German industrial production fell significantly by 1.4% in September compared to the previous month, continuing its downward trend. Companies are obviously increasingly reacting to the weak demand, also because most of them no longer consider their order backlogs to be exceptionally high. We assume that production will continue to fall in the coming months and contribute to a further slight contraction of the German economy in the winter months.

The German manufacturing sector is increasingly reacting to the weak demand. Industrial production fell by 1.4% in September compared to the previous month. In Q3, production dropped 2.1% compared to Q2.

The lion’s share of the decline in September was attributable to manufacturing, where production fell by 1.7%. A look at the individual sectors shows that this decline is not due to lower production in the energy-intensive sectors, which are suffering particularly from high energy costs, as has been the case for much of the past year and a half. In fact, at 0.4%, the decline was smaller than average. In fact, production fell in most sectors, including the automotive industry with a decline of 5%. The lower production confirms the results of the Ifo survey, according to which the majority of companies now consider their order backlogs to be “too small”. They are therefore more and more reacting to weaker demand by cutting back production.
In contrast to the manufacturing sector, production in the construction sector did not change in September compared to the previous month. Here too, the third quarter saw a fall of 0.8% compared to the second quarter. However, against the backdrop of the slump in new orders in residential construction, by far the most important sub-sector, this is surprisingly stable. However, it is probably only a matter of time before production also reacts to the weaker demand here.

As the massive interest rate hikes by the ECB and many other central banks will continue to curb demand for industrial products and construction services for some time to come, industrial production is likely to continue to fall over the coming months. This is likely to contribute significantly to the German economy as a whole shrinking slightly in the winter half-year.
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