

Snap | 13 December 2017

Eurozone industrial production recovery is for real

Eurozone industrial production started the fourth quarter on a strong footing and now seems to be on course to catch-up with the skyrocketing sentiment figures



Source: Shutterstock

Confidence in industry stands at the highest level since the start of the monetary union, but until now that hadn't translated into vibrant industrial production growth. However, October's industrial production figure might offer the first signs that the recovery is now well underway.

Eurozone industrial production started the fourth quarter on a strong footing. Month-on-month growth came in at 0.2%, which was better than expected. The consensus was 0.0%. Year-on-year growth was 3.7%, which remains on the low side, given the level of economic sentiment in industry.

Good news is that industrial production recovery is now also starting to reflect in the real figures

If you know that manufacturing businesses indicated the strongest sentiment readings for production, new orders, exports and employment in November compared to the last nine months, it shouldn't come as a surprise that industrial production growth shifts into a higher gear in the coming months. Based on historic correlations year-on-year industrial production growth should

soon hover around 6%.

Specifically, we see scope for stronger growth in both capital goods (falling 0.3% in October) and durable consumer goods (which fell 1.9% on the month) as business investment is on the rise in the wake of high capacity utilisation rates and consumers surveys indicate stronger intentions to buy durable goods. In a separate report today, it appeared that Eurozone employment grew 0.4% in the third quarter and 1.7% year-on-year, corroborating the message of growing purchasing power for Eurozone households.

The good news is that the industrial production recovery is now also starting to reflect in the real figures and if it manages to catch-up with the skyrocketing sentiment figures, we can safely expect more strength in the manufacturing sector.

With industry creating better-paid jobs on average, this is likely to push up average wages over the course of 2018. That said, inflation is unlikely to hit the ECB's target in 2018, but we believe the turnaround in the inflation trend is likely to put an end to the ECB's QE program by December of next year.

Author

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.