

Eurozone industrial production unexpectedly nosedives in April

Eurozone industrial production dropped sharply in April, partly wiping out the front-loading surge of the first quarter



Cars are loaded outside Tesla's German factory in Gruenheide near Berlin

After an impressive first quarter, eurozone industrial production staged an expected nosedive in April, dropping by 2.4% month-on-month. On the year, it is still up by 0.8%. After the strong surge in the first quarter on the back of US front-loading of eurozone goods ahead of higher tariffs, industrial production showed the expected reversal. However, looking at the individual countries shows large divergence across the eurozone and once again a sharp distortion of eurozone data due to Ireland (which had a month-on-month drop by more than 15%). While Germany, France and Spain saw industrial production dropping, Italy recorded some improvement.

Industrial outlook between tariffs, rising oil prices and a turning inventory cycle

The eurozone manufacturing sector is currently highly affected by two main factors: the cyclical turning of the inventory cycle and Donald Trump's tariffs. Tariffs and the related front-loading had been the main driver of surging industrial production in the first quarter. Lower energy prices as a result of the tariff announcements and erratic economic policy announcements in the US also seemed to improve the outlook for industry. It would seem that Israel's military strikes against Iran last night have clearly erased hopes for sustainably low oil prices. With Brent trading again close to 80 USD/b, energy prices are back on the eurozone manufacturers' worry list.

US tariffs and again highly elevated geopolitical risks provide reasons enough against any premature optimism. However, more fundamentally speaking, it looks like eurozone manufacturing has been bottoming out. The announced German fiscal stimulus, as well as European defence spending, have both added to order books and general optimism. But there's more. After huge stockpiling in 2021 and 2022 and high inventories limiting production since then, the inventory cycle is showing the first signs of turning. Even though it's not happening yet in all eurozone countries, it is most pronounced in Germany. Still, it is the combination of inventory reduction and improving order books that will boost production in the future.

So, while there are signs of optimism, the outlook for the eurozone's manufacturing sector remains incredibly uncertain. Just when things were starting to look more positive, geopolitical risks and those rising oil prices are once again casting a long shadow over recovery hopes.

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