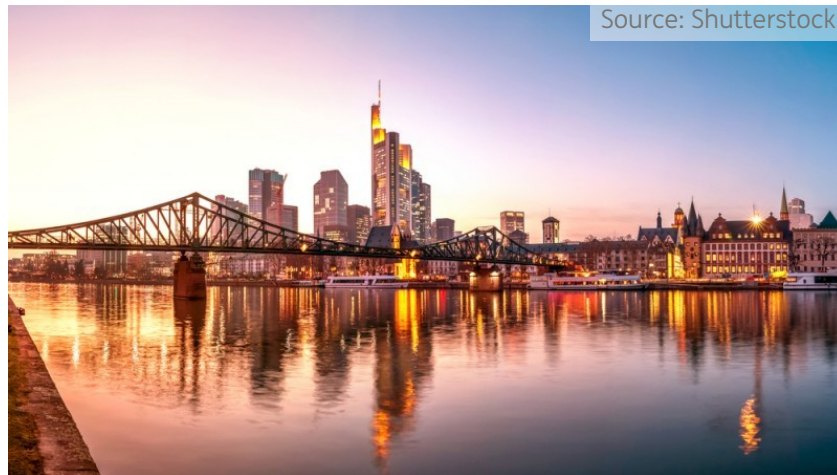


7 August 2019

Snap

## Germany: Industrial slump continues

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



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.

**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 <http://www.ing.com>.