity in the construction sector and electronics. On the year, industrial production was up by 0.8%. It's the first time since early 2024 that German industrial production increased for two consecutive months – an almost forgotten phenomenon.

Tentative signs of bottoming out

The story of Germany's industrial weakness should be well known by now: cyclical headwinds, such as US tariffs and the stronger euro exchange rate, combined with structural challenges like higher energy prices, geopolitical shifts, and the changed role of China in the global economy, have created the perfect storm for German industry.

And while it won't be easy to solve the structural challenges – definitely not quickly – there are at least tentative signs of a bottoming out. Industrial orders have now increased for two months in a row, inventories have come down somewhat, and capacity utilisation has started to turn. Admittedly, all of these signs are still very tentative and weak. However, let's not forget that the German parliament only signed off on the 2026 budget a few weeks ago and that the announced fiscal stimulus will only gradually unfold. Add to this the announced reduction of energy prices for industry, and at least a cyclical rebound in industrial activity should be in the making. Even if, particularly in the German case, any cyclical rebound should definitely not be mistaken for a structural improvement.

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