

Germany's industrial slump continued in October

There's still no end in sight to the industrial slump in Germany as industrial production dropped once again in October



A weak start to the fourth quarter could increase the risk of a winter recession in Germany

The slump continues. German industrial production fell by 1% month-on-month in October from -2.5% MoM in September. On the year, industrial production is down by almost 5%. This is a very weak start to the fourth quarter, increasing the risk of a winter recession in Germany.

Industrial outlook still not looking too rosy

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 coming to terms with the fact that the traditional macro business model of cheap energy and easily accessible large export markets is no longer working. This is why almost five years after the start of the pandemic, German industrial production is still more than 10% below its pre-pandemic level.

Looking ahead, underneath very volatile monthly data, there is a clear bottoming out emerging. At the same time, however, inventory levels are still increasing and have now been at elevated levels for an unprecedented amount of time. As a result, a cyclical rebound in industrial production could still surprise over the coming months.

On a less positive note, unfortunately, capacity utilisation in manufacturing remains 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 flattering picture for an industrial powerhouse. And there is more.

A modern and potentially more aggressive version of 'beggar-thy-neighbour' economic policies in the US could not only harm German exports but also German investments if companies were to relocate production to the US. Add to this latest the political woes for Germany's second most important export partner, France, and the outlook for German industry doesn't exactly look very rosy – at least not beyond a short-lived cyclical rebound.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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