

## Germany's economy sees a weak start to the second quarter

German industrial production disappointed again in April, showing how difficult the recovery of the entire economy will be



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In recent weeks, optimism had returned to the German economy. Growth in the first quarter and improving confidence indicators as well as a big portion of wishful thinking had given rise to this new optimism. Today's data on industrial production and trade for the month April were its first stress test. The verdict is mixed – while exports continued their upward trend, industrial production disappointed once again, illustrating how sluggish the German economic recovery is.

Industrial production dropped by 0.1% month-on-month in April, from -0.4% MoM in March. On the year, industrial production was down by 3.9%. The drop in industrial production was mainly driven by intermediate goods and another weakening in the construction sector. At the same time, exports increased by 1.6% MoM in April, from 1.1% MoM in March. As imports increased by 2% MoM, the trade surplus remained almost unchanged at EUR 22.1bn.

Looking ahead, the German economy should still gain more momentum. Strong wage growth should fuel a cautious recovery in private consumption, and even the inventory cycle should

gradually start to turn positive. However, this turning of the inventory cycle has not yet happened. In fact, yesterday's drop in new orders as well as still high inventories show that any rebound in industrial activity will remain muted.

But even if we were to see more cyclical improvements, this does not mean that everything is suddenly hunky-dory again in Germany. There are still several cyclical factors potentially dragging down economic activity. Higher oil prices as a result of the ongoing military conflicts in the Middle East could easily weigh on industry and exports once again. Also, the increasing number of insolvencies and individual company announcements of upcoming job restructurings are not only fuelling the risk of a weakening labour market this year but also argue against a strong industrial rebound. Finally, besides the potential cyclical headwinds, Germany's well-known structural weaknesses will not disappear overnight and will limit the pace of any rebound.

After all the optimism of the last weeks, the German economy's official start to the second quarter was disappointing. Private consumption remains weak and industrial production is simply not gaining momentum. It is again exports that are the main growth driver. For now, it's too early to already say goodbye to optimism again, but it is very clear that the recovery of the German economy will remain tenacious.

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