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Eurozone industrial outlook thrown into uncertainty as energy woes return

Manufacturing optimism in the eurozone is fading as industrial production falls to its lowest level since 2024 in January, and the Middle East conflict has renewed output risks, especially for energy-intensive sectors

A steelworks in northern Germany

While the European Commission is making progress in implementing the Industrial Accelerator Act, the conflict in the Middle East is currently clearly serving as an industrial decelerator, as higher energy prices and broader supply chain disruptions are putting the brakes on the much-anticipated manufacturing recovery.

And today's release of January production data already shows that recent optimism among manufacturers has not exactly been justified by production data. The decline of -1.5% in January follows a drop of -0.6% in December. While production had been elevated compared to 2024 levels for much of last year, the January level of industrial production is now the lowest since December 2024.

It has to be said that a large drop in Irish production, whose data is notoriously volatile, contributed significantly to the decline in January, but the misery was shared more broadly as Germany, Italy and Spain all noted declines compared to December.

Stronger production hopes hinge on the expectation that increased public investment in defence and infrastructure will boost manufacturing output. But the risk is that another prolonged surge in energy costs will shatter hopes of a recovery in energy-intensive industries, which have already been struggling since the previous shock in energy prices in 2021-22. While other sectors have managed to thrive despite the headwinds from the previous shock, this could still be enough of a drag on manufacturing to pour cold water on hopes of a manufacturing recovery.

So just as optimism had returned to manufacturing, geopolitics is clearly putting downside risk back on the table.

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