

## Latest industrial data shows what the German economy could have looked like

Industrial production grew in February, adding to the positive macro data in the first two months of the year. It will be the last positive macro news for a while. The war in Ukraine has drastically changed the German growth outlook



Industrial production increased by 0.2% month-on-month in February, from 1.4% in January, sending the last signal of what the German economy could have looked like had the war in Ukraine not happened. Over the year, industrial production was up 3.2%. Still, industrial production is almost 4% below its pre-pandemic level.

### Impact of the war in Ukraine not yet visible in hard data

With today's industrial production data, we have the full batch of the first two months of the year for the German economy. The picture these data paint is still one of an economy that is about to pick up speed. Retail sales stagnated but didn't fall under high energy prices; net exports increased and industrial production was clearly up compared with the fourth quarter of 2021. Based on these developments in the first two months of the year, the German economy was on track for slightly positive growth in the first quarter and a significant rebound thereafter. Well, all of this was before

the war.

The war in Ukraine has not only dramatically changed the world but also the outlook for the German economy. Higher energy and commodity prices than at the start of the year and probably for a long time, new supply chain disruptions on top of the old ones with a high risk that these will be disrupted for good, and elevated uncertainty and fear will weigh on both supply and demand in the coming months. Real disposable incomes of households will suffer, and companies will have increasing difficulties dealing with the costs of higher energy and commodity prices, putting corporate profit margins under pressure. The first soft indicators indeed point to a sharp drop in production expectations and a surge in uncertainty.

## Entire economic model is at risk

Even worse, with high energy and commodity prices for a protracted period, possibly even energy supply interruptions, an acceleration of deglobalisation, and a possible new cold war, an export-oriented economy highly dependent on energy, then of course imports will suffer. Government support schemes will dampen the adverse impact of the war but will not be able to avoid stagflation.

## Recession risk remains

Even with a sharp plunge in economic activity in March, a contraction in the first quarter is not yet a done deal. Looking beyond the first quarter, however, does not paint a rosy picture for the German economy. For the entire year, we recently revised downward our growth forecast to 1.4%, which would delay the return of the economy to pre-pandemic levels until the end of this year.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.