

## German industry continues to suffer under supply chain frictions

Instead of the hoped-for rebound, disappointing industrial production in August suggests that the traditional growth engine of the German economy will again be a drag on growth in the third quarter.



Industrial production took a hit in August, dropping by 4% month-on-month, illustrating that supply chain frictions have become a bigger threat to German industry than the pandemic.

On the year, industrial production was only up by 1.7%, from 6% in July. With the August drop, German industrial production has dropped in six out of the first eight months of this year. It would require a rebound of around 8% MoM in September to bring third quarter industrial production above its second quarter level. As this looks very unlikely, German industry seems set for another quarter of shrinking activity, weighing on the entire economy.

### It's all about supply chain frictions

German industry is facing a challenging and complex environment. When lockdown restrictions were lifted around the world, supply chain frictions overshadowed any rebound effect and sent industrial production into negative territory. With today's data, industrial production is very likely to be a drag on growth in the third quarter again.

Looking ahead, despite yesterday's sharp drop, order books are still richly filled and inventories remain low. Under normal circumstances this should be a safe bet for industrial production to surge. However, there currently are no normal circumstances for industry as supply chain frictions have become an enormous obstacle. In the European Commission's survey on limits to production, 'equipment' is at an all-time-high. At the same time, the lack of skilled workers has become as pressing as in 2018, when the German industry was close to overheating.

The fact that, despite filled order books and low inventories, German industry has been a drag and not a driver of economic growth shows the downside of international production processes. Supply chain frictions have completely undermined strong fundamentals. At some point in time the high backlog will have to be reduced and should lead to a surge in industrial activity again. It currently looks as if this moment will come rather later than sooner.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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](http://www.ing.com).