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Economic Research

Economic Briefing

Germany – Slight setback in production

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After two strong increases in succession, German industrial production fell by 0.4% in March compared to February. The main reason for this was a drop of the same magnitude in manufacturing. In view of the weak development of orders until recently, a decline is to be expected in the coming months, as well as in construction, where production surprisingly increased again, before the recovery announced by some early indicators such as the Ifo business expectations should then begin in the second half of the year.

As generally expected, the strong rise in industrial production seen in January and February did not continue in March. However, at -0.4%, the decline compared to February was somewhat smaller than expected, which is partly due to the fact that the February result was revised downwards slightly.

The main reason for the overall decline was a fall in production in manufacturing of the same magnitude. A look at the individual sectors shows that the recovery in production in the energy-intensive sectors (chemicals, metal production, etc.) did not continue in March, while car production increased for the second month in a row (Chart 1).

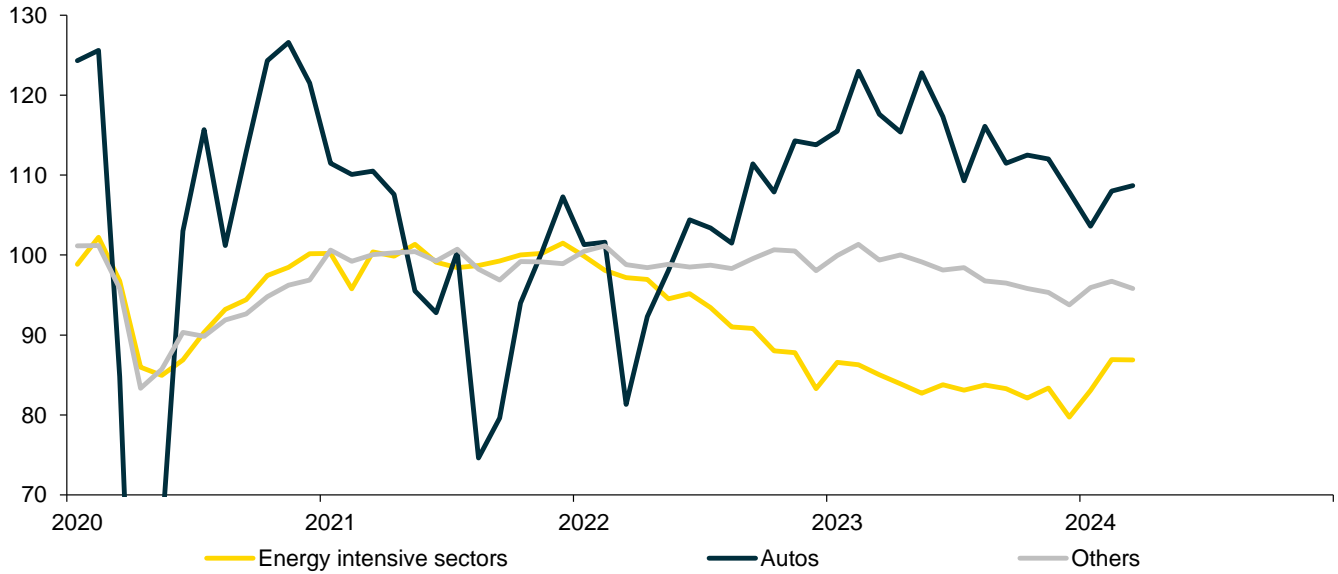


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Chart 1 - No further recovery in the production of energy intensive sectors

Production in the manufacturing sector, seasonal adjusted monthly figures, 2021=100

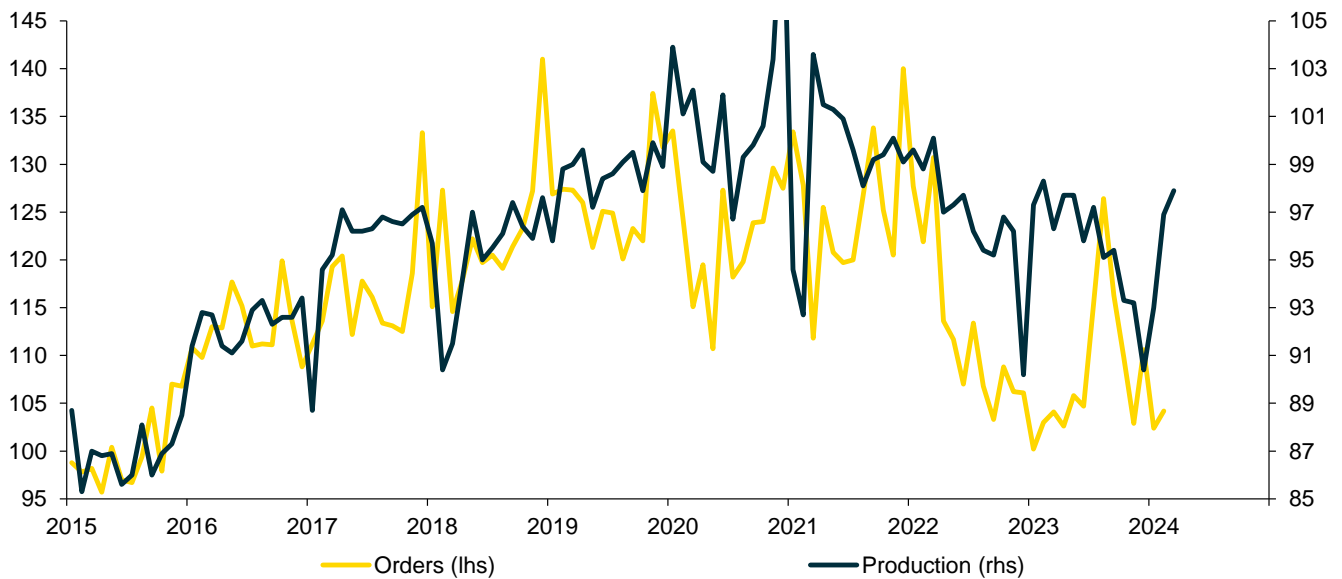


Source: destatis, Commerzbank Research

The recent 1% rise in construction output is astonishing, after it had already increased significantly in January and February. The latter could be explained by the comparatively mild weather, but there should have been a countermovement in March. This failed to materialize. However, in view of the weak order development up until recently (Chart 2) and the very negative assessment of order backlogs by companies, the increase in March is unlikely to prove sustainable. On the contrary, construction output is likely to fall significantly again in the coming months.

Chart 2 - Recovery of the construction sector despite weak order intake?

Production and order intake for the construction sector, volumes, seasonally adjusted monthly figures, 2021=100



Source: destatis, S&P Global, Commerzbank Research



The same applies to production in manufacturing, meaning that the industrial sector is likely to slow economic growth in the coming months and thus prevent the German economy from expanding again in the second quarter. The recovery announced by some sentiment indicators such as the Ifo business expectations is not expected until the second half of the year, and this will only be moderate given the structural problems of the German economy and the limited tailwind from monetary policy.



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