German industrial output dropped for a third month in May amid signs Europe’s largest economy is taking a breather.

Production, adjusted for seasonal swings, fell 1.8 percent from April, when it declined a revised 0.3 percent, the Economy Ministry in Berlin said today. Economists forecast output to remain unchanged, according to the median of 35 estimates in a Bloomberg News survey. Production rose 1.3 percent in May from the previous year when adjusted for working days.

While Germany’s economic trend points “upward significantly,” growth probably slowed in the three months through June, the Bundesbank has said. Factory orders fell more than economists expected in May, Ifo business confidence dropped to a six-month low in June, and unemployment rose for a second month.

“There was a little dent in the second quarter,” said Jens-Oliver Niklasch, a fixed-income strategist at Landesbank Baden-Wuerttemberg in Stuttgart. “But generally speaking, the German economy is in quite good shape and there’s no reason for concern as growth rates will remain solid.”

Manufacturing fell 1.6 percent, with intermediate-goods production (GRIPIMOM) dropping 3 percent and consumer-goods output down 3.5 percent, today’s report showed. Investment-goods production rose 0.3 percent and energy output was up 1 percent, while construction slumped 4.9 percent.

Geopolitical Tensions

The economy ministry said the decline in output was primarily due to the timing of the May 1 holiday and should only be temporary.

“Sentiment indicators and the overall economic fundamentals suggest the upswing in industrial production will continue in the course of the year after a weaker second quarter,” the ministry said in a statement.
While Germany remains the driving force for the euro-area’s yet-lackluster recovery, recent data suggest that tensions between Russia and Ukraine are weighing on confidence and business prospects. Investor confidence as measured by the ZEW research institute dropped for a sixth month in June to the lowest level since December 2012.

The 18-nation euro-area economy grew just 0.2 percent at the beginning of the year, compared with an expansion of 0.8 percent in Germany, and the European Central Bank has warned that a prolonged period of low inflation could hamper the recovery.

Policy makers left interest rates unchanged last week and unveiled details of a new lending program aimed at boosting credit supply. Last month, they cut the benchmark rate to a record-low 0.15 percent, took the deposit rate below zero and said they’d intensify work on a purchase plan for asset-backed securities.

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