

EcoFlash

German industry emerges from recession and is set up for a brighter outlook

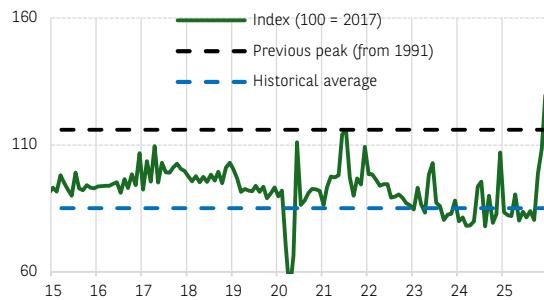
After two quarters of contraction, German industrial output rose by +0.9 % q/q in Q4, despite a December decline (-1.9 % m/m). That decline, driven mainly by the automotive sector, hides ongoing improvements in most other parts of the industry. Those gains are expected to deepen in coming months thanks to a sharp rebound in new orders for capital goods. We see this as signaling the start of a fresh industrial cycle that is increasingly powered by domestic demand. At the same time, a recovery in exports is starting to take shape, with a solid December figure and a pickup in new foreign orders - though the rebound is not as strong as on the home front.

Industrial production: a misleading decline. Industrial production (manufacturing, energy, construction) fell in December (-1.9 % m/m), but not enough to erase the gains recorded during the two preceding months (+0.9 % Q4/Q3). Manufacturing output slipped further in December (-3 % m/m) but still posted a 0.9 % increase q/q. The decline was driven primarily by the automotive sector (-8.9 % m/m) and industrial maintenance (-8 % m/m). In contrast, most other industrial segments grew: transport equipment (+11.1% m/m), metal products (+2.4%) and electronics (+3.1%). Construction output also rose sharply in December and Q4 (+3% m/m; +1.9% q/q), including civil engineering, which grew by 1.7% q/q in Q4, its best quarter since the series began (1991).

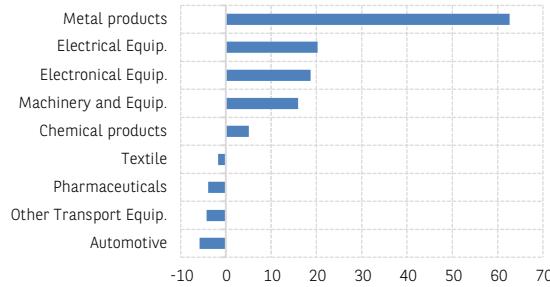
Germany is in the early stages of an unprecedented investment drive. New industrial orders continued to rebound in December 2025 following the sharp rise that began in November (see *left-hand chart*). They rose by +14% over the two months, after having stabilized at a low level since the beginning of the year. The increase is mainly due to capital goods for the domestic market (+31.7%), whose level reached an all-time high in December (the series includes the post-reunification period). Over the last two months, metal products, electrical and electronic equipment, and machinery and equipment have been the fastest-growing sectors, while consumer goods, particularly automobiles, pharmaceuticals, and textiles, have remained weak (see *right-hand chart*).

A noticeable but more mixed improvement in exports. The rebound in exports in December (+4% m/m) was primarily driven by an increase in exports to China (+10.7% m/m) and the United States (+8.9% m/m). This snapshot, however, does not reflect the full-year evolution: indeed overall export growth for the year was modest, at about +1.1 %, with declines of -9.3% of exports to the United States and China, while those to the European Union showed a near +4% rebound (after two years of decline). Given the figures for new industrial orders, the noticeable improvement in December could continue into 2026, albeit less strongly than the domestic component. The composition exports also differs between those to the Eurozone (+6.3% over two months, dominated by capital goods) and those to the rest of the world(+14.7% over two months, starting from a very low level, with a more even split between capital and consumer goods).

New factory orders of capital goods in Germany are reaching a new peak



Two-month changes of new factory orders, by sector (%)



Source : Destatis, BNP Paribas

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