

## Eurozone industrial production drops in August as shortages continue to bite

The -1.6% decline in production mainly reflects production problems in the auto sector. Still, other sectors are also seeing production moderate on the back of shortages. This weighs somewhat on 2H GDP growth, but strong new orders do provide hope for the start of 2022.



A bottling factory in Milan, Italy

While demand remains strong with robust growth in new orders every month, supply side problems continue to weigh on further production gains. Of all the current shortages, semiconductors are proving to be the most disruptive to the macro picture and the auto sector is at the centre of the storm. Auto production in the eurozone is now 24% below the November level, also the peak before production hiccups started to occur. This drags on total production substantially.

The divergence between sectors is large but most sectors have seen some moderation in the growth pace in recent months. In recent months, electronics have also seen some decline in production, which probably relates to the same issue of chip shortages. Other shortages are having a milder effect, but do seem to be reflected in production weakness over the summer months.

From a country perspective, the large drag from the auto sector is reflected in a far below average performance from Germany. Overall Germany production fell by -4.1% month-on-month in August, while France and Spain eked out gains. Italy saw a small tick down in production of -0.2%. Overall, with chip shortages expected to last well into 2022 and perhaps even 2023, the question is whether German weakness will continue. There are some signs that production improvements are around the corner, but supply uncertainty means that some underperformance compared to other countries is to be expected in the short run.

For eurozone growth it is important to note the gradual increase in the number of sectors that are seeing production growth fade. The supply side problems are starting to be reflected more in the growth figures for 2H 2021, and are contributing to the slide in GDP growth expected for this half of the year. We still expect strong overall growth to persist and take solace from continued strong incoming demand. For now, it does not look like supply side problems will cause a hard landing, but to cause some turbulence along the flight back to normality.

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