

## Eurozone: industrial production back above pre-Covid levels

Industrial production increased by 0.7% in January, continuing the strong recovery into the new year despite lockdowns and input problems. With that, manufacturing is set to lessen the GDP contraction for the first quarter as it did in the fourth quarter



A factory in the Netherlands

After the decline in German production, overall growth in the eurozone comes as a pleasant surprise. The German decline of -0.4% was in part explained by a sharp drop in auto manufacturing, related to chip shortages, which did not affect overall production elsewhere as much. Strong growth in France of 3.4% and more modest growth in the Netherlands and Italy at 1.3% and 1%, respectively, boosted the eurozone average into the black.

On a year-on-year basis, all production categories except for non-durable consumer goods are back above January levels again. For headline industrial production, yearly growth came in at 0.1%. This is quite a surprising recovery – not a complete 'V', but close enough – given the fact that the second wave of the virus caused domestic demand to contract again over the winter months.

The outlook remains strong for the months ahead. Businesses continue to remain positive about the inflow in their order books and for production in the months ahead in general. While input

problems like chip shortages and higher container prices may dampen output a bit, we don't expect this to throw the production expansion off course significantly.

We therefore expect industrial production to continue to provide an important counterweight to the services sector, which is still suffering from restrictive measures to curb the spread of the coronavirus. While we do expect GDP to contract in 1Q, manufacturing strength will likely soften the blow.

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