



Chart in focus

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This downturn is different

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Germany's much-discussed industrial crisis came to a head last week with VW's announcement of potential factory closures in Germany. This would be an unprecedented step in the company's history. The hard data on industrial production — again weaker in July as we noted last week — are also consistent with German industry undergoing the most pronounced downturn in the history of the Federal Republic. Yet, this downturn continues to look different from previous ones — in both good and bad ways.

Downturn in German industry



Source: Deutsche Bank, Federal Statistics Office

Even from eyeballing the accompanying chart, it is clear that the recent trajectory of industrial production has no historical precedent. Having dropped 20% below 2017 peak levels, the current downturn is less sharp than the recessions in 2008 and 2020, which saw production plummet by 30% and 40% respectively over shorter time periods. That said, the current slump is deeper and more prolonged than the major structural crises of the 20th century. While the downturn in the early 1990s was idiosyncratic, with East German industry succumbing to competitive pressures after reunification, the one in the early 1980s had clear parallels to today: a sharp energy shock and rising global competition posed existential challenges to Germany's heavy industry. As contemporary documents attest, sentiment in industry was about





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as bad then as it is today. And yet the slump turned out milder: in 1982, production troughed 10-15% below the peak after three years.

However, while the picture looks historically bleak on the industrial production data, the current slump looks milder than previous ones on the gross value added data, which have held up much better. To be sure, this discrepancy could be a statistical artefact and be revised away in the future. Yet, as we have argued before, we believe that the available data suggest that German industry is evolving toward high-margin activities with high R&D content and low bulk volumes. This is consistent with fixed investment in intangibles, including intellectual property, remaining more steady in this cycle than investment in machines and equipment. This silver lining may not be worth much to everyone: employment is more sensitive to declining production volumes and is likely to recede further, as we have long indicated. Nonetheless, the relative stability of gross value added means that the impact of this structural adjustment on gross domestic income should be less pronounced.

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