



Industrial orders are rising, but where is the production?



Industrial orders have been giving cause for hope for several months now. However, production shows little sign of recovery. How does this fit together, and will production soon follow suit?



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New orders in German industry¹ gives cause for hope. Since August 2025, they have risen by 9.7% and are 3.6% higher so far this year than in the same period last year. And this is not just down to government defence spending. In particular, foreign orders have recently shown strong growth – despite the war in Iran and the ongoing debate about Germany's international competitiveness.

Orders are, at first, merely orders. Economic value is only created once companies start producing. This is precisely where a discrepancy is currently evident: whilst order books are filling up, **industrial production** remains close to its multi-year low and is still around 15% below the peak reached in early 2018.

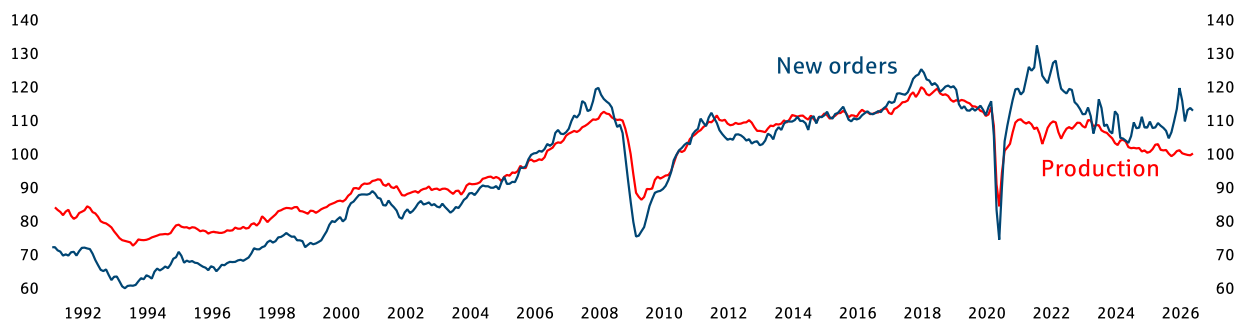
A certain time lag between the two figures is normal, as order intake precedes production. In recent years, **however**, this **correlation** has **weakened noticeably** (see chart below). What is the reason for this growing discrepancy? In this study, we analyze and discuss four key factors:

1. Longer production times due to a change in the product mix
2. Deliberate production delays by companies
3. Production bottlenecks
4. Statistical causes

We conclude that the first two factors in particular have recently prolonged the time lag between order intake and production. By contrast, we attribute less explanatory power to production bottlenecks and statistical causes. However, we expect noticeable growth in production by the end of the year at the latest – provided that the recent escalation in the Middle East does not continue. Below, we examine these factors in more detail.

Nothing to see here: production is not (yet?) responding to the rise in new orders

Manufacturing sector, 2010 = 100, seasonally adjusted, 2-month smoothed



Sources: Macrobond, Helaba Research

¹ Throughout this study, we use the term 'industry' to refer to the manufacturing sector, excluding the construction and energy sectors.

1) Do changes in the product mix lead to longer production times?

It is conceivable that, on average, industrial goods manufactured in Germany **are taking an increasingly longer time to be produced**. In principle, such a trend is to be expected in an industrialized nation. This is because, as productivity levels rise, wages in advanced economies also increase over time. In a globalized world with the free movement of capital, this leads to simple production stages and less knowledge-intensive goods – such as toys or traditional consumer electronics – being increasingly relocated abroad.

