

## 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



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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.

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

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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.

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