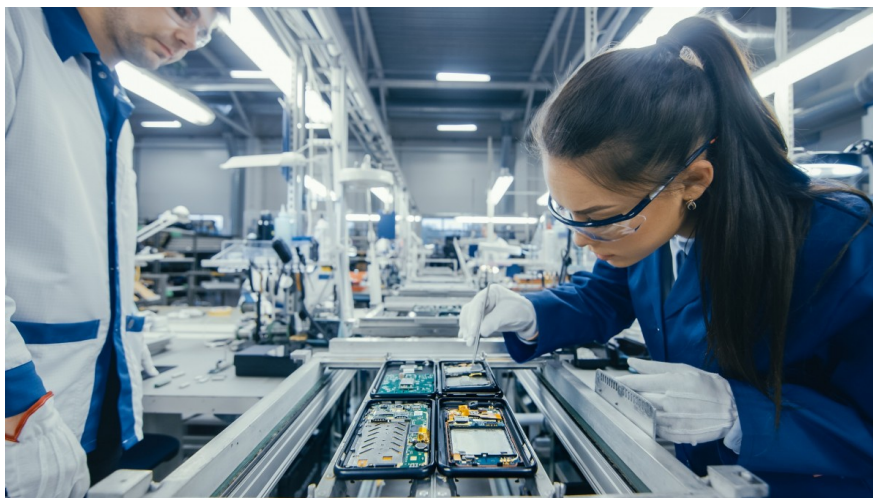


## German industry still far away from a substantial recovery

March industrial production confirms that construction activity boosted first-quarter GDP growth. However, industry is still far away from a substantial recovery



After two monthly increases, industrial production has taken a breather. In March, industrial production dropped by 0.4% month-on-month from 1.7% in February. On the year, industrial production was still down by more than 3%. While production of investment goods increased marginally, production in all other sectors dropped. Only the construction sector stood out again, increasing by another 1% MoM. On the quarter, activity in the construction sector was up by more than 6%, confirming that the construction sector was one of the main drivers pushing the German economy back to growth in the first quarter.

As much as the full batch of encouraging and more positive data over the last few weeks had been balm for the German economic soul, this morning's industrial production data is a good reminder that a bottoming out does not automatically lead to a strong recovery. In fact, demand for German industrial goods has not yet turned around and after an initial inventory correction at the turn of the year, the expected inventory reduction has stalled again. Also, capacity utilisation in German industry has been on a declining trend since the war in Ukraine started and industrial production is still some 8% below its pre-pandemic level.

The cyclical downswing has come to an end and optimism is back. However, the road to a

substantial recovery, particularly in industry, remains long.

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