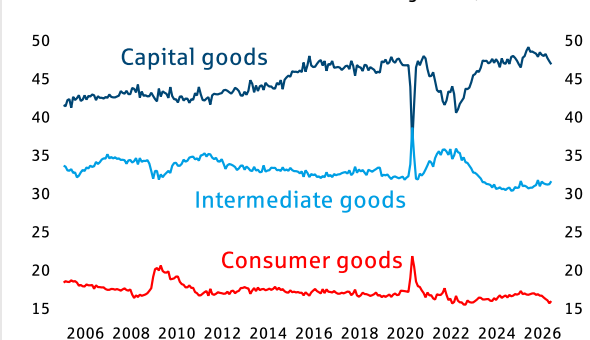
Domestically, therefore, **production** is increasingly focused on **more complex, higher-value and knowledge-intensive goods**. Such products are often associated with **longer development, production and delivery times**. This is also indicated by the trend in the share of turnover accounted for by capital goods in the manufacturing sector, which shows a long-term upward trend (see chart). Capital goods are likely to have longer production times on average than intermediate goods and consumer goods.

The sharp **cost increases in 2022 and 2023** may have further accelerated this structural shift. In particular, energy-intensive intermediate goods, such as basic chemicals, cement and lime, have lost market share.

At **sector level**, the trend towards longer production lead times was already evident before the recent crisis years, as shown by increased **order ranges** (see chart below). The Federal Statistical Office defines this as the period over which companies would have to continue production at the same turnover level, without any new orders coming in, in order to meet existing demand.

Increasing share of capital goods in product mix

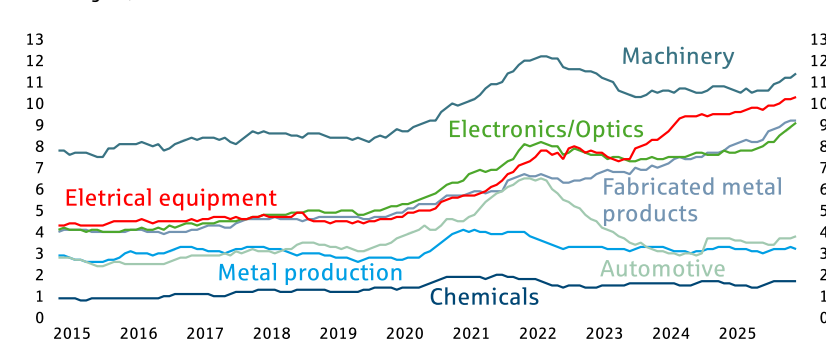
Share of turnover* in the German manufacturing sector, %



*Does not add up to 100% due to the exclusion of the energy sector
Sources: Macrobond, Helaba Research

Increased order ranges times in more complex sectors

Order ranges*, months



*Definition by German Federal Statistical Office
Sources: Macrobond, Helaba Research

Order ranges have risen particularly sharply in more complex sectors, which already have longer production times, such as machinery and the electrical industry. To some extent, extended order ranges and longer production times are likely to be linked to the production bottlenecks experienced during the pandemic years. However, this does not fully explain the longer-term upward trend.

In principle, the change in the product mix and the associated longer average production times are likely to account for part of the lagging production.

2) Are industrial companies deliberately delaying production?

It is not only new orders that are on the rise, but also **order backlog**, which recently reached a record high (see chart on p. 3). This followed a phase of significantly declining order books from mid-2022 to mid-2024, which, together with falling capacity utilization and declining turnover, had considerably clouded the industry's outlook.

Rising order books, as a statistical measure, can arise purely as a result of the maths and be 'passive' if new orders are rising more sharply than turnover, which in turn follows production. However, they can also be interpreted 'actively' as an expression of a **deliberate adjustment strategy** on the part of companies. Given the high level of economic and economic policy uncertainty, many companies might choose not to adjust their production immediately in line with the resurgent demand.

Instead, they might initially wait to see whether the improved demand situation proves to be sustainable. In such an environment, order books can serve as an important **buffer**. By initially accumulating additional orders in their order books, firms gain time, allowing production and capacity decisions to be postponed until there is greater clarity regarding future demand trends. Recent research also points to this: **order backlog represents an independent adjustment margin for firms** which they use to respond to supply or demand shocks.²

The trend in **finished goods inventory** also supports this view. Rather than meeting additional demand directly through higher production, many companies appear to have drawn on existing stocks initially. Finished goods inventories had risen significantly since 2021 and have been steadily reduced since the start of 2025. This enabled orders to be fulfilled and turnover to be generated without the need to increase production to the same extent. In fact, the first stabilization in industrial turnover occurred during this phase of stock reduction. Following the temporary headwinds caused by US tariff policy, this process continued whilst turnover began to pick up again. Since September 2025, price-adjusted turnover from goods production has risen by 5.2%, starting from a low level.



