

Snap | 14 July 2021

## Eurozone industrial production falls on the back of supply chain problems

Supply chain problems continue to weigh on the eurozone industry causing production to fall by -1% MoM. The outlook remains bright, thanks to strong incoming demand as economies recover globally



Source: Shutterstock

Eurozone production dropped in May, which came as a bit of a surprise.

German production has been falling for a while now – thanks to problems in auto production – but overall, eurozone production managed to maintain output growth. In May, eurozone production fell by 1%, which is not substantial but does show that the manufacturing contribution to growth in the second quarter could still disappoint.

Auto production is a big culprit for the monthly decline in May, which fell by -6.5% and is now about 15% below production levels seen in November. Besides this very pronounced decline, other sectors saw much more subdued developments in May. Production of metals continued its recovery which started in March, and chemical production ticked up slightly. Plastics production has plateaued as shortages also hamper production, but this is much less severe than for auto.

The outlook for the manufacturing industry remains bright despite disappointing production figures. Surveys suggest that demand continues to flow in at a very fast pace and that backlogs of work are increasing. This means that the big production rebound has not peaked, but mainly pauses because of the limited availability of inputs.

We expect further improvements when supply chain problems are resolved and much more support to the GDP recovery from manufacturing in 3Q and 4Q.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

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