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Economic Research

Economic Briefing

# Germany – Production stable at a low level

7 June 2024

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**Industrial production fell slightly by 0.1% in April compared to March. Apart from the weak December figure, it has thus been moving sideways since last fall. Despite the improved sentiment indicators, a noticeable increase in production is likely to be a long time coming. This is because there are only now signs of a turnaround in manufacturing order intake, and production in building construction is still far from having made up for the slump in demand. For this reason, the industrial sector is only likely to boost the economy in the second half of the year.**

Industrial production fell slightly by 0.1% in April compared to March. The decline is primarily attributable to the construction sector, where production fell by more than 2%. On the one hand, this is a countermovement to the surprisingly high production in the first few months of this year, which was probably boosted by the comparatively mild weather. In addition, demand remains weak, particularly in building construction. Here, production has so far fallen far short of the slump in demand (Chart 1), meaning that a further decline in construction activity is to be expected in the coming months.

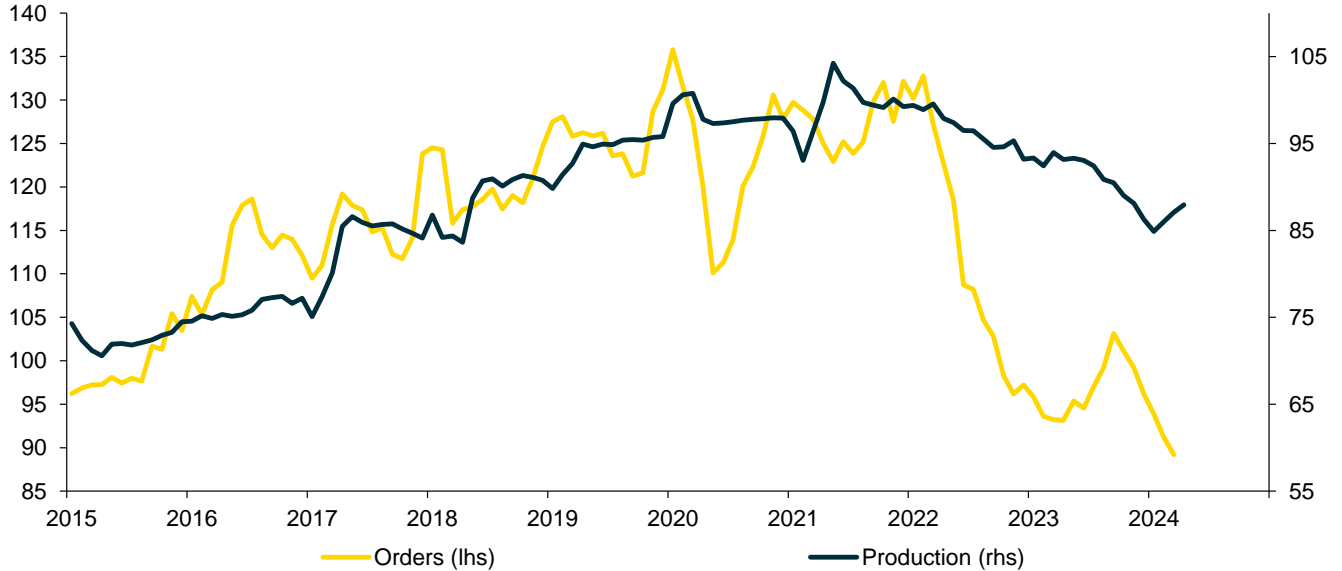


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**Chart 1 - Building construction has not yet made up for the slump in orders**

New orders and production in building construction, seasonally adjusted monthly figures, average of the past three months, 2015=100

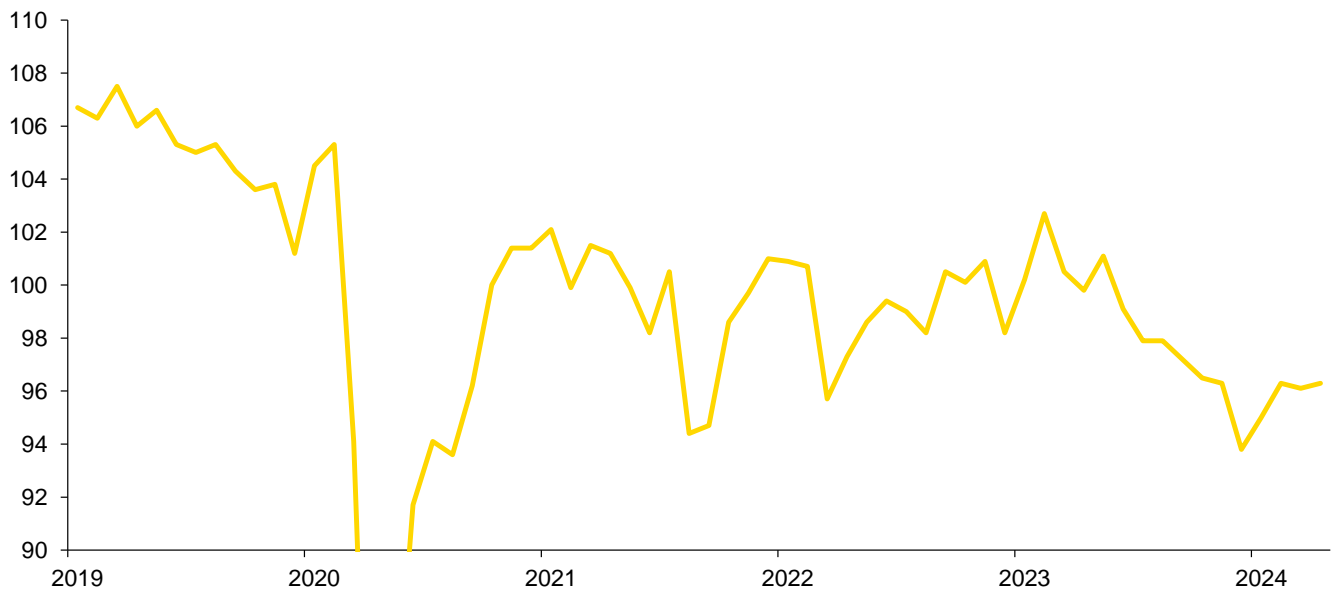


Source: Destatis, S&P Global, Commerzbank Research

In the manufacturing sector production even rose slightly in April (Chart 2). Apart from the very weak December figure, production here has been moving sideways at a fairly low level since the fall. The more positive sentiment indicators give hope of a recovery here, although this is not expected until the second half of the year in view of the subdued demand – the core figure for new orders rose significantly in April for the first time in quite a while.

**Chart 2 - Production in manufacturing stable on a low level**

Industrial production excluding construction sector and energy, seasonally adjusted monthly figures, 2021=100



Source: Destatis, S&P Global, Commerzbank Research



The latest development in the industrial sector is therefore in line with our expectations that the German economy is unlikely to grow in the second quarter. For the second half of the year, however, there is hope that production will increase again, which should help the German economy to expand again.



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In accordance with ESMA MAR requirements this report was completed 7/6/2024 08:49 CEST and disseminated 7/6/2024 08:49 CEST.

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