

Germany: Industrial rebound postponed

Disappointing industrial production data not only illustrates the negative impact from supply chain frictions but also suggests that the industrial rebound will come later than expected



Industrial production dropped for the second month in a row, pouring cold water on any rebound enthusiasm. In May, industrial production fell by 0.3% month-on-month, from an upwardly revised -0.3% in April. On the year, industrial production was up by more than 17%. Production in the manufacturing sector dropped by 0.5% MoM, while activity in the construction sector increased by 1.3% MoM. Compared with the first quarter, industrial production is only up very marginally.

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Disappointing and sluggish industrial production in the first two months of the second quarter suggests that supply chain disruptions, like the blockage of the Suez Canal in April or the ongoing semiconductor delivery problems, have not left German industry unscathed.

However even with two disappointments in a row, we aren't giving up on our view that the industrial outlook remains bright. Production expectations came somewhat off record highs in the last two months but with filled orders books and reduced inventories, industrial production should

remain an important growth driver this year. If not for the ongoing supply chain disruptions. These disruptions make a proper nowcasting of industrial activity highly complicated and we definitely wouldn't exclude more erratic data in the months ahead. The overall direction of industrial production, however, is still up.

It is a common mistake of economists to stick to their views for too long, often ignoring opposing data signals or simply labelling them as outliers. However, the risk of repeating this mistake when it comes to the outlook for German industry currently is low. The rebound will come, it just doesn't follow the German principle of 'Pünktlichkeit'.

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