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Economic Research

Economic Briefing

Germany – orders deliver cold shower

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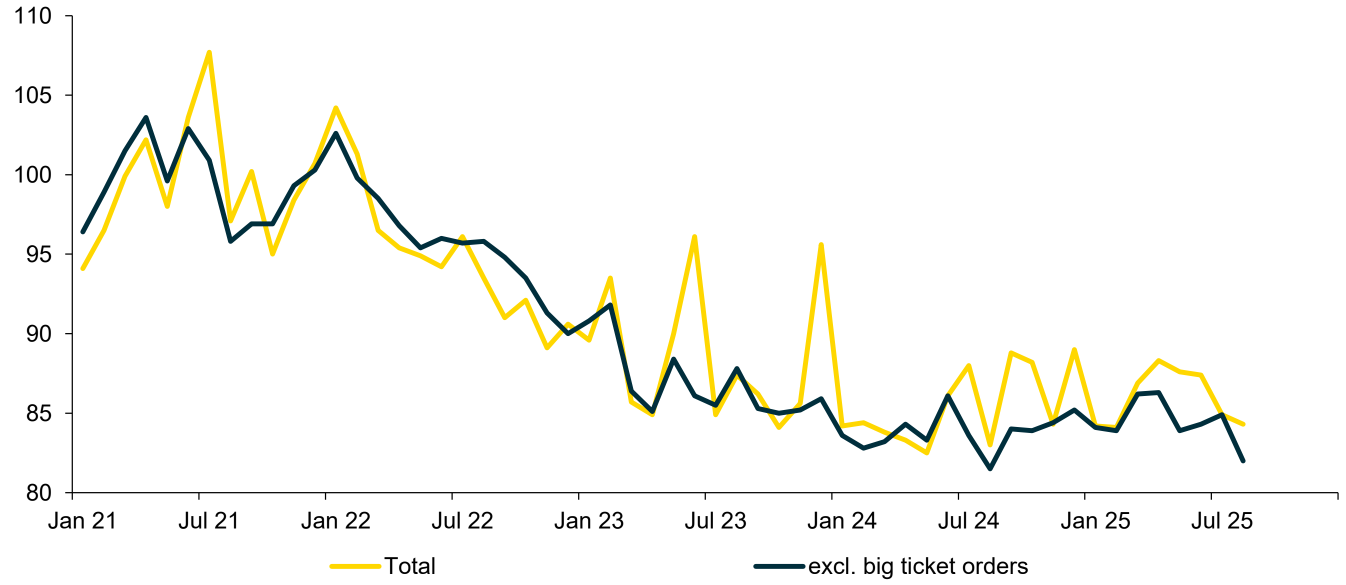
Order intake in German industry fell by 0.8% in August, which was significantly weaker than generally expected. In fact, there were significantly more big ticket orders than in the previous month. If these are excluded, the corresponding core figure actually fell by 3.3%. One reason for this appears to be the significantly higher US tariffs, which are clearly slowing demand in the US for German industrial goods. In addition, the relatively late factory holidays in the automotive industry may have played a role. In view of these figures, there is no sign of a rapid turnaround for the industry.

Following the sharp decline in the Ifo business climate index two weeks ago, this is the next cold shower for hopes of a revival in the German economy: contrary to general expectations, incoming orders did not rise in August after the sharp decline in July, but fell again by 0.8% compared with the previous month. As expected, there were again significantly more big ticket orders. However, this was more than offset by a massive decline of 3.3% in the core figure excluding these orders (Chart 1). After this core figure had largely moved sideways since the beginning of 2024, there is now a threat of a renewed decline in demand for German industrial goods. However, there have been repeated upward and downward outliers over the past two years without this ending the sideways trend. This time, too, it could be an outlier. In August, for example, order intake in the automotive industry fell particularly sharply, which could be a consequence of the comparatively late factory holidays.

Chart 1 - Significant setback for factory orders

Order intake in German manufacturing, volumes, 2021=100, seasonally adjusted monthly figures.

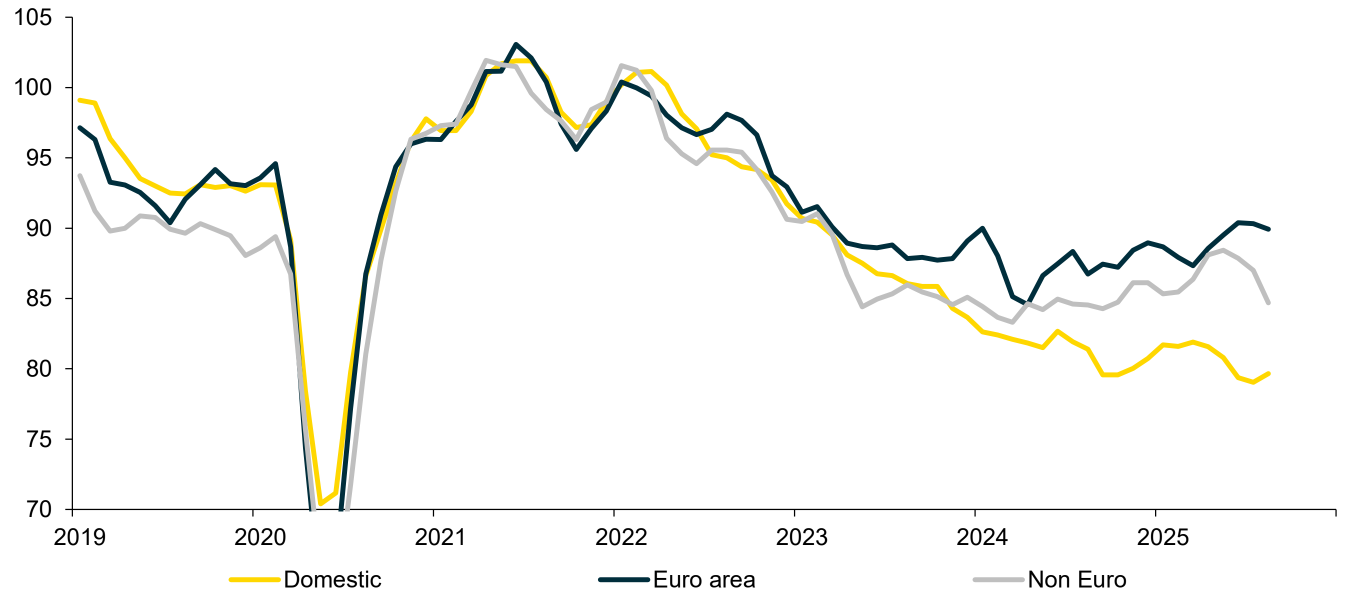


Source: Destatis, Commerzbank-Research

A look at the regional origin of incoming orders suggests that the recent weak performance is also due to significantly higher US tariffs. Orders from outside the eurozone fell by 6% in August, the fourth consecutive decline. Meanwhile, the three-month average for this indicator has turned sharply downward (Chart 2). By contrast, domestic demand, which has long been the weak point in order intake, appears to have stabilized recently.

Chart 2 - Weaker demand from outside of the euro area

Industrial order intake excluding big ticket orders, volumes, seasonally adjusted monthly figures, 3-months-average



Source: destatis, S&P Global, Commerzbank Research

Bottom line: even if the August figures may paint an overly bleak picture of the underlying trend, there are no signs of a revival in demand in the order intake to date. This means that the German economy is unlikely to grow significantly in the second half of the year. A sustained economic recovery is not expected until next year, when the government will boost demand through additional spending. Without far-reaching reforms, however, this is likely to prove a flash in the pan.

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