The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

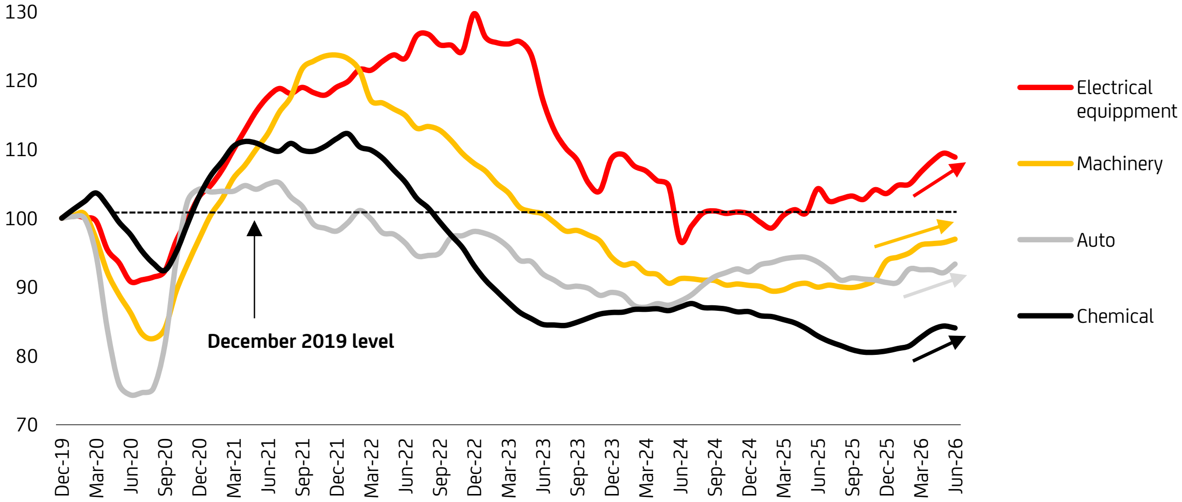
Green shoots in Germany’s industry?

27 August 2026

The order books of German manufacturers have recently started to fill up again, while business sentiment has improved. Is the slump finally over?

SIGNS OF LIFE

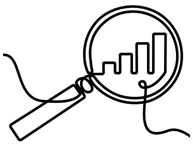
NEW ORDERS (INDEX DECEMBER 2019=100; 6-MONTH MOVING AVERAGE)



Source: destatis, The Investment Institute by UniCredit

THE CONTEXT

For years, bad news for the German economy – especially for its industrial heartland – has been the norm. However, just when high energy costs are adding to the pressure, the wind appears to be shifting. New orders have been moving higher across key manufacturing sectors, while business sentiment (Ifo, manufacturing PMI) has improved markedly. This week, the Federal Statistical Office revised up GDP growth for the second quarter by a tad, from an already solid performance. So is Germany’s long industrial slump finally over? And what is driving the momentum in a challenging external environment?



THE DATA

The chart certainly looks promising. On a six-month moving average basis – stripping out the heavy month-to-month volatility – new orders have risen significantly, albeit from varying levels. In the chemical industry, new orders rose by about 4% after hitting record-low levels at year-end 2025. In the auto and machinery sectors, a plus of about 3% was recorded.

The electrical-equipment industry has continued to improve from a higher level by a cumulated 4% since year-end 2025.

OUR VIEW

Scratching beneath the surface shows that there is no universal driver behind the comeback of German industry. The fiscal bazooka's growth contribution has been limited so far, with more momentum and stronger spillover effects to come from 2027 onward. Rather than one comprehensive growth driver, there are (four) different stories.

- **Autos: stronger European demand for electric vehicles (EVs).** Demand from the eurozone has risen, while new orders from non-EMU countries such as the US and China have remained weak. German car manufacturers have obviously benefitted from their rollout of new EVs, with EV registrations across Europe having surged.
- **Chemicals: a geopolitical boost rather than a genuine renaissance.** Paradoxically, the improvement has largely been triggered by the US-Iran conflict. Fears of supply shortages have prompted precautionary restocking, while disruptions around the Strait of Hormuz have temporarily reduced competitive pressure from Asian producers.
- **Machinery: mega-projects instead of a broad capex recovery.** Recent momentum has been boosted by large-scale plant projects outside the eurozone. Anecdotal evidence points to gas-fired power plants in Oman and Abu Dhabi, power equipment for the booming US data-centre market and new steel and metallurgical plants in the US and India. These are encouraging wins for German engineering, but they are project-driven orders and not evidence of a worldwide capex recovery.
- **Electrical equipment: the strongest structural story.** Here, three key drivers have been coinciding and are likely to power ahead: AI/data centres, defence electronics and grid/electrification.

Bottom line: Converting stronger demand for "Made in Germany" into a sustained and strong recovery will not be easy to achieve. Structural problems, fierce Chinese competition, higher US tariffs and energy costs remain powerful headwinds. Another hurdle has emerged over the summer months: extremely low water levels on the Rhine River have been crippling barge traffic between the North Sea ports and southern Germany, with temporary negative effects in the chemical sector and other bulk-intensive industries. But let's get back to the good news: German industry has finally bottomed out. More (moderate) growth momentum is expected next year when the implementation of the fiscal bazooka gains traction and energy prices (hopefully) ease.

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