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Germany: On track for a strong third quarter

The rebound lost steam in July but the economy remains on track for a strong performance in the third quarter



After two strong months, the rebound in German industry lost some steam in July. Industrial production increased by 1.2% month-on-month, from an upwardly revised 9.3% MoM in June. On the year, industrial production was still down by 10%. Excluding energy and construction, production increased by 2.8% MoM. The drop in activity in the construction sector (-4.3% MoM) is, in our view, the result of the holiday season rather than the delayed impact from Covid-19. Production in the important automotive sector increased by almost 7% MoM in July but remains around 15% below its pre-crisis level.

Even if industrial production remains unchanged for the next two months, the quarterly growth rate would still be around 10%. This illustrates that a strong rebound in the German economy is in the making. The Bundesbank's activity indicator last week pointed to a growth rate of almost 6% QoQ in the first two months of the third quarter, and still counting. This doesn't take away the fact that it will still take a while before the entire economy reaches its pre-crisis level. Industrial production, for example, remains some 10% below levels seen prior to the crisis.

The German economy remains on track for a strong surge in the third quarter. It is too early to tell

how much momentum will be left thereafter.

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