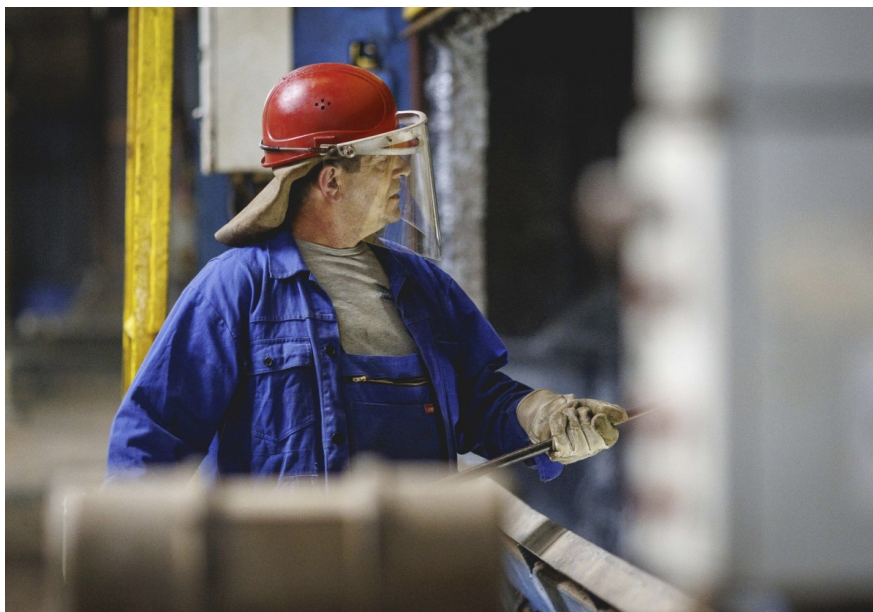


## Another blow for Germany as industry disappoints

A drop in German industrial production in July not only brings a weak start to the third quarter but is another illustration of how difficult it will be to bring the economy back to strong growth



A factory worker in Siegen, Germany

German industrial production fell 2.4% month-on-month in July from 1.7% MoM in June. On the year, industrial production is down by more than 5%. The renewed drop was mainly driven by weak activity in the automotive, electronics and metal industries. The construction sector seems to continue its bottoming out with a second consecutive meagre monthly growth. At the same time, German exports rebounded somewhat, increasing by 1.7% MoM from -3.4% in June. With imports surging by more than 5% MoM, Germany's trade surplus narrowed to €16.6 billion from €20.4 billion in June.

Today's data is a cold shower for everyone hoping for a speedy recovery. In fact, it suggests that the bottoming out of industry still has a long way to go. We've already got weak sentiment indicators, and the risk of yet another quarter of stagnation or even contraction has clearly increased.

## And again...stagnation remains our base case

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. This is why even four and a half years after the start of the pandemic, German industrial production is still more than 10% below its pre-pandemic level. Capacity utilisation in manufacturing is at its lowest level since 2020. It's only in food and apparel production where capacity utilisation is currently at historical averages. This is not exactly a particularly flattering picture for an industrial powerhouse.

Looking ahead, with both the US and the Chinese economies losing momentum, along with new trade tensions, there is very little hope for a strong export-driven recovery. Also, high inventory levels and precautionary savings are still weighing on the economy. On top of that, the increasing number of insolvencies and individual company announcements of forthcoming job restructurings are still hanging like the Sword of Damocles over the labour market this year.

However, despite the ongoing structural challenges, don't rule out potential positive surprises. Industrial orders have now increased for two months in a row, even if bulk orders are slightly blurring the picture, fueling hopes of at least a cyclical rebound in industrial production towards the end of the year.

All in all, this week's news flow in Germany should have finally brought to the attention of an entire country that years of stagnation, underestimating technological trends and international competition do not come without consequences. Today's macro data do little to change this picture.

### Author

#### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

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