Snap | 7 October 2026

GERMANY

German industry picked up steam in August

German industry shrugged off the summer heatwave as production rebounded in August



German data suggests that the economic impact of the heatwave and drought in August was less severe than feared

Resilience continues. After a setback in July, Germany's cyclical rebound gained new momentum in August, with industrial production rising by 2% month-on-month, from -1.2% MoM in July. On the year, industrial production was up by 2.3%.

The August rebound was mainly driven by strong activity in construction and manufacturing, while production in the automotive sector weakened, probably as a result of the summer holidays. Interestingly, this data suggests that the economic impact of the heatwave and drought in August was less severe than feared.

More efforts needed to transform positive momentum into a more sustainable recovery

Looking ahead, the war in the Middle East, high oil prices, higher interest rates as well as the likely upcoming shock of higher gas prices in the next heating season, pose clear risks to the German outlook. Recently, production expectations improved again. However, the renewed

increase in inventories could suggest stockpiling by companies, anticipating more supply chain disruptions, and not so much preparing for more production. At the same time, order books remain solid but have lost some of the stronger momentum of the first months of the year.

All of this means that the German economy seems to have carried a lot of its positive momentum into the third quarter. Next to the ongoing cyclical challenges, the main challenge will now be to bring the already announced reforms to work to demonstrate the willingness and ability to deliver. However, let's not forget that implementing the announced reforms alone will not be enough to improve the country's competitiveness.

In fact, 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. Transforming the current cyclical momentum into a more sustainable recovery still requires more work.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

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