However, this interpretation raises a question: why would companies accept a **lower capacity utilization** than would be possible by holding back on production, even though this undermines profitability and makes it more difficult to achieve economies of scale on fixed costs? Furthermore, the scope for this strategy is limited. Inventories can only be depleted once, and in many sectors of industry – particularly in the case of bespoke products and larger capital goods – stockholding plays only a minor role anyway. Sooner or later, therefore, additional orders will have to be met through additional production.

One possible answer to this question lies in the **ongoing uncertainty regarding long-term capacity requirements in Germany**. Companies may currently regard the costs of temporarily low capacity utilization as lower than the risks of reactivating capacity too hastily. This current behavior would then correspond to a classic '**wait-and-see**' strategy: production and capacity decisions are initially put on hold until there is greater clarity regarding future conditions.

However, should the rise in order intake prove to be sustained, the gap between order intake and production is unlikely to be maintained in the long term. **In that case, production will catch up sooner or later.**

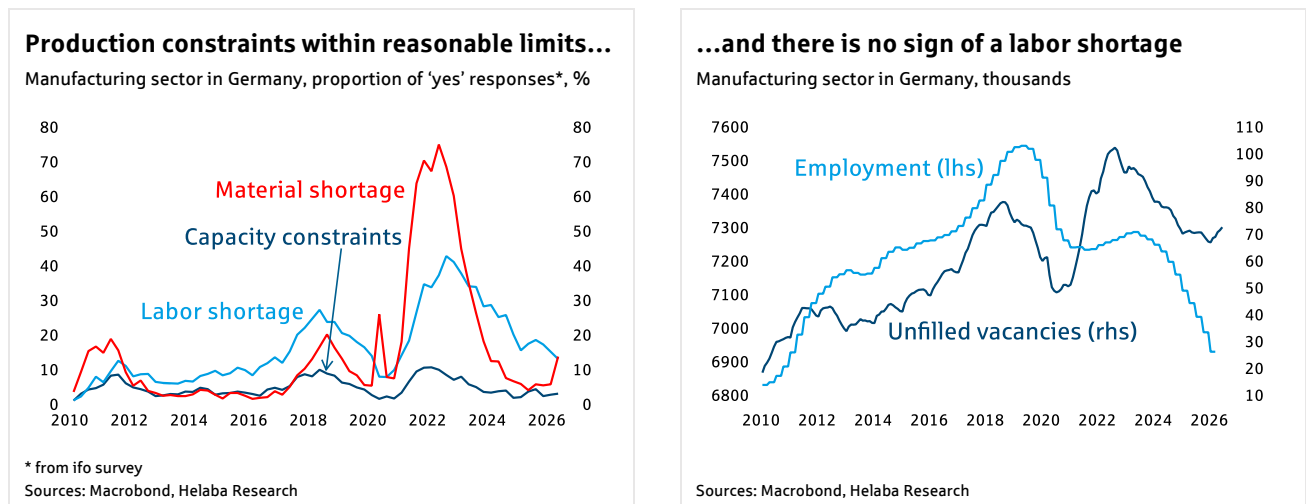
3) Are bottlenecks hampering production?

Alternatively, the weak production could also be attributable to supply-side constraints. In particular, capacity bottlenecks, material shortages or labor shortages come into consideration. However, the data currently provide only limited support for this. The fact that industrial capacity utilization remains low, at under 80%, argues against **capacity constraints**. If production capacity were already largely exhausted, this would have to be reflected in

² See Horst, Meier, Schymik (2026): 'Order Backlog'.

significantly higher utilization rates. Business surveys also contradict this: since the end of the pandemic, consistently fewer than 5% of industrial firms have reported capacity constraints (see chart on the left).

