

## German industrial disappointment continues

German industry disappointed in May, indicating that the entire economy could have fallen back into negative territory in the second quarter



In the first months of the year, optimism had returned to the German economy. Growth in the first quarter and improving confidence indicators as well as a large dose of wishful thinking had given rise to this new optimism. As the second half of the year has just started, optimism has given way to more realism. The German economy is losing steam again.

After disappointing sentiment indicators for June, this morning's industrial production data was another cold shower for the optimists. Industrial production dropped by 2.5% month-on-month in May, from 0.1% MoM in April. On the year, industrial production was down by almost 7%. The drop was mainly driven by falling production in the automotive industry and another weakening in the construction sector. In fact, activity in the construction sector has dropped for three months in a row. As depressing as these numbers are, let's not forget that the month of May had an exceptional number of public holidays. Still, it would need a stellar performance by industrial production in June, with MoM growth of some 5%, to prevent a negative quarter for industrial production.

## Economy loses steam before even getting close to full speed

Unfortunately, there is still very little evidence of a turn in the inventory cycle. Instead, inventory levels remain close to record highs and order books are becoming thinner and thinner. Yesterday's industrial orders data for May showed the fifth monthly drop this year. Since the start of the Russian invasion of Ukraine, German industrial orders have, on average, dropped by 0.7% every single month. Uncertainty in German industry, as measured by the European Commission's business survey indicator, is the second highest in the eurozone. Only Cyprus has a higher reading.

Looking ahead, even if today's numbers have increased the chances for the German economy to fall back into negative territory in the second quarter, it would be premature to give up on the German economy. Strong wage growth should fuel a cautious recovery in private consumption, and even though the inventory cycle hasn't turned yet, it won't take a lot to see at least a weak rebound in industrial activity later this year.

At the same time, however, 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.

All in all, after an encouraging start to the year, the German economy has not been able to meet the high expectations and is losing steam again far before reaching full speed. German football supporters will be hoping that the parallels between the German national team and the German economy will not hold, for once.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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](http://www.ing.com).