# German industrial data prompts a second-guessing of the cyclical rebound

Disappointing industrial production data for June and a downward revision for May suggest that, rather than staging a cyclical rebound, German industry remains stuck

Today's industrial production data provides a cold shower for our long-held view of at least a cyclical rebound in German industry

This is bad news. In June, German industrial production fell by 1.9% month-on-month. The May numbers were revised downwards significantly to -0.1% MoM, from an initial +1.2% MoM. On the year, industrial production was down by almost 4%. The drop in production was driven by the manufacturing, pharma and food sectors. Activity in the construction sector increased somewhat.

At the same time, exports increased by 0.8% MoM in June, from -1.4% MoM in May. As imports increased by a whopping 4.2% MoM, the trade balance narrowed to €14.9bn, from €18.4bn in May. Interestingly, and despite the current trade tensions, the US remains the most important export destination in the first half of the year, accounting for more than 10% of total exports. The share of exports to China has continued to drop and now stands at some 5% compared with 8% in 2020. While this morning's data is already bad at first glance, an unwelcome side effect could be a downward revision of the first GDP growth estimate for Q2 (-0.1% quarter-on-quarter).

## Second-guessing the cyclical rebound

More than six years since the start of the pandemic, German industrial production is still more than 10% below its pre-pandemic level. Production in energy-intensive sectors is still more than 7% below its 2024 level. At the same time, the fact that capacity utilisation in German industry has now remained at the low levels last seen during the financial crisis for more than a year is another painful illustration of the structural weakness. Still, since the start of the year, there had been promising signals from industry pointing to at least a cyclical rebound. Industrial orders had finally started to improve, and inventories began to drop. This phenomenon grew even stronger towards the end of the first quarter, with the US front-loading products from Germany in anticipation of looming tariffs. The latest business sentiment indicators have extended the current wave of optimism into the summer.

At the same time, however, this optimism still seems to be based on a big portion of wishful thinking and is not at all matched by current data. The inventory cycle, which had started to turn for the better from the beginning of the year, has worsened again over the last two months. Industrial orders also dropped in May and June, partly offsetting the surge in new orders ahead of US President Donald Trump's Liberation Day.

After today's data, our previous view that the German economy would at least experience a cyclical rebound has come under enormous pressure. At face value, industry remains stuck in a very long bottoming out. For now, what looked like a cyclical rebound in the making has only been US front-loading.

## Industry remains stuck in long phase of bottoming out

Looking ahead, the path for the German economy and industry will be particularly affected by trade, the exchange rate, and fiscal stimulus. In the near term, recent corporate results were already a painful reminder that US tariffs, but also structural transitions, were already in full swing in the second quarter, weighing on company results. This is a trend that will hardly change in the third quarter, as the new US tariffs of 15% on most European goods will come into effect as of today. With 10% of total German exports going to the US, the new tariffs will clearly weigh on economic growth.

While financial markets seem to have grown numb to tariff announcements, let's not forget that their adverse effects on economies will gradually unfold over time. The German Mittelstand could become a victim of US tariffs as these hidden champions will have more trouble relocating production than big corporates. Add to that the stronger euro exchange rate – not only against the US dollar, but many other currencies – and it looks highly unlikely that exports could soon again be a significant growth driver for the German economy, which puts all hopes on fiscal stimulus, corporate investments and innovation to bring back growth.

All in all, today's industrial production data is a cold shower for our long-held view of at least a cyclical rebound in German industry. In fact, beyond US front-loading effects, German industry has still not managed to leave the bottoming-out stage.

## Author

**Carsten Brzeski**
Global Head of Macro
carsten.brzeski@ing.de

### Disclaimer