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Eurozone industry continues recovery despite supply chain problems

Despite widespread production problems, Eurozone industrial production continues to grow. With demand continuing to come in quickly, the outlook for industry remains bright and seems likely to be curbed by supply side constraints



Source: Shutterstock

Eurozone industrial output grew by 0.8% in April despite widespread production problems.

The growth in production was mixed between large markets, which are differently affected by pressing shortages. German production has been significantly disrupted by semiconductor chip shortages as the auto industry is one of the most dominant industries resulting in another decline in overall German industrial production in April. Spain and Italy have continued to see production grow while France saw production stagnate. For now, clearly, production growth is being subdued by supply constraints for now.

The outlook for the sector remains bright though, which adds to expectations of a positive contribution from production to GDP growth in 2Q. The key concerns for industry are supply chain disruptions, price pressures and whether reopening of services dampens demand for goods. There

is not much evidence from business surveys for the latter for now though as new orders continue to come in very rapidly despite easing of service sector restrictions.

The key question is when will supply chain disruptions fade?

We expect shipping price pressures to remain for the next few months ahead, which also holds good for several of the most pressing input shortages for the eurozone industry. This means that while demand for goods remains very strong at the moment, industrial output could underperform given longer lead times and production hiccups. That being said, we expect production to keep rising on strong demand, low inventories and increased lead times.

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