German factory orders fell more than economists expected in May as geopolitical risks weighed on confidence in the strength of Europe’s largest economy. Orders, adjusted for seasonal swings and inflation, fell 1.7 percent from April, when they rose a revised 3.4 percent, the Economy Ministry in Berlin said today. Economists forecast a decline of 1.1 percent, according to the median of 30 estimates in a Bloomberg News survey.

While recent surveys suggest that the pace of Germany’s economic expansion is cooling and tensions between Russia and Ukraine have increased uncertainty, the nation remains the driving force for the subdued recovery in the euro area, its largest trading partner. The Bundesbank has said Germany’s outlook remains positive and the European Central Bank is relying on unprecedented stimulus to fuel growth and inflation in the 18-nation currency bloc.

“The decline is mostly due to the strong rebound in April, which was quite surprising,” said Johannes Gareis, an economist at Natixis in Frankfurt. “We are still well above the first-quarter average and this suggests the underlying trend of the German industrial sector, and of the German economy, is intact.”

The euro was little changed after the report and traded at $1.3601 at 9:05 a.m. Frankfurt time.

**Bulk Orders**

Export orders fell 1.2 percent in May from the previous month, and domestic orders dropped 2.5 percent, today’s report showed. Orders for basic goods slumped 3.4 percent, investment-goods orders declined 0.7 percent, and consumer-goods orders were down 1.2 percent from the previous month. Above-average bulk orders boosted euro-area investment-goods demand 16.3 percent in May, the ministry said. Without big-ticket items, factory orders would have declined 3.7 percent, it added.
The Bundesbank predicts the German economy will expand 1.9 percent in 2014 and 2 percent in 2015. That compares with ECB forecasts for euro-area growth of 1 percent and 1.7 percent, respectively.

German business confidence as measured by the Ifo research institute fell to a six-month low in June and unemployment rose for a second month. While a gauge of activity in the services and manufacturing industries has slowed since May, it still points to an increase of gross domestic product of 0.7 percent in the second quarter, Markit Economics said yesterday, following a gain of 0.8 percent in the three months through March.

‘Moderate Pace’

“In light of the good start into the second quarter, one can assume factory orders will increase on average in the second quarter,” the ministry said. “At the moment, however, one can observe a certain reservation, probably due to increased geopolitical risks. Overall, the upswing in manufacturing should continue at a moderate pace.”

The European Central Bank left interest rates unchanged yesterday and unveiled details of its new lending program aimed at boosting credit supply. Last month, it cut the benchmark rate to a record-low 0.15 percent, took the deposit rate below zero and said it would intensify work on a purchase plan for asset-backed securities.

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