

Snap | 13 July 2023

## Eurozone industrial production confirms no strong GDP bounce back for 2Q

With more data coming in, it really seems to be a coin flip as to whether the eurozone technical recession continued into the second quarter. The May production data is consistent with industry stagnating at a relatively low level of activity



Industrial production increased by 0.2% in May, which is the second small increase in a row after plummeting in March. Overall, this leaves the level of activity well below the average for where it was in 2022, in line with a weakening global growth environment in which demand for goods has moderated.

In recent months, industrial production has stagnated. There are large differences by sector, which is due to the shocks that individual sectors have been influenced by in recent years. At the moment, the sectors most hurt by supply-chain problems are still contributing positively to annual industrial production growth. The sectors that profited a lot from the pandemic – think of pharma for example – are showing more volatile production performance at the moment and energy production and energy-intensive sectors are contributing negatively.

For the months ahead, weakness continues to be in the cards as surveys point to a drying up of backlogged orders and new orders are weakening. Global demand is going through a weak patch and that is reflected by a subdued outlook for the manufacturing sector.

For GDP growth in the second quarter, the impact is clear. Production will have needed a strong rebound in June to have an average production level similar to the first quarter. That seems unrealistic given the negative PMI and industrial sentiment data for the month. Another quarterly decline for industrial output is therefore in the making, which is also likely for retail sales. The goods part of the economy is therefore likely to have remained in recession and services – on which we have much less intermediate data – will have needed to perform well to eke out a positive growth figure. It's likely that the eurozone economy has therefore continued to straddle the zero growth line in the second quarter, extending the current phase of stagnation in economic activity.

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