German April macro data disappoints

April data on exports and industrial production show a strong reversal of the previous frontloading effects. But we haven't given up on hopes for a cyclical rebound, yet

As expected, German industry reversed some of the frontloading gains from the first quarter, dropping by 1.4% month-on-month in April after a 2.3% increase in March. On the year, industrial production was down by almost 2%. At the same time, exports also disappointed, dropping by 1.7% MoM in April.

Disappointing April numbers, but glimmers of hope ahead

Today's industrial production data reflects the feared reversal of the frontloading effect of the first quarter and suggests that the structural weakness in industry is not over, yet. At the same time, however, there are growing indications that the German industrial cycle is gradually turning, as industrial orders have also improved and inventory levels have started to fall.

However, while the turning of the inventory cycle is normally a clear indicator of a looming rebound in industrial activity, the ongoing trade tensions will still weigh on German (and European) industry. The recently increased US tariffs on steel, along with the threat of tariffs on pharmaceuticals, highlight that the risk of escalating trade tensions remains very much alive. Compounding these pressures, the stronger euro effectively acts as an additional tariff.

And there are more potential impediments to German industry which have nothing to do with tariffs; water levels in Germany's rivers are currently at almost unprecedentedly low levels for this time of year. Vessels can currently only transport around 50% of their normal cargo.

On a more positive note, despite the new German government's very clumsy start – or maybe because of this – it is trying to implement its investment plans swiftly. Earlier this week, the government presented plans for faster tax deductions of corporate investments as well as a reduction in the corporate tax rate from 2028 onwards. These plans are part of the coalition agreement and could lead to tax relief of some €46bn. Not at once, but over the next four years.

In two weeks, the government is expected to present its budget plans for 2025 and 2026, which should include more details on how and when the government intends to spend the €500bn of the new infrastructure investment fund. While it is still very early days and far-reaching structural reforms have not been presented yet, the policy action of the government's first month in office is promising and could spark positive momentum.

The very erratic policy announcements by the US administration seem to have also brought some concerns about the rule of law in the US, lowering the risk of German companies actually relocating production to the US.

All in all, this morning's numbers are a disappointment as they suggest that the largest part of the recent growth surge was driven by frontloading and not so much by substantial improvement. However, there are the first tentative signs of at least a cyclical rebound ahead.

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