

## Eurozone industrial production recovers, but it's far from completing the V

The mechanical recovery from lockdown remains underway and has not yet lost speed. This is encouraging, but at -11.6% below February levels, it is still unclear how large the lasting damage will be



Workers at a Mercedes factory in Germany

Industrial production grew by 9.1% in June, confirming that the recovery from lockdown continues to quickly add to production. The recovery can be considered mechanical as mandatory shutdowns and voluntary closures or limited production to curb the virus have been gradually lifted, causing production to automatically increase. The 9.1% increase follows a 12.3% increase in May, meaning that the pace of recovery has fallen only slightly in the second month of reopening. The improvements were widespread across production categories with non-durable consumer goods production even accelerating in June.

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The improvements still leave production at -11.6% compared to February, which means that there is still a large gap to bridge to pre-coronavirus production even though the start of the recovery is

v-shaped. Whether the V will be completed in the summer months remains the question. We expect that it will fall short due to a lack of demand in the aftermath of the crisis, supply chain disruptions and even a possible flareup of the trade war. We now have to ask at what point will the mechanical recovery level off, giving a better idea of the lasting damage of the coronavirus crisis.

Even though it is unlikely that the V will be completed soon, recent survey data has been encouraging. Manufacturing businesses indicate that output has continued to recover in July and that new orders have also been returning quickly. Some pent-up demand will likely continue to cause industrial production to trend higher in the coming months, but due to all the downside risks to the manufacturing outlook, concerns about a sustained quick recovery of production remain justified.

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