

German industrial production plunges again

Industrial production plunged again, ending the year 2023 at some 10% below pre-pandemic levels, but we are seeing the very first signs of light at the end of a long tunnel



Germany's automotive sector was one of the few brighter spots

German industry remains stuck between cyclical and structural weakness. Industrial production dropped by 1.6% month-on-month in December from -0.2% MoM in November. On the year, industrial production was down by 3% and is now some 10% below its pre-pandemic level. Production in energy-intensive sectors plunged by almost 6% MoM. The December weakness in industrial production was spread across all sectors except for the automotive industry.

Vague light at the end of a very long tunnel

The sharp drop in both exports and imports, as well as today's industrial production, not only illustrates the weakness of the German economy's backbone but also increases the risk of a downward revision of fourth-quarter GDP growth. The reasons for what has become a structural weakness of German industry are well-known. The Christmas vacation might have exaggerated the December plunge, but even with some potential data revisions, the picture of one of the worst

years for German industry will not change. For example, production in the chemical industry in 2023 was at the lowest level since 1995.

Looking ahead, yesterday's industrial orders data – even if blurred by several one-off factors – as well as the gradual turning of the inventory cycle, sent an encouraging signal that at least the cyclical part of German industrial weakness is bottoming out. However, Germany wouldn't be Germany these days if there weren't new problems weighing on the short-term outlook: strikes by train drivers, airport and airline personnel, and supply chain disruptions as a result of the military conflict in the Red Sea have made another contraction in the German economy in the first quarter of the year even more likely and could lengthen the process of bottoming out. The recent drop in production expectations points exactly in that direction.

German industry remains stuck between cyclical and structural weakness, but the recent increase in industrial orders brought at least some vague light at the end of what increasingly looks like a very long tunnel.

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.