

## Eurozone industrial production falls again in June on supply problems

Supply constraints continue to dampen production but as demand remains strong, this is unlikely to throw off the economic recovery altogether. Still, continued problems do weaken third quarter GDP growth prospects somewhat



Industrial production fell by 0.3% in June. Supply chain hiccups due to input shortages continue to plague industrial production. The car sector continues to bear the brunt of the problem with semiconductor shortages resulting in a sharp decline in production over recent months. Germany faces the largest issues, with production again declining by 1% while other large eurozone economies saw production increase. France and Spain saw modest growth of 0.4% and 0.1%, respectively, but the Netherlands and Italy saw a particular strong ending to the second quarter, with 3.3% and 1% growth in industrial output.

For the months ahead, the outlook continues to be bright from a demand perspective. Surveys continue to show a strong inflow of new orders both domestically and from abroad. That means that the outlook for production hinges on how long supply constraints will remain in place. We see some moderation in input shortages at the moment, but for some of the more problematic inputs this could last for a few more quarters at least.

As long as demand remains strong, we expect that this will mainly result in production growth spreading out over the coming quarters as opposed to causing a longer decline in production altogether. For 3Q, it could mean that the manufacturing contribution to GDP will be dampened somewhat, but we don't expect this to derail the recovery. We expect GDP growth for 3Q to come in at 2% quarter-on-quarter.

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