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Sign of life rather than a performance explosion in German industrial production in July

Catching up a little bit. After a disappointing second quarter, industrial production has finally offered some long-expected signs of life.



In July, industrial production increased by 1.0% month-on-month, from an upwardly revised -1.0% in June. On the year, industrial production was up by 5.7%. Today's data finally brought the long-awaited rebound of the German industry but it is far from being a production explosion, stressing that supply chain frictions remain a bigger threat to the German industry than the pandemic.

Remember that, despite a lifting of restrictions around the world, German industrial production disappointed in the second quarter, dropping every month between April and June. Supply chain frictions such as the blockage in the Suez Canal and semiconductor delivery problems affected key sectors of German industry and more than offset the positive impact from lifted restrictions. Supply chain frictions have not disappeared but at least in July, the pipeline pressure from filled order books and low inventories was simply too strong not to see industrial production surging.

We have mentioned before that 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? Given that supply chain frictions are likely to continue clogging industrial activity for some time yet, today's industrial production data might not have been the start of the ketchup bottle effect but rather a very welcome catching up.

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