

German industry waiting for 'glass ketchup bottle' effect

The second quarter was a quarter to forget for German industry as output dropped in all three months. But once supply chain frictions start to dissipate, industrial production is likely to flood out



Industrial production dropped for the third month in a row, illustrating why the economy stayed behind expectations in the second quarter.

In June, industrial production fell by 1.3% month-on-month, from a downwardly revised -0.8% in May. On the year, industrial production was up by more than 5%. Despite a lifting of restrictions around the world, German industrial production in the second quarter was weaker than in the first quarter, as supply chain frictions have become a bigger threat to German industry than the pandemic.

The rebound of the German economy in the second quarter was weaker than in most other eurozone countries. The just-released industrial production data shows why. The significant growth driver since last summer, industry, had a 'no show', being a drag on growth as supply chain frictions such as the blockage in the Suez Canal and delivery problems of semiconductors have affected key sectors of German industry.

However, despite a disappointing second quarter, there is no reason to write-off German industry.

In fact, German industry is waiting for the ketchup bottle effect. Remember the glass ketchup bottle that you shake and tap all you want with no result until suddenly it all comes flooding out and your food is smothered in ketchup? While order books are still richly filled, as illustrated by yesterday's June increase, for twelve of the last fourteen months, inventories have been reduced further; a situation which normally would be followed by strong output growth. However, supply chain frictions still seem to be clogging industrial activity. Once the supply chain frictions start to dissipate, the ketchup, or in this case industrial production growth, will flood out.

Hopefully sooner rather than later.

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