



# Flash Economics

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## The crisis in German industry

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Since 2017, manufacturing production has fallen by 10% in Germany, while it has risen by 4% in the rest of the euro zone.

So Germany has deindustrialised rapidly since 2017, which is consistent with the low level of corporate investment and the major direct investment outflows.

This fall in German manufacturing production is the result of:

- The fall in German exports of industrial products, due to Germany's loss of competitiveness;
- The attractiveness of the United States or Central European countries, which are more attractive than Germany;
- The relatively unsophisticated nature of German industry, which produces cars, intermediate goods and industrial capital goods.

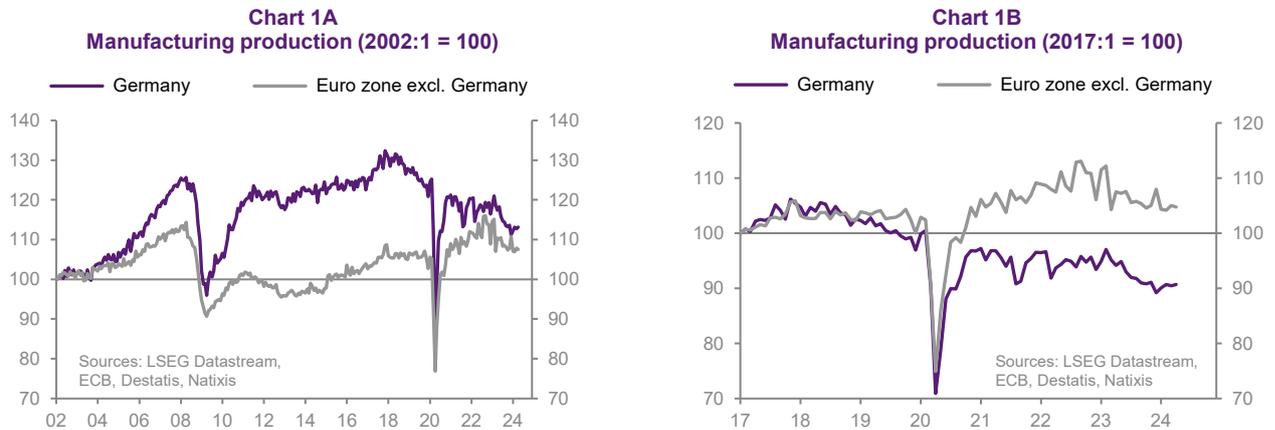


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## Germany's deindustrialisation

Charts 1A and B show trends in manufacturing production in Germany and other euro-zone countries. We clearly see the deindustrialisation of Germany, as manufacturing production in Germany has fallen by 10% since 2017, while it has risen by 4% in the other euro-zone countries.

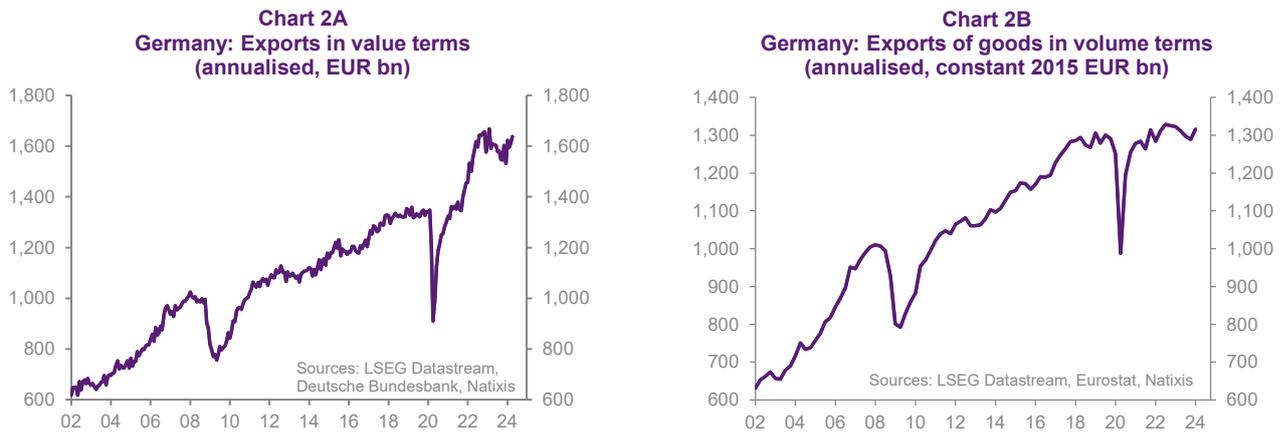


We are looking for explanations for this sharp fall in German manufacturing production.

