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Economic Research

Economic Briefing

Germany – Significant increase in production

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Industrial production rose by 3% in March compared with February. Some special factors may have played a role here, so that a decline is more likely in April. Nevertheless, today's figures, together with the strong increase in new orders reported yesterday, indicate that the manufacturing sector is gradually picking up. This would also suggest that the German economy as a whole will grow in the coming quarters.

Another positive figure from German industry: following yesterday's report of a strong 3.6% increase in new orders, industrial production also rose by 3% in March. In the manufacturing sector it even increased by 3.6%. This means that industrial production in the first quarter rose by 1.5% compared with the final quarter of 2024, making a significant contribution to the slight growth of the German economy as a whole in the first quarter.

Today's figures certainly exaggerate the underlying trend in production. Some production may have been brought forward in view of the impending US tariffs. This is likely to have played a role in the strong increase in the pharmaceutical sector (+19.6% compared to the previous month), for example. In addition, the effect of the relatively late date of Easter may not have been completely eliminated in the seasonal adjustment. But even without these effects, there would probably have been a noticeable increase.

A look at the details also suggests that the manufacturing sector is turning around. Production in energy-intensive sectors has at least stabilized, the automotive industry has made up for the slump in production at the end of the year, and the trend in other sectors has been slightly upward for several months (Chart 1). The dampening effect of the ECB's massive interest rate hikes between summer 2022 and fall 2023 is clearly wearing off. Instead, the ECB's recent interest rate cuts are likely to gradually take effect. As a result, the April figures for orders and production may show another decline, but the trend should be upward in the coming months. However, a strong upturn is not to be expected due to US tariff policy and the numerous structural problems facing the German economy.

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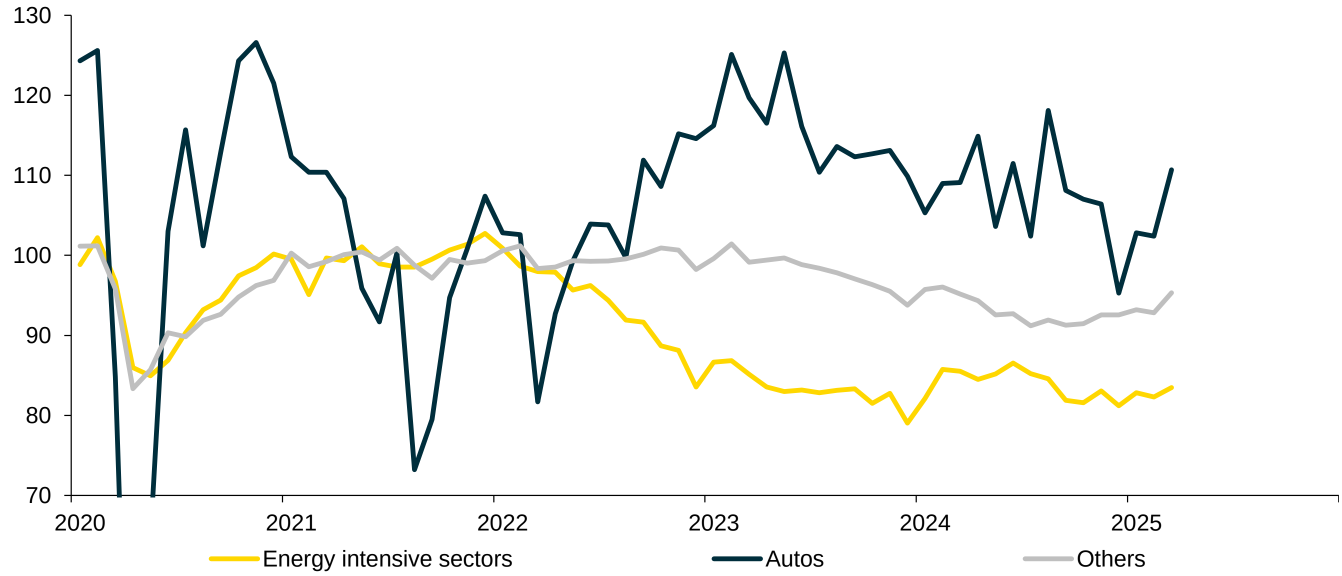
Chart 1 - Signs of hope from production

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



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