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Economic Research

Economic Briefing

Germany – Weak start to Q3

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Industrial production fell by 2.4% in July compared to the previous month. Even if this significant drop is probably partly due to the timing of the summer vacations, it means a weak start to the third quarter for the industrial sector. As the recent weakening of sentiment indicators suggests that there will be no rapid turnaround for the better, there is a growing risk that the German economy will continue to contract slightly in the third quarter, even though goods exports rose by 1.7%, which was slightly better than expected.

After the at least halfway positive order figures reported yesterday, there is more bad news from German industry today: industrial production fell by 2.4% in July compared to the previous month. In manufacturing the drop was even greater at 3.2%.

A look at the individual sectors shows that production in the automotive sector fell particularly sharply (-8.1%, Chart 1). However, this figure is likely to have been influenced by the timing of the summer vacations. The production figures already available for August indicate a significant increase in production again. This effect may also have played a role in the other sectors. However, it is doubtful that it can explain the overall decline in production. Production in the energy-intensive sectors also fell again in July by just under 2%. While this points to a stabilization, there has so far been no sign of a recovery triggered by the lower energy prices.

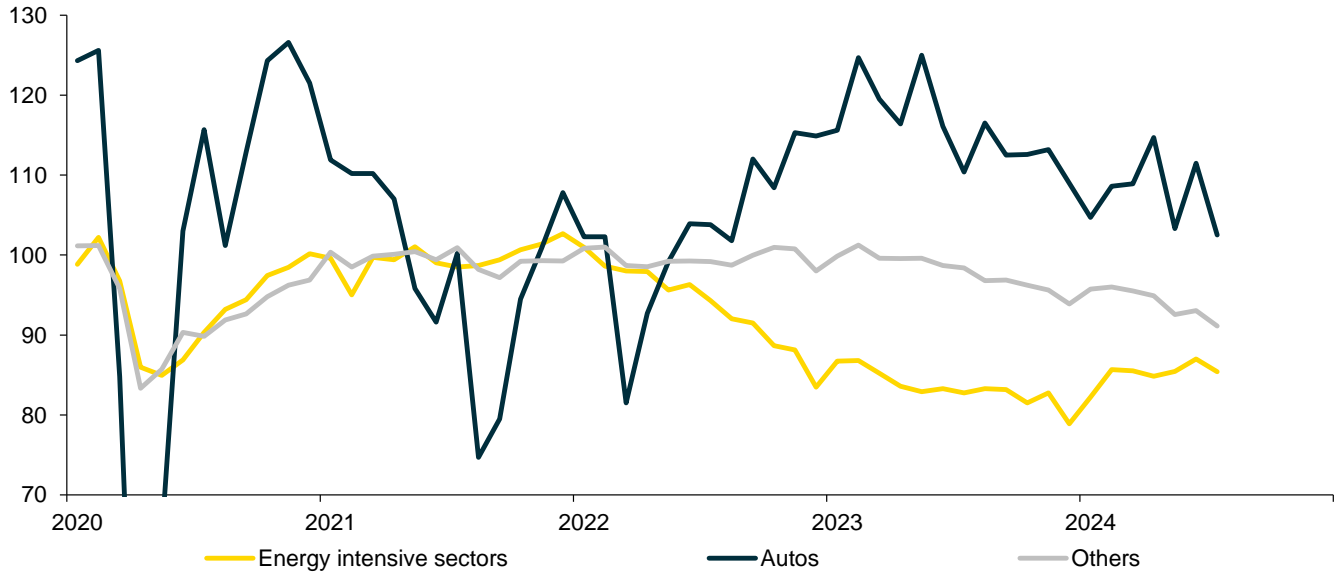


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Chart 1 - Significant decline in auto production

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



Source: destatis, Commerzbank Research

Following the significant decline compared to the previous month, industrial production in July was more than 2% below the average for the second quarter. Despite the expected bounce in August, this, together with the recent deterioration in sentiment, gives rise to fears that production will also be down in the third quarter. This increases the risk that the overall German economy will also shrink in the third quarter. The 1.7% increase in goods exports also reported today does little to change this, as the trend here is also pointing downwards.



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