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Eurozone industrial upturn to continue despite December dip

Eurozone industrial production fell in December, but the cyclical upturn is likely to continue on the back of stronger domestic demand



Structural headwinds won't stop the cyclical recovery

Eurozone industrial production fell by 1.4% month-on-month in December but still grew by 1.2% on a year-on-year basis. The month-on-month decline was largely expected as the recently published German and French figures were weak for December.

It is easy to be downbeat about the prospects for eurozone industrial growth, as structural headwinds remain important. Natural gas prices are still more than three times as high in Europe as in the US, and cheap Chinese exports to Europe continue to grow at a strong pace. At the same time, European exporters still face higher import tariffs in the US. In the January business sentiment survey from the European Commission, the assessment of export orders remained downbeat, but overall orders improved. This suggests that domestic demand within the eurozone is starting to pick up, with German stimulus plans likely to be an important driving force. Indeed, German industrial orders climbed nearly 20% in the last four months of 2025.

There are also signs that the inventory correction is largely behind us, with the assessment of

stocks now close to the historical average. We therefore expect manufacturing to contribute positively to eurozone growth this year, even though the structural issues are far from resolved.

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