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Germany's industrial engine is still running – but no longer like it used to



There was a time when German industry looked almost mechanical in its reliability. It could slow down, stumble, or even suffer a major shock, but would eventually return to its old path.

The model was familiar: engineering excellence, disciplined production, strong exports, skilled labour, and access to affordable energy. For decades, this combination made Germany the industrial anchor of Europe.

A recent study on German industrial production tells a different story. It does not describe a simple cyclical slowdown. It points to a deeper break from the country's long-term industrial trajectory.

According to the study, by February 2026 German industrial production was roughly 24 per cent below where it would have been had it continued along its pre-2017 trend. This is not a minor deviation. It is a warning sign.

This matters because Germany is not just another European economy. It is the factory floor of Europe.

When German industry **loses momentum**, the impact travels through supply chains in Central Europe, Northern Italy, the Netherlands, Poland, Czechia and Türkiye.

Germany's weakness is never purely domestic. It becomes a regional industrial problem.

The cost structure has changed

The first issue is energy. Germany's old industrial model partly relied on a simple assumption: energy would remain reliable, affordable and politically manageable.

That assumption collapsed after the rupture with **Russian gas** and became even more fragile as global energy markets entered a new phase of geopolitical volatility.

Energy-intensive sectors such as chemicals, metals, glass, paper and parts of machinery

production suddenly found themselves operating in a very different cost environment.

The larger issue is that the cost structure of German industry has changed

This is why the **German problem** cannot be explained only by weak demand. Demand is part of the story, of course. But the larger issue is that the cost structure of German industry has changed.

If energy becomes permanently more expensive, if logistics remain vulnerable, and if uncertainty becomes the new normal, then production decisions change as well.

Companies begin to ask uncomfortable questions: Should we expand in Germany, or somewhere else? Should we invest at home, or move capacity closer to cheaper energy and faster-growing markets?

China is no longer just a buyer

The second major pressure comes from China. For many years, China was one of the greatest opportunities for German industry. **German carmakers**, machinery producers and chemical companies treated China not only as a customer, but as a growth engine.

That world has changed. China is no longer just a buyer of German industrial excellence. It is now a formidable competitor in electric vehicles, batteries, industrial equipment, electronics and machinery.

This shift is painful for Germany because it affects the very sectors in which the country has traditionally been strong. The old formula – selling high-quality German products to a rapidly growing China – no longer works as smoothly as before.

Germany built a large part of its modern industrial identity around the internal combustion engine

Chinese producers are now moving up the value chain, often with lower costs, faster scaling and strong state support. German companies are therefore squeezed from both sides: weaker demand from China as a market, and stronger Chinese competition in global markets.

The third issue is the automotive transition. Germany built a large part of its modern industrial identity around the internal combustion engine.

It mastered precision engineering, supplier networks, export logistics and premium branding. But the electric vehicle era has changed the rules of the game.

Software, batteries, charging infrastructure and platform speed now matter more than before. In this new landscape, Germany is still powerful, but it is no longer automatically ahead.

The real danger is slower erosion

The danger is not that German industry will disappear; that would be an exaggeration. Germany still has world-class companies, deep engineering capacity, strong vocational training, and a powerful industrial base.

The real danger is slower erosion: factories remain open, but investment weakens; exports continue, but margins shrink; employment survives, but productivity growth disappoints; industrial prestige remains, but leadership shifts elsewhere.

That is why the study's message is so important. It shows not a collapse, but a loss of direction.

Before 2017, German industrial production generally returned to its trend after major shocks. After 2017, it increasingly failed to do so.

Germany's longstanding commitment to fiscal caution helped preserve stability

The pandemic hurt, but the weakness had already begun. The energy shock hurt, but it did not create all the problems. China's rise hurt, but Germany's delayed adaptation made the blow heavier.

In other words, the crisis is not the result of a single event. It is the accumulation of several strategic delays.

There is also a policy lesson here. Germany's longstanding commitment to fiscal caution helped preserve stability, but it also contributed to underinvestment in infrastructure, digitalisation and industrial renewal.

Roads, railways, digital networks, energy grids and public administration did not modernise quickly enough. A country can be financially disciplined and still become strategically slow. Germany is now discovering that being prudent is not the same as being prepared.

An old industrial giant can reinvent itself

For Europe, this is a serious concern. The European Union increasingly discusses **strategic autonomy**, industrial resilience and technological sovereignty. But none of these goals can be achieved if Germany's industrial core continues to weaken.

A Europe without a dynamic German industrial base becomes more dependent on the United States for security, on China for industrial inputs, and on global energy markets for survival.

For Türkiye, the lesson is also clear. Germany remains one of Türkiye's most important trade partners. Weakness in German industry can affect Turkish exporters in automotive parts, machinery, textiles, logistics and intermediate

goods.

But there is a broader lesson as well: industrial strength is never permanent. It must be renewed constantly through energy strategy, education, technology, legal predictability, productivity and investment.



Germany's challenge now is not simply to produce more. It is to produce differently - Emre Alkin

The study should therefore be read not as an obituary for German industry, but as a serious diagnosis. Germany is still strong, but its old model is tired.

Cheap Russian gas is gone. China is no longer just a customer. The automotive transition is unforgiving. Energy costs are higher. Investment has been too slow. Bureaucracy remains heavy. Demographics are unfavourable. And Europe's industrial policy is still too fragmented.

The most dangerous mistake would be to assume that Germany will automatically recover simply because it has always recovered before. History helps, but it does not guarantee the future. Industrial competitiveness is not inherited permanently; it must be earned repeatedly.

Germany's challenge now is not simply to produce more. It is to produce differently. It needs cheaper and cleaner energy, faster permitting, stronger digital infrastructure, greater capital investment, a more flexible labour market, and a more confident industrial strategy.

Without these, the gap between where German industry is and where it could have been may continue to widen.

In the end, the study tells us something simple but powerful: Germany's industrial engine is still running, but it no longer sounds the same.

The rhythm has changed. The old confidence has weakened. The machine still has strength, but it needs repair, renewal and a clearer direction.

For decades, Germany showed the world how an advanced industrial economy could combine discipline, quality and export power.

Now it must show something harder: how an old industrial giant can reinvent itself before the world moves on without waiting.