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Economic Research

Economic Briefing

Good news from German industry

5 June 2025

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German factory orders surprised on the upside in April, rising by 0.6% compared with the previous month. The core figure excluding big-ticket orders also rose slightly, although a decline had been expected across the board following the strong increase in March. This gives hope that the industry has passed the trough and that the German economy will pick up in the coming quarters.

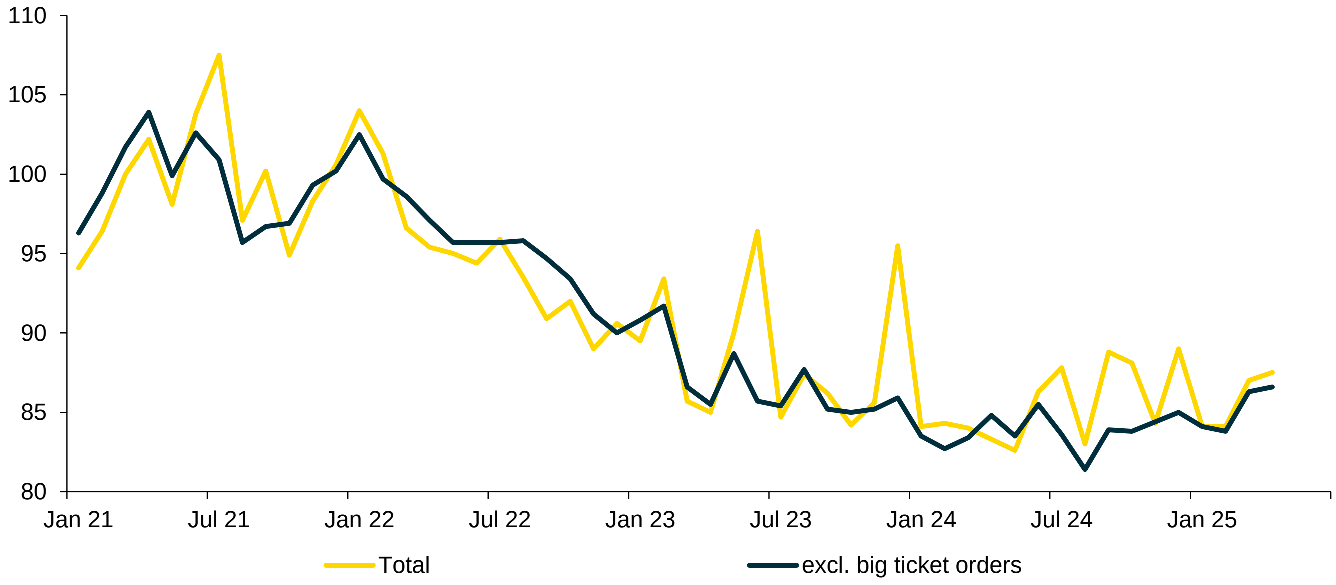
In our weekly preview last Friday, we wrote that we would be positively surprised by anything other than a significant decline in the April figures for incoming orders in the German economy. This is because the sharp rise in March was certainly supported by pull-forward effects (due to the threat of US tariffs) and the late timing of Easter. Now, factory orders in April have actually risen again slightly by 0.6% compared with the previous month, and there was also a small increase in the less volatile core figure excluding big-ticket orders (Chart 1).

This means that the trend in orders received is pointing upwards again. Industrial companies received 2.2% more orders in April than on average in the first quarter, and the increase for the core figure was even higher at almost 3%. Together with the recent improvement in the business climate, this supports our assessment that the German industry has passed the trough of the economic cycle and is likely to expand production again in the further course of this year. This positive trend is likely to be triggered by the improved monetary environment. After suffering for a long time from the end of the ECB's zero interest rate policy and the associated interest rate hikes, this negative factor should become less and less significant. Instead, the ECB's interest rate cuts since last summer should start to boost the economy in the coming months (see also **here**).

Today's figures increase the chances that the German economy will emerge from economic stagnation in the coming quarters despite higher US tariffs, especially as the economy will receive additional tailwinds from the German government's financial package next year. However, a strong upturn is not in sight. In addition to higher US tariffs, the German economy is being held back by structural problems that are unlikely to be overcome in the near future.

Chart 1 - Factory orders pointing upwards again

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



Source: Destatis, Commerzbank Research

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This report was completed 5/6/2025 08:40 CEST and disseminated 5/6/2025 08:40 CEST.

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