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Economic Research

Economic Briefing

Germany - weak production in May

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Industrial production in Germany fell significantly in May by 2.5% compared to April. This also indicates a noticeable decline in production for the second quarter, which is why the economy as a whole is unlikely to have grown much in the spring. There is increasing evidence that the economy will only see a moderate recovery at best in the second half of the year.

Another bad figure for German industry: seasonally adjusted, the industrial sector produced 2.5% less in May than in April. Production in manufacturing actually fell by 2.9%, with construction down 3.3%. Only the often volatile energy production increased compared to the previous month.

One of the few positive aspects of today's data is that production in the energy-intensive sectors (chemicals, metal production, etc.) increased slightly despite the generally weak environment (Chart 1). This suggests that one of the arguments for an imminent recovery of the German economy – the easing of the burden of energy prices – is certainly taking hold. However, production fell in most other areas, with the decline in the core areas of automotive and mechanical engineering even being above average.

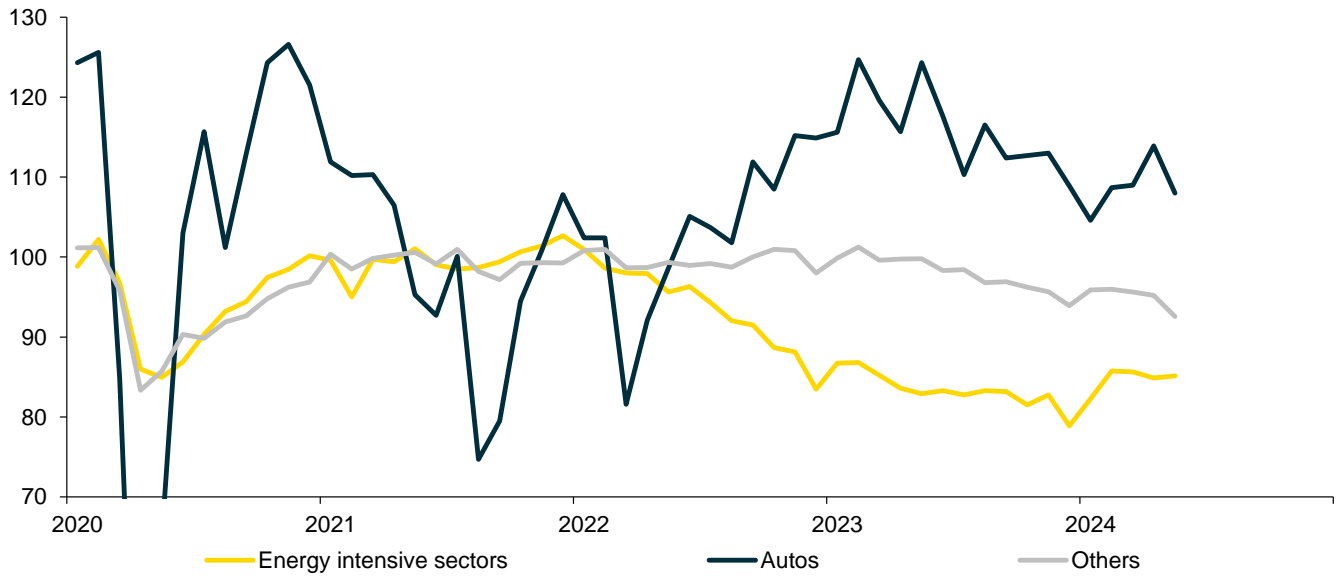


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Chart 1 - Production of energy intensive sectors keeps stable

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



Source: destatis, Commerzbank Research

When interpreting the significant decline in production in May, it should certainly be noted that production figures are always influenced by special effects. For example, the May figure may have been negatively influenced by a calendar effect in May (holidays on Thursdays, for example, let many employees take a day off on Fridays). This may not have been fully included in the statistical adjustment for calendar effects. It is therefore quite possible that a significant increase will be reported again for June. However, this should not change the fact that production fell in the second quarter. This increases the likelihood that the German economy, after the slight increase at the beginning of the year, has once again treaded water in the spring, as we have been expecting for some time.

Looking ahead to the second half of the year, there is an increasing risk that the generally expected recovery will take longer to materialize. After all, the mood among companies has recently deteriorated again and incoming orders in the industrial sector continue to point downwards following the drop reported yesterday for May. In addition, the significant decline in construction output in May is a reminder that the downward correction is by no means complete. We continue to assume that there will be a recovery in the second half of the year, but our assessment that this will be very modest is confirmed.



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