

## Germany's final message from a lost macro world

Just-released industrial data shows that even before the start of escalating trade tensions, German industry struggles to gain momentum



Following recent fiscal U-turn optimism, the near-term outlook for the German economy has clouded over once again

While global stock markets tumble into what could become a Black Monday, just-released German industrial data from February looks like a message from a lost macro world – a world without a German U-turn on fiscal policy but also one without a trade war. What a difference just a few weeks can make.

The positive momentum we've seen for German industry since the start of the year halted, dropping by 1.3% month-on-month in February, from 2% MoM in January. On the year, industrial production was down by 4%.

At the same time, the frontloading of exports, anticipating looming tariffs, continued as German exports increased by 1.8% MoM in February. As imports increased by 0.7% MoM, the trade surplus widened. German industrial production remains about 10% below its pre-pandemic levels, some five years after the onset of Covid-19.

## Nearer term outlook for industry and entire economy has worsened again

In normal times, today's data would hardly have been encouraging. If anything, industry is going through a very tentative bottoming out, and nothing more, even if production expectations had started to gradually improve in March and a very tentative inventory reduction seemed to unfold. But these are no normal times. The latest tariff announcements from the US government have clearly dented any fresh optimism. Some 10% of all German exports go to the US, some 150bn euro per year. And even if we don't know whether the announced tariffs will be passed through entirely by companies or how US demand will react per product on higher prices, it is clear that an export-oriented economy like Germany's will suffer from a trade war. Maybe the only solace offered by the current situation is that doubts about the rule of law in the US could hold back German companies from relocating production to the US.

And there is more which has nothing to do with the tariff announcements; water levels in Germany's rivers are currently at almost unprecedentedly low levels for this time of the year. Vessels can currently only transport around 50% of their normal cargo.

All of this means that after the fiscal U-turn optimism, the nearer-term outlook for the German economy has worsened once again. The direct impact from US tariffs on trade, the indirect impact on confidence, but also the far too dry weather will weigh not only on industrial but broader economic activity. The latest developments suggest that the ongoing coalition talks in Berlin should not only focus on efficiently implementing the infrastructure investment package and structural reforms but might have to consider shorter-term support measures for the economy as well.

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