

Eