

## Germany: Disappointing record for industrial production

The May rebound of industrial production was below expectations and shows that the return to normality will not be easy



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It's the single largest monthly increase ever but still the 7.8% month-on-month increase of German industrial production in May shows how difficult the return to normality will be. Industrial production, excluding construction, had dropped by more than 30% in March and April. Against this drop, the May revival looks relatively weak. Industrial production is still more than 20% below its February level. Production in the automotive industry is still some 50% lower than in February. While the May increase was spread across all sectors, it shows that after the lifting of the lockdown measures, businesses must have been more reluctant than consumers.

Today's industrial data provide more evidence that April was not only the worst month ever in the history of German economic data but also marked the trough of the current crisis. With the lifting of the lockdown measures, economic activity has rebounded, strongly. All available data, however, suggests that this rebound has different faces. While domestic demand, particularly consumption, surged and has returned close to pre-crisis levels, industrial activity and external demand are still lagging behind. With some major trading partners still experiencing the full force of the virus and the possibility of a second virus (and lockdown) wave in many countries, the return of German

industry to pre-crisis levels will not be easy. Let's also not forget that industry entered the crisis on a weaker footing than other sectors.

The prospects of a wobbly recovery for industry, beyond an initial V-shaped rebound of a few months, are not only supported by still thinly-filled order books but also by uncertainty about the permanent damage from the crisis, be it the permanent increase in unemployment or companies going out of business. According to a recent Ifo study, more than 20% of all German companies are afraid of going bust. Not entirely surprising, many sectors in the service industry are most at risk, think of travel agencies, restaurants, hotels and creative jobs. The results of this survey match earlier findings that current financial problems are much more severe limits to production than during the financial crisis.

All in all, today's industrial production data presents a pattern we will see more often in the coming weeks and months: after the end of the lockdown measures, monthly economic data will surge but it will need more than one or two surges to bring economies back to their pre-crisis levels.

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