

## German industrial 'bad news show' continues

A further drop in German industrial production in June is another illustration of the country's ongoing stagnation



The industrial bad news show continues. German industry continued its downward trend in June as industrial production dropped by 1.5% Month-on-Month, from -0.1% MoM in May. For the year, industrial production was down by 1.7%. Industrial production is still more than 5% below its pre-pandemic level, more than three years since the start of Covid-19. Production in energy-intensive sectors escaped the negative trend and increased by 1.1% MoM in June, still down by more than 12% over the year. The disappointing industrial production performance in June was mainly driven by the automotive industry (-3.5% MoM) and the construction sector (-2.8% MoM). With today's numbers, the risk has increased that the flash estimate of stagnating GDP growth in the second quarter could still be revised downwards.

### More industrial disappointments to come

Today's industrial production data will do little to change the current hangover mood in Germany. The country finally seems to have woken up to the reality that it's lost international competitiveness over the last decade on the back of too few investments and hardly any structural reform. The pandemic and the war in Ukraine have worsened the problems without

being the root cause. It doesn't come as a surprise that according to a recent survey, German companies have never been more pessimistic about the country's international competitiveness than currently. With earlier investments and reforms, the economy could have mastered the current challenges better. As a result, economic stagnation is the new normal. And in this new normal, the 'traditional' growth drivers of the German economy, i.e. industry and exports, have actually become a drag on growth.

Looking ahead, last week's surge in industrial orders brightened the industrial outlook somewhat. However, up to now, the rebound in new orders in May and June has only offset the sharp drop earlier in the spring but is not yet the start of a new positive trend. In fact, ongoing high inventories and the order book deflation until springtime still suggest more industrial disappointments in the months ahead.

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