

Germany's short-lived industrial revival

Supply chain frictions are keeping German industry in a stranglehold. Only exports are sending some glimmers of hope. However without production, the export revival will also be short-lived



The German industrial revival was short-lived. After strong signs of life in October, industrial production dropped by 0.2% month-on-month in November. In the first eleven months of 2021, industrial production only grew in three. On the year, industrial production was down by 2.4% in November. Despite the November disappointment, industrial production was still up compared with the third quarter.

At the same time, exports continued their upward trend, growing by 1.7% month-on-month, from 4.1% in October. While exports are now almost 6% above their pre-pandemic level, industrial production is still some 7% below.

Sustainable recovery of industry not before spring

Today's data shows that German exporters used the small window between the third and fourth wave of the pandemic to play catch up, benefiting from strong manufacturing growth in Asia. Industrial production, however, struggled to keep up. Unfortunately, this is where the rebound of

German industry stops for the time being. The fourth wave of the pandemic and Omicron should send industrial activity back into hibernation.

German industry remains in the stranglehold of global supply chain frictions. It is not only semiconductors but all kinds of input goods, ranging from bottom brackets for bikes to magnesium needed in automotive and aircraft construction. Supply chain frictions are not only leaving their mark on actual production but have started to spread and to undermine production prospects as reflected by dropping orders and weakening production expectations. Looking ahead, it will take until spring next year before German industry is back on a fully sustainable recovery path.

With the fourth and fifth wave of the pandemic and Omicron putting the Asian zero-Covid strategies to the test, things for German industry will first get worse before they get structurally and sustainably better. On a positive note, however, the revival of exports and to a lesser extent industrial production in the first months of the fourth quarter indicate how fast and strong German industry can rebound once global supply chain frictions show any relief.

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