

More evidence of a cyclical turnaround in German industry

German industry entered a cyclical turning point at the end of 2025 and should return the entire economy to growth territory this year



German industrial production increased by 0.8% month-on-month in November, from an upwardly revised 2.0% MoM in October. The November improvement was mainly driven by activity in the automotive industry.

On the year, industrial production rose by 0.8%. It's the first time since the post-lockdown surge in 2021 that German industrial production increased for three consecutive months – an almost forgotten phenomenon. At the same time, exports dropped by 2.5% MoM, from 0.1% MoM in October. Imports, however, rebounded somewhat, increasing by 0.8% MoM, from -1.2% MoM in October.

While industrial production has finally entered positive territory compared with the third quarter of 2025, US tariffs and the stronger euro exchange rate have made net exports a drag on growth.

Tentative signs of a turning point

At the end of a week which provided new painful evidence of the ongoing significant geopolitical changes, Europe's economic problem child has finally delivered some positive news. Yesterday's industrial orders data and today's production and trade data add to the tentative signs of a bottoming out. Industrial orders have now increased for three months in a row, and even the argument that the November surge was driven by bulk orders does not really worry us: with the fiscal spending programme, there will be more of these bulk orders coming this year. At least in 2026, bulk orders could be the new normal, not an exception.

Inventories have also fallen somewhat, and capacity utilisation has started to turn. Without getting overly enthusiastic, these are all clear signs of a cyclical turning point. Add to this the announced reduction of energy prices for industry and the fact that parliament only signed off the 2026 budget, as well as almost 30 military procurement contracts, at the end of last year, and the prospects for German industry are brightening.

That said, any cyclical rebound should definitely not be mistaken for a structural improvement. The structural headwinds, like geopolitical shifts and the changing role of China in the global economy, remain a severe challenge for German industry. A challenge that will not be blown away by a few months of industrial production or GDP growth.

Leaving stagnation behind, soon

All in all, available data for the first two months of the final quarter of 2025 suggest that the German economy is still struggling to return to growth. The positive signals from today's industrial production data are offset by weak exports and private consumption. We expect another quarter of stagnation. However, these tentative signs of an industrial turning point, combined with the full implementation of fiscal stimulus, support our view that the German economy will finally return to growth this year. We just need to hang in there for a few more months.

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