

## Eurozone industrial production falls back to dismal trend in January

The production spike in December was too good to be true, and January saw a 3.2% decline. This means that first quarter GDP is under pressure again as the eurozone economy continues to broadly stagnate



January's reversal came largely as a result of a 29% drop in production for Ireland, following a 19% increase in December

December saw a large jump in production, which wiped out a full year of declines. This was mainly due to Irish production figures, though, which are notorious for their volatility thanks to contract manufacturing and outsourcing. Other countries also saw a small uptick on average, however. January data confirms that this jump was a one-off, in line with other manufacturing indicators remaining downbeat.

The reversal was entirely due to a 29% drop in production for Ireland after a 19% increase in December. Other countries were more of a mixed bag, with Germany and Spain showing modest growth of 0.6% and 0.9% on the month, while France saw production fall by 1%.

The trend of declining production finally seemed to bottom somewhat in the fourth quarter, but January has poured cold water on those hopes. The January production number is in line with the declining trend seen up to October last year. In the short run, this means that industry is likely to

contribute negatively to GDP growth in the first quarter unless February and March beat expectations significantly. That means that the eurozone is not yet showing much hard evidence that it is moving out of the long period of sluggish economic activity yet.

There are more signs of bottoming out in industry coming through, which could result in a somewhat better performance later in the year. With inventory cycles having peaked and consumers redeeming purchasing power as wage growth rises and inflation remains moderate, there are chances of recovery towards the end of the year. Then again, problems are not only related to the cycle. Structural problems for eurozone manufacturing seem to have worsened – think, for example, of the energy-intensive sector or geopolitical issues related to trade – which means that the upside for the medium term is limited.

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