Material shortages could, however, become more significant in future, as not only has the war in Iran gathered pace again, but further geopolitical and trade-related tensions are also mounting. According to the ifo Institute, 15.9% of companies cited material shortages as an obstacle to production in May; in June, this figure rose to 17.2%. However, this provides only a limited explanation for the discrepancy between new orders and production that was already observed well before the war in Iran, as the proportion of affected companies at that time was below 10% (see chart on the left).



The frequently cited **shortage of skilled workers** also provides only a limited explanation for the sluggish production. Whilst it does pose a challenge at sectoral level, in the long term it is reflected in higher numbers of unfilled vacancies (see chart on the right). Since the third quarter of 2022, however, the proportion of companies across the industrial sector as a whole that cite labor shortages as an obstacle to production has been falling steadily and currently stands at only around 15%. Furthermore, the number of unfilled vacancies – albeit starting from a high level – has been declining in recent years. If a labor shortage were a constraint, however, both figures should be rising.

Overall, therefore, there is little to suggest that production is currently being hampered by bottlenecks.

4) Are methodological differences and definitional issues to blame?

As the production index and the new orders index are based on different surveys and methods, **statistical effects** may in principle play a role when the figures develop differently. Many of the statistical nuances may certainly play a part to some extent, but are unlikely to provide a decisive explanation for such an abrupt decoupling of orders and production

The most significant statistical factor to consider is the difference in **sector coverage**. The production index covers more economic sectors than the new orders index.³ Theoretically, weaker performance in the sectors additionally covered by the production index could lead to production performing worse than new orders. However, several arguments speak against this. Firstly, the two series have run closely in parallel for decades. Such a sudden and marked divergence solely due to differences in scope would therefore be surprising. Secondly, the largest and economically most significant industrial sectors – including the automotive, machinery, electrical, metal, chemical and pharmaceutical industries – are included in the new orders index. The largest sector not included is the food and animal feed industry; the remaining sectors are comparatively small. Thirdly, since the low point in production

³ See also: [Geltungsbereich des Auftragseingangs- und des Umsatzindex im Verarbeitenden Gewerbe](#) (in German language only).

in May 2025, the sectors not included in the new orders index have actually performed slightly better than those covered.⁴ **The difference in sector coverage can therefore hardly explain the current discrepancy.**

Conclusion: Production is likely to pick up over the course of the year – but at a slower pace than in the past

Supply-side constraints can only go some way towards explaining the currently weak response of industrial production to the rise in new orders. Given the current data, capacity bottlenecks can be virtually ruled out. A widespread labor shortage also seems implausible at present; rather, it represents a long-term phenomenon. Only material shortages may have regained significance recently, though this would only become apparent in the data releases over the coming months.

Instead, a more complex product mix and longer production processes are likely to extend the lead time between order receipt and production. Added to this is increased uncertainty regarding economic developments and the economic policy framework. Many companies are therefore acting more cautiously and are not ramping up production immediately in line with order intake: the shock of recent years runs deep.

Nevertheless, production is likely to pick up again over the course of the year, provided that geopolitical risks – such as a renewed escalation of the war in Iran – do not place a significant strain on the global economy. However, the ramp-up in production is likely to be slower and weaker than in previous phases of economic recovery.

In the long term, the development of domestic production depends crucially on how companies assess their prospects for Germany as a business location. If uncertainty and pessimism about the future remain high, companies might deliberately accept a temporary low level of capacity utilization rather than expanding existing capacity or utilizing it to full capacity. Conversely, a combination of **more robust demand** – particularly domestically – **reliable economic policy conditions** and an **improvement in business conditions** would create the conditions for a stronger expansion of production.



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⁴ The different weightings of the sectors in the two indices were taken into account in the calculation.