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## Eurozone industrial production continues its downward trend due to supply problems

September production data showed a small decline of -0.2%, which is in line with a downward trend over the past few months. As orders continue to come in hot, supply problems are likely to mainly affect industrial goods' prices, a big theme for the ECB in the coming quarters



Industrial output in the eurozone has been sliding over the past few months and September was no exception. It's a small drop, but a fall nonetheless as production in Italy and Spain increased somewhat, which could not help the aggregate from falling as Germany and France both experienced month-on-month declines of 1.4 and 1.3% respectively. Germany continues to be most troubled by car sector problems due to computer chip shortages, but the problem is spreading to other countries as more sectors are now experiencing serious production problems due to input shortages. Think of electronics, but chemicals and plastic production is suffering more.

Demand for goods remains strong though, despite all of the delays and shortages that the

consumer is now experiencing. Both domestic and export orders remain high according to the Economic Sentiment survey, which weirdly leaves the production outlook quite benign. Intermediate and durable consumer goods order books, in particular, are showing unprecedented strength, while investment goods orders also continue to come in hot.

This leaves price pressures mounting, which makes non-energy industrial goods inflation the most serious threat for high inflation in 2022. Energy inflation is set to abate as energy futures suggest a drop in market prices for next year, but ongoing price pressures in manufacturing are likely to be increasingly priced through to the consumer over the course of next year. With input shortages and transportation problems only set to fade over the course of the year, expect goods inflation to push higher for quite some time.

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