

German industry worsens as Middle East war takes its toll

An already struggling industry was pushed further into negative territory when the war in the Middle East started. Weak March industrial production suggests that a downward revision of the surprisingly strong first-quarter GDP data is still possible



German industrial production weakened further in March as the war in the Middle East started to take its toll. The just-released industrial data for March illustrate the struggle of German industry to gain momentum in the first quarter of the year. Not only was the February drop revised downwards, with a 0.7% month-on-month decline in March, but industrial production in the full first quarter was more than 1% weaker than in the final quarter of 2025.

The March drop was mainly driven by falling production in manufacturing. On a more positive note, activity in the construction sector rebounded somewhat in March. At the same time, export growth slowed to 0.5% MoM, from 4.7% in February. As imports surged once again, this time by more than 5% MoM, the trade surplus narrowed significantly, to the lowest level since November last year.

Downward revision of first quarter growth has become more likely

The German economy surprisingly showed a positive performance in the first quarter, growing by 0.3% quarter-on-quarter. Against this background, this morning's industrial data is even more of a look in the rearview mirror than normal. Still, the fourth consecutive month without growth in industrial production provides at least two important insights into the German economy:

- As industrial production is down on the quarter and the trade surplus narrowed significantly in March, a downward revision to the first estimate of first-quarter GDP growth has become likely.
- It needs at least 1% growth in the second quarter to bring industrial production back into positive territory. A development that currently looks unlikely.

Outlook has clearly worsened once again

Looking ahead, not only has the outlook for German industry – and for the entire economy – worsened again, but the war in the Middle East and soaring energy prices have again exposed the fact that Germany is one of Europe's largest net importers of energy. Some 6% of its oil imports stem from countries in the Middle East. The so-called energy-intensive industries in Germany account for some 17% of industrial gross value added and employ just under one million people. Even worse, the longer the blockade of the Strait of Hormuz lasts, the higher the risk that German industry could not only be hit by higher energy prices but also by new supply chain disruptions. And finally, don't forget the latest US tariff threat. Some 25% tariffs on European automotives would clearly be another hit for an already battered industry.

This rather sombre outlook is confirmed by production expectations being at a 12-month low. At the same time, however, dropping inventories and increasing order books over the last few months should still provide a cushion against a too sharp drop in production. Still, some note of caution is needed, particularly when interpreting yesterday's strong increase in industrial orders: while at first glance, it could be seen as a sign of strength, it could also simply be companies having learnt their lessons from 2020 and 2022, quickly trying to pile up new inventories in anticipation of new supply chain frictions.

All in all, this morning's industrial production data suggests that the stuttering of one of Germany's most important growth engines worsened with the start of the war in the Middle East. Given that energy prices continued to soar in April and risks of supply chain disruptions increased, any near-term improvement in industrial production looks very unlikely.

Author

Carsten Brzeski

Global Head of Macro

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.