

## 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.

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