Snap | 7 September 2026

GERMANY

German industrial production in July illustrates fragility of cyclical rebound

German industry disappointed in July and shows how fragile the cyclical rebound still is

The Rheinmetall Factory in Kassel, Germany

Germany's cyclical rebound halted in July, with industrial production falling 1.1% month-on-month, from 0% MoM in June. On the year, industrial production was down by 1.6%.

The July drop was spread across all sectors, with a large collapse in the automotive industry due to production stops. To some extent, this July data already provides some flavour of the economic impact of the heatwave and drought: production in almost all sectors was down, but energy production (in renewables) was clearly up.

Cyclical rebound remains fragile

This morning's industrial production data is a good reminder of how fragile the cyclical recovery of the German economy is. The first half of the year had seen remarkable resilience, driven by fiscal stimulus finally filtering through to the economy, but also a resilience driven by the government's tax rebate on gasoline for two months. Finally, the fact that other regions were hit harder by the closure of the Strait of Hormuz had made some German companies a kind of crisis beneficiary, as orders were rechannelled from Asia to Europe and in particular

Germany.

Looking ahead, the war in the Middle East, which is slowly turning into a forever war, keeping oil prices at elevated levels, as well as the likely upcoming shock of higher gas prices in the next heating season and renewed trade tensions, pose risks to the German outlook. And there's more. Even if some rain over the last few days in Germany has brought limited relief, low water in the main transportation waterways is another threat to industrial supply chains and production. Let's wait to see what the August data will bring.

At the same time, though, order books have started to recover in recent months, pointing to some positive momentum in industry. Friday's new orders for July were another piece of evidence of this upward trend, even though bulk orders are making the interpretation of monthly data even more difficult. However, don't forget that to bring the large fiscal stimulus to work, bulk orders are simply part of the new economic reality.

The third quarter of the year started with a clear setback. The resilience of the first half of the year will be put to a test over the next few months. In fact, the German economy remains in a difficult limbo. As concerning as the short-term outlook might be, the longer-term outlook for the German economy will still be driven by fiscal stimulus and investments in defence and infrastructure, as well as the ability to translate recent reform plans into real and tangible action.

Let's not forget that to fundamentally bring the German economy back on a sustainable growth path, the economy still needs more reforms that improve international competitiveness, a clear plan for affordable energy and more direct incentives, e.g. tax cuts, to boost domestic demand, i.e. both corporate investments and private consumption. Elements that are currently still missing in the government's reform package. The German economy is not out of the woods yet.

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