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Economic Research

Economic Briefing

Germany – no turnaround in manufacturing yet

4 July 2024

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Incoming orders in German industry fell by 1.6% in May compared to the previous month. The trend thus continues to point downwards. Together with the recent deterioration in sentiment indicators, this confirms our expectation that the second quarter was once again weak and that the economic recovery generally expected for the second half of the year will only be moderate. In fact, there is an increasing risk that this recovery will take even longer in coming.

Another piece of bad news from the German economy: industrial companies received 1.6% fewer orders in May than in the previous month. Even if big ticket orders are excluded, the volume of which fluctuates greatly and which are often processed with a considerable delay and are therefore less meaningful for economic development at the current margin, the result is a drop of 2.2%. This means that the increase reported for April for this core indicator – which was also revised downwards – was not (yet?) the start of an upward trend.

These weak figures for incoming orders follow disappointing sentiment indicators. The Ifo business climate fell slightly in May and more significantly in June, and there were also noticeable setbacks in the purchasing managers' indices in June. It is still quite possible that these weaker figures are just the usual fluctuations in an upward trend of the sentiment indicators. However, for this interpretation the next round of figures for sentiment indicators and incoming orders would have to be better again.

We continue to believe that the more likely scenario is that the German economy will recover in the second half of the year. This is because the negative impact of energy prices and the central banks' interest rate hikes is gradually easing. However, today's figures support our expectation that this recovery has not yet begun in the second quarter – contrary to many expectations – and that it will be rather moderate. And the risk is increasing that the start of the recovery will be delayed even further.

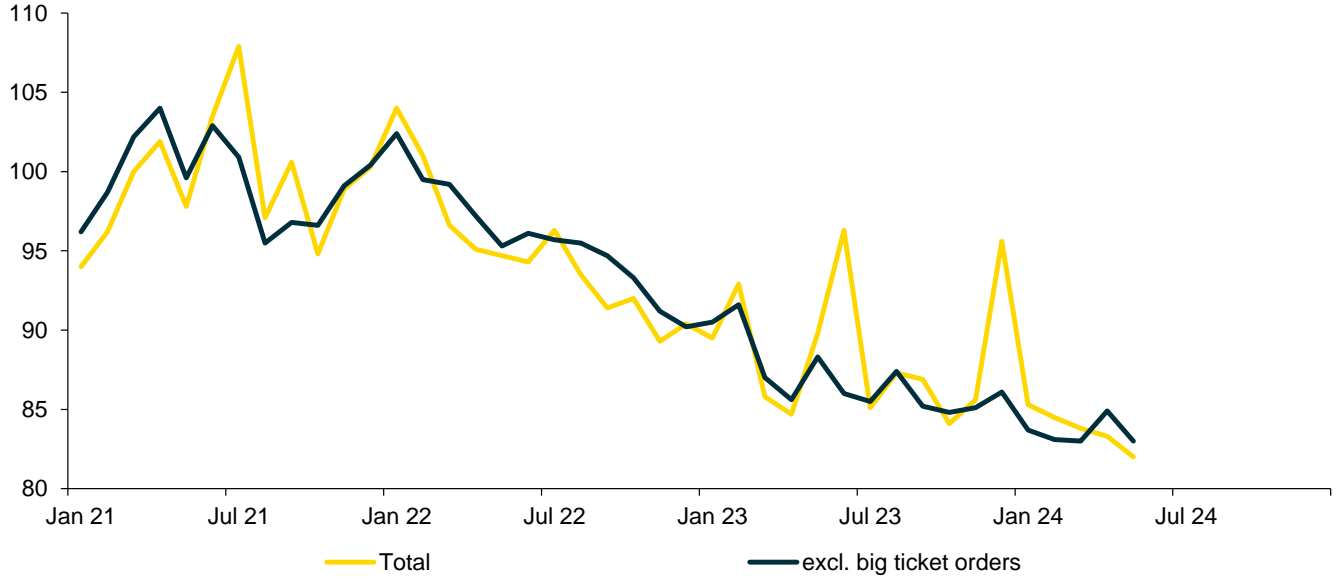


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Chart 1 - Orders still in a downward trend

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



Source: Destatis, S&P Global, Commerzbank Research



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In accordance with ESMA MAR requirements this report was completed 4/7/2024 08:43 CEST and disseminated 4/7/2024 08:43 CEST.

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