

German industrial production goes from bad to worse

Industrial production dropped for the third consecutive month in July, providing more evidence of an elevated recession risk for the German economy



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Germany's industrial production continues to nosedive and even diehard pessimists are nervous. German industry dropped by 0.8% month-on-month in July, from -1.4% MoM in June; the third consecutive monthly drop. For the year, industrial production was down by 2.1%.

Industrial production is now more than 7% below its pre-pandemic level, more than three years since the start of Covid-19. Production in energy-intensive sectors also decreased, by 0.6% MoM in July, and is still down by more than 11% over the year. The only positive news in today's report is the increase in construction activity by 2.6% MoM, from -3.1% MoM in June.

Risk of falling back into contraction remains high

Today's industrial production data will do little to change the current hangover mood in Germany. A stagnating economy in the second quarter after two quarters of contraction gave hope to some that the economy was improving. However, the full batch of hard macro data for July suggests

that the risk of recession is high again. Retail sales, exports and now industrial production all dropped in July, giving the German economy a very weak start to the third quarter.

Yesterday's very disappointing drop in industrial orders – by almost 12% month-on-month in July – illustrates the current problem of German industry; shrinking order books and high inventories, a combination that simply doesn't bode well for industrial production in the months ahead.

The country finally seems to have woken up to the reality that it has lost international competitiveness over the last decade on the back of not enough investment and hardly any structural reform. The pandemic and the war in Ukraine have both worsened the problems without being the root cause. It doesn't come as a surprise that, according to a recent survey, German companies have never been more pessimistic about the country's international competitiveness.

With earlier investment and reforms, the economy could have tackled the current challenges better. Economic stagnation is the new normal. Yesterday, German Chancellor Olaf Scholz called for a “Germany pact” – appealing to the country's democratic parties to unite in a concerted effort to modernise Germany, speed up bureaucracy and combat the current economic crisis. This call comes only a week after the [government announced a small programme](#) to incentivise corporate investment in the energy transition, the construction sector and digitalisation. No details of how such a “Germany pact” could look were revealed.

The positive news is that the sense of urgency has finally increased. Let's now wait for more concrete policy action. Until then, stagnation in industry and the broader economy looks like the new normal.

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