

## Germany: Industrial slump continues

Industrial slump worsens in June, boding ill for GDP growth in 2Q



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The industrial slump in Germany continues with industrial production dropping by 1.5% month-on-month in June, from 0.1% MoM in May. On the year, industrial production is down by more than 5%. Activity in all sectors dropped - only the construction sector grew by a meagre 0.3% MoM, after two consecutive drops. The weak performance of the construction sector means that this sector - contrary to anecdotal evidence that it was still booming - has been a drag on growth in the second quarter.

### What a difference a year can make

German industry continues to suffer from structural changes and ongoing trade conflicts. In fact, industry has seen a complete reversal within the short period of one year. Who still remembers that, last summer, the biggest problem for the German economy was supply-side constraints? The lack of demand has now become one of the most pressing issues. According to the European Commission's sentiment indicators, the issue of demand as a limiting factor to production is at its highest level since 2012. Consequently, our previous hopes for investment being the growth wild card for this year are fading. All supply side constraints in industry are disappearing quickly. Unfortunately this is not, as hoped, on the back of new investments but simply driven by weaker demand. Equipment as a limiting factor to production has dropped to its lowest level since the end of 2017. The lack of skilled workers has dropped to its lowest level since 2Q 2017. Capacity utilisation has fallen to its lowest levels since 1Q 2016.

Looking ahead, despite yesterday's encouraging industrial orders data, the combination of high inventories and few orders at hand does not bode well for industrial production in the months ahead. Add to this a further escalation of the current trade conflicts, Brexit and an ongoing structural transformation in the automotive sector and the outlook doesn't look any better. Against this background, recent tentative signs that the domestic economy's resilience is crumbling are concerning.

All in all, we would characterise today's industrial production report as devastating, with no silver lining. Today's data also shows that we should prepare for contraction in the German economy in the second quarter, unless exports bring an unexpected surprise on Friday.

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