

Snap | 13 June 2019

## Eurozone industrial production drops markedly in April

The 0.5% decline in industrial production adds to concerns about a prolonged industrial slump, which will put more pressure on the ECB to act



If you thought the ECB overreacted last week with hints towards restarting QE and a rate cut, April's production numbers should make you think again. While volatile and not in itself a justification for more expansionary monetary policy, these numbers are a confirmation of a continued slowdown in the manufacturing sector which poses a threat to GDP growth if it continues for long enough. As the trade war only flared up again in May, eurozone industry seems set for disappointing production in Q2.

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Industrial production peaked in December 2017, after which it has been on a declining trend. This has coincided with the start of tariff threats and has resulted in global trade concerns for a longer period of time. The weakness in production is therefore mainly related to production for external

demand as the sectors that produce mainly for foreign final demand are the ones that have contributed most to the decline in production. Domestic demand has limited the damage so far.

Concerns are that the strong service sector, which is driven by a strong labour market, will at some point be weakened by the underperformance in industry. Signs of slowing hiring demand from manufacturing point towards weaker employment growth in the months ahead, which would be reflected in slower consumption growth. This mechanism worries the ECB as president Draghi mentioned at the latest press conference. After all the dovish talk back then, these numbers will be seen as confirmation of sluggishness and increase curiosity about whether the ECB will indeed act on the weaker industrial growth environment.

ING's Carsten Brzeski has written about what the ECB could still do in [this article](#)

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