

## Germany: Industrial slump continues

Disappointing industrial production data adds to the case for policy action



People at a construction equipment exhibition in Munich, Germany

Industrial production took another nosedive. In July, German industrial production dropped by 0.6% month-on-month from a slightly upwardly revised drop of 1.1% MoM in June. On the year, industrial production was down by 4.2%. Industrial production would have to increase by a total of more than 2.5% in the coming two months just to return to the level of the second quarter. Not impossible but currently very unlikely. Even activity in the construction sector seems to be stuttering these days, increasing by a meagre 0.3% MoM.

German industry continues to suffer from structural changes and the ongoing trade conflict. In fact, industry has seen a complete reversal within the short period of one year. Who still remembers last summer when 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 have faded away. 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.

At least in the short run, the prospects for German industry remain bleak. Even with a magnifying glass, it is impossible to find signals of an imminent rebound. Shrinking order books, high inventories and continuing external uncertainty do not bode well for the coming months. To make things worse, the third consecutive dry summer could further slow down growth in the second half of the year (again). The water levels in the Rhine have started to fall at a similar magnitude to last summer, even though not yet to the extreme low levels of last year's very dry autumn season.

All in all, a very weak start to the third quarter for German industry. Even if this data comes too late to be incorporated into next week's official ECB forecasts, it will be another argument for ECB members in favour of new monetary stimulus.

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