

# Rebound in German industrial production fails to alleviate recession fears

The rebound in German industrial production last month is not enough to take away the recession risk



Germany has struggled with weak manufacturing this year but it's not alone

German industrial production saw a 2.9% month-on-month increase in August, recovering from a -2.9% decline in July. On the year, industrial production is still down by almost 3%. The rebound was mainly driven by a surge in the currently volatile monthly activity in the automotive sector and stronger production of investment goods. The construction sector continues to bottom out with a third consecutive month of meagre growth.

## Risk of yet another contraction in the third quarter

Currently, any data point that isn't negative is considered positive news for the German economy, and this morning's industrial data is no exception. However, today's increase is not an indication of a recovery; it's more of a technical rebound following July's sharp decline, highlighting that the economy is still stuck in stagnation. Based on the hard data available for the first two months of the third quarter, the risk of yet another negative quarter remains high.

## Industry encapsulates German economy's problems

German industry has been the best example of the entire economy's problems over the last few years: stuck between cyclical and structural headwinds and finally realising that the old macro business model of cheap energy and easily accessible large export markets is no longer working.

Five years after the onset of the Covid-19 pandemic, German industrial production remains about 10% below its pre-pandemic levels. Manufacturing capacity utilisation is at lows comparable only to those seen during the financial crisis and the initial lockdowns. This paints a rather unflattering picture of a nation known as an industrial powerhouse.

And at the risk of sounding like a broken record: as of autumn 2024, the German economy finds itself in the same position as a year ago: the growth laggard of the eurozone with few signs of an imminent improvement.

The cyclical hope that grabbed the German economy in the first months of the year has disappeared, mainly due to a weaker global economy but also because of fears of a cooling US economy, ongoing geopolitical tensions and domestic policy uncertainty.

Additionally, the increasing number of insolvencies and individual company announcements of upcoming job restructurings are still hanging like the Sword of Damocles over what has been one of the few strongholds of the economy in recent years: the labour market.

To make matters worse, the recent negative news from the German automotive industry highlights ongoing structural and cyclical issues. Unfortunately, this is likely exacerbating negative sentiment, creating a perfect vicious cycle.

## Despite very tentative signs of bottoming out, stagnation remains the base case

Looking ahead, there are very few signs that the current situation will change substantially soon. Our hopes that private consumption and the turning of the inventory cycle could bring some relief are still alive but probably more of a 2025 than a 2024 story.

In fact, despite yesterday's devastating drop in new industrial orders by almost 6% month-on-month, order books are finally stabilising. Taking three-month averages shows a clear upward trend since the start of the year, admittedly coming from very low levels. Unfortunately, there aren't any signs of an inventory reduction so far. To the contrary, inventories are rising again.

To see any significant changes to our base case of another year of stagnation, Germany either needs reforms and fiscal stimulus or unexpected respite from external demand, or preferably both.

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