Eurozone industrial production recovers while labour costs drop

Eurozone industrial production recovered strongly in July after two months of contraction. As the seasonal adjustment flatters the summer months, it is too soon to dismiss the negative growth impact of supply chain problems. Meanwhile, the drop in labour costs is a statistical quirk

Summer recovery in industrial production

Despite the supply chain problems, industrial production increased by a stronger than expected 1.5% in July, after having contracted 1.1% in May and 0.1% in June. This is certainly positive news, given the fact that we have had an avalanche of press reports covering the growing supply chain problems and labour shortages, especially in industry. Did we worry too much that supply constraints would slow growth? As always the devil is in the detail. Supply problems or not, with the summer holidays starting in July, activity in industry is usually lower anyway and the month-on-month growth figure therefore gets a boost from the seasonal adjustment. This seasonal adjustment will be even stronger in August. We therefore have to wait until September to know the extent to which supply chains have normalised and production can pick up more structurally, but recent reports are still qualified in that regard. Don't get us wrong, the July figures are certainly good and courtesy of the recovery in the services sector, GDP growth is likely to hover around 2% quarter-on-quarter in 3Q, but we anticipate slower growth from 4Q onwards.

Freak drop in labour costs

With a growing number of companies in both industry and services citing labour shortages as an impediment to production, the question is when this will start to put upward pressure on wages, especially in the current higher inflation environment. For the time being, there doesn't seem to be much pressure, as labour costs actually fell 0.1% year-on-year, after an increase of 1.3% year-on-year in the first quarter. However, this is pretty much a statistical quirk. Labour costs are calculated by dividing labour costs by the number of hours worked. As in the second quarter of last year, hours worked declined much more than employment during lockdown and labour costs jumped by 4.2% year-on-year. Now, this phenomenon has been reversed, resulting in negative year-on-year growth in labour costs.

So, bottom line: industrial production was strong, but the jury is still out on supply chain constraints. Meanwhile, the negative labour cost growth is more of an outlier, which should not be considered as a trend.

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