



Hard data for Q1 surprisingly strong

German hard data for March were surprisingly strong. IP beat expectations, rising by 3% (consensus 1.0%). Furthermore, construction output also saw a healthy increase of 2% mom. Among other things, the late Easter in April likely provided support here. The manufacturing sector saw an even greater increase, with output up 3.5% compared to the previous month – the largest rise in 12 months. This was particularly driven by growth in the large export-oriented sectors. Production in the automotive industry rose by 8.1%. Mechanical engineering (+4.4%) and electrical engineering (+3.1%) also registered strong increases. What is more, output in the pharmaceutical industry expanded by a stunning 19.6% mom. It is hardly possible to find reliable evidence that part of the production gains are attributable to pull-forward effects due to the US tariff debate (new US tariffs were announced on April 2, so called "Liberation Day"). Still, the announced US import tariffs could have stimulated domestic production. On a quarterly basis, manufacturing output in Q1 2025 was 1.8% higher than in Q4 2024, marking the highest qoq increase since Q4 2021.

Order intake also developed positively in March. Total orders increased by 3.6% mom. The less volatile orders excluding big-ticket orders rose by 3.2%. In the more meaningful quarterly comparison, the differences are significantly greater: Total orders in Q1 2025 were 2.3% below the level of Q4 2024. Orders excluding large orders, on the other hand, recorded an increase of 0.5%. Overall, however, the economic situation has recently strengthened in the manufacturing sector as a whole.

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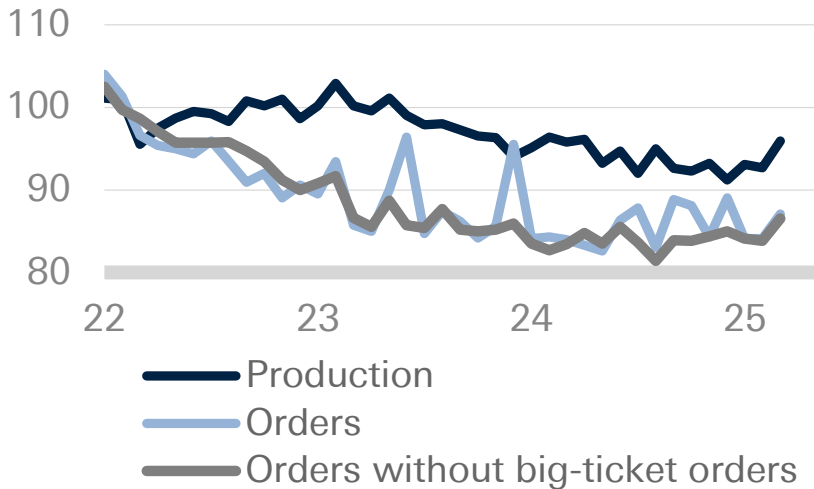
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Figure 1: Silver lining, but external headwinds expected

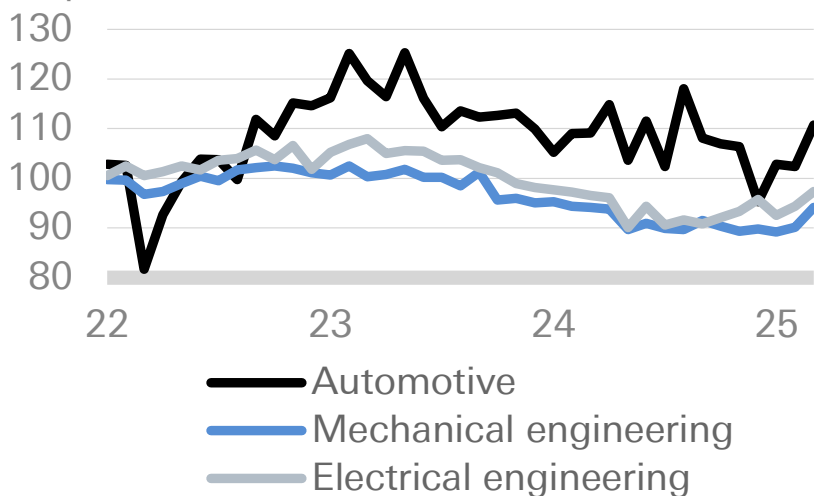
Manufacturing industry in DE, 2021=100



Source : Federal Statistical Office

Figure 2: Capital goods sectors with a good start into 2025

Output in selected sectors in DE, 2021=100



Source : Federal Statistical Office

Foreign trade also provided a tailwind. Exports rose by 1.1% mom, while imports shrank by 1.4%, resulting in a trade surplus of €21.1bn in March (up from €18bn in Feb). The largest share of German exports went to the US, increasing by 2.4% mom to €14.6bn. This likely reflects some anticipatory effects related to tariffs. In Q1, the price-adjusted trade balance increased by 4.8% compared to Q4, averaging €15.9bn.

Retail sales developed more or less sideways in Q1, with +0.2% compared to Q4. This reflects the persistently weak consumer confidence, which continued to decline in Q1.

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Bottom line, the German economy likely gained momentum towards the end of Q1, which probably gave it a tailwind heading into Q2. However, we think caution is advised. It remains to be seen how sustainable this growth will be. Due to potential for front-loading ahead of "Liberation Day," we think a negative bounce in Q2 cannot be ruled out subsequently. While some US importers might have switched from China-based suppliers to those in Europe (given almost prohibitively high US tariffs on imports from China), export-oriented industrial sectors might suffer most from direct tariffs and – maybe worse at the moment – from the uncertainty surrounding the whole tariff debate.

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Appendix 1

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