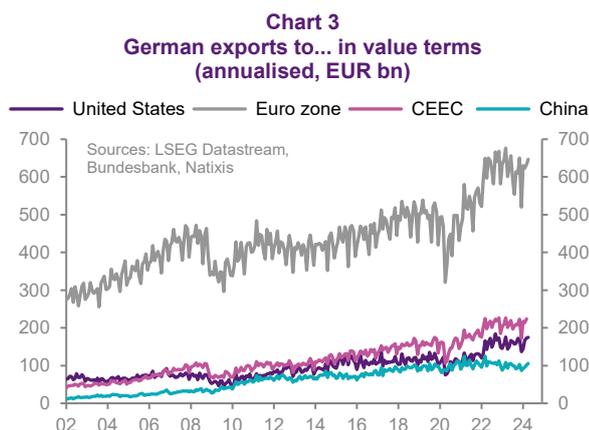
## Possible explanations for Germany's deindustrialisation

### 1. Falling exports and Germany's loss of competitiveness

German exports (Charts 2A and B) have been stagnating in volume terms since 2017.



The country to which German exports are falling the most is China (**Chart 3**).



This stagnation of German exports in volume terms may be explained by the **sharp rise in labour costs in Germany** since 2019 (**Chart 4**), i.e. a loss of competitiveness for the country.



## 2. Strong attractiveness of the United States as a location for industrial production

The attractiveness of the United States as a location for industry has risen relative to Germany in recent years, due to:

- Lower labour costs in industry (**Table 1**);

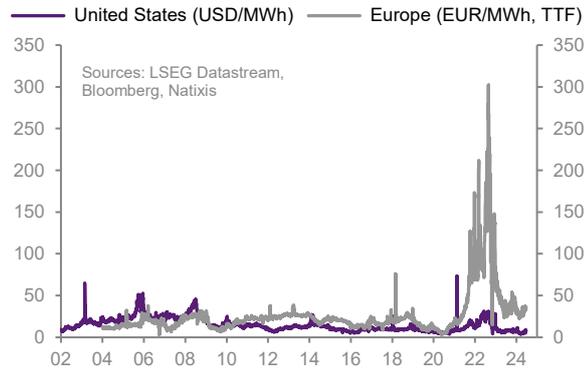
**Table 1: Hourly labour costs in manufacturing industry (including social charges, in USD)**

Year	United States	Germany
2002	27.4	23.0
2007	32.1	43.2
2012	35.7	45.4
2023	40.2	49.8

Sources: BLS, Eurostat, Natixis

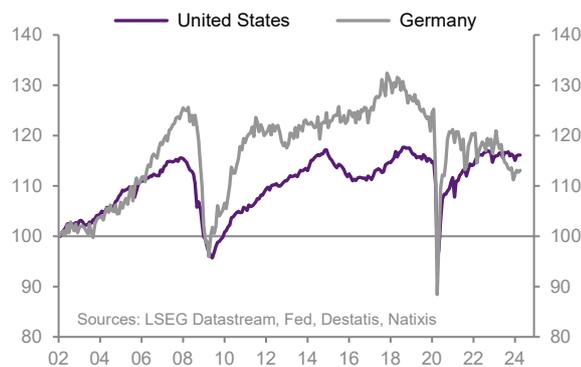
- Lower energy prices, particularly for natural gas (**Chart 5**);

**Chart 5**  
**Natural gas price**



- The **tax measures** (Inflation Reduction Act, Chips Act) that are attracting industrial companies to the United States, as shown by the trend in US manufacturing production (**Chart 6**).

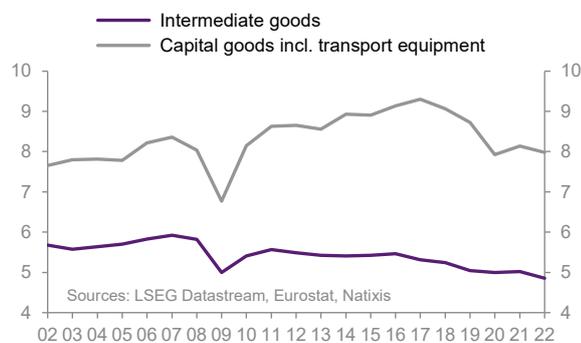
**Chart 6**  
**Manufacturing production (2002:1 = 100)**



### 3. Unsophisticated manufacturing in Germany

Germany specialises in the **production of intermediate goods** (chemical products, metallurgy), **industrial capital goods** and **cars** (**Chart 7**), i.e. goods that no longer have a very high level of sophistication.

**Chart 7**  
**German: Value added in value terms (as % of nominal GDP)**



This means that it is competing with many countries (South Korea, China, etc.) that have markedly lower production costs than Germany.

## **Conclusion: A risk of long-term deindustrialisation in Germany**

Germany's deindustrialisation is likely to be long-lasting, since it is due to:

- Germany's loss of cost competitiveness (high wages and energy prices);
- The greater attractiveness of the United States than Germany for industry;
- The relatively unsophisticated nature of Germany's productive specialisation.

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