

## German economy weakens in August

Weak industrial production and retail sales provide further evidence that the German economy continues to slide into recession



Germany continues to descend into recession. In August, production in industry in real terms was down by 0.8% on the previous month on a price, seasonally and calendar-adjusted basis, from an upwardly revised stagnation in July. Over the year, industrial production was up by 2.1%. Ongoing supply chain frictions as well as the low water levels in German rivers were the main reasons behind this drop in industrial activity. To make things worse, production in the energy sector was down by 6.1% month-on-month and the construction sector by 2.1%. According to the statistical office, production in the energy-intensive sectors was down by 2.1% MoM and by 8.6% compared with February this year. Retail sales in August were down by 1.3%, from an increase of 0.7% in July.

### More to come

German industry and the entire economy have not come to an abrupt stop but are rather in the middle of a long and gradual slide into recession. Some examples? At the start of the year, production expectations were close to all-time highs but since the start of the war in Ukraine they have gradually come down, with no end currently in sight. Order books were richly filled at the start of the year and companies were filling inventories. Since then, new orders have dropped in almost every single month, and actual production has weakened since the summer.

We don't need a crystal ball to see a further weakening of German industry in the coming months. The full impact of higher energy prices will only be felt in the last months of the year. It is not only the price effect putting a burden on German industry but also the lack of industrial input goods (including industrial gas).

Today's data are like a sneak preview of more to come. High energy prices will increasingly weigh on private consumption and industrial production, making a contraction of the economy inevitable. The only question is how severe such a contraction or recession will be.

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