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Economic Research

Economic Briefing

Germany – strong increase in production, but questions remain

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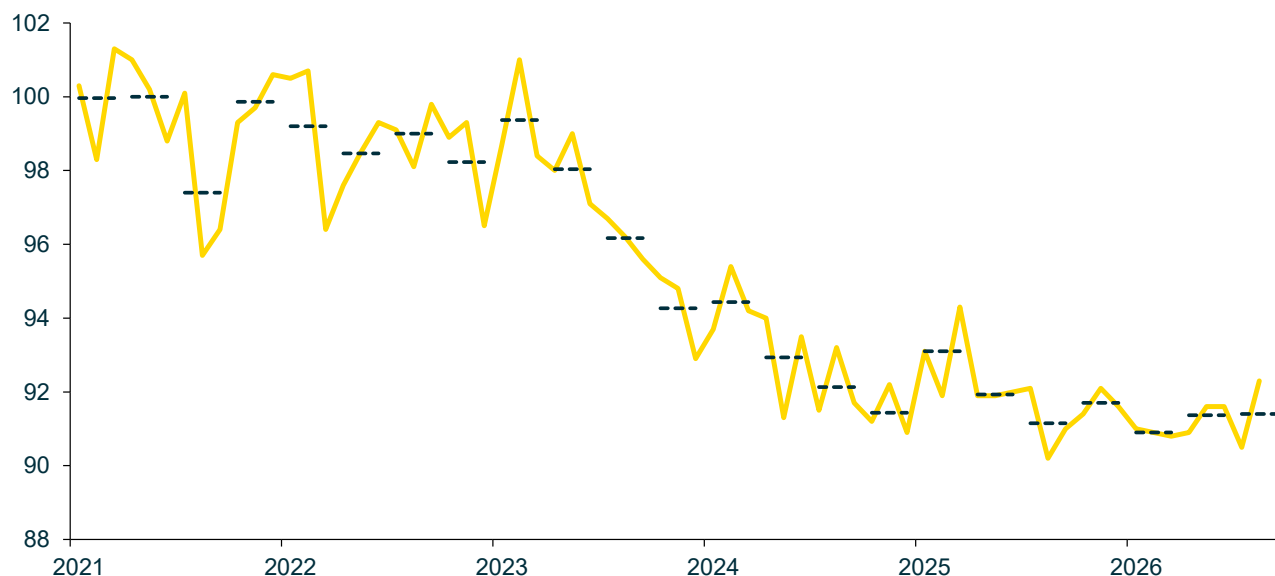
Industrial output rose by 2% in August compared with the previous month, more than offsetting the decline in July. As is typical in the summer, these figures were likely influenced by several one-time factors, such as the timing of summer vacations. Unlike the sales figures released yesterday, however, today's figures at least offer hope that activity in the manufacturing sector did not decline in the third quarter and that the German economy thus grew slightly.

For a change, here are some encouraging figures from the German industrial sector: Production rose by 2.0% in August compared with the previous month, more than offsetting the decline in July. As a result, average production for July and August was exactly the same as in the second quarter (Chart 1).



Chart 1 - Production moving sideways

Industrial production, seasonally adjusted monthly figures, 2021=100, dotted lines mark quarterly averages



Source: Destatis, S&P Global, Commerzbank Research

However, interpreting these figures is complicated by various one-time factors:

- A significant portion of the increase comes from construction output, which rose by more than 9% compared to the previous month. In manufacturing – that is, excluding construction and energy production – output rose by only 0.6%, meaning it did not fully offset the decline in July.
- When the July figures were released, the Federal Statistical Office noted that they had been depressed by the fact that a large automotive plant was undergoing retooling, which had brought production there to a halt. This effect is likely to have subsided in August.
- Nevertheless, auto production fell once again by more than 5%. The German Automobile Association points out that an unusually large proportion of plant shutdowns occurred in August.
- Production in the chemical industry was once again slightly lower in August than in July, which had already been a weak month. Here, and in some other sectors, disruptions to inland waterway shipping caused by low river levels may have slowed production.

Consequently, only the September figures are likely to reveal the underlying trend in production. The recent positive sentiment indicators offer hope that production will trend upward. However, this upward trend is likely to be modest due to the numerous structural problems facing the German economy, U.S. tariffs, and strong competition from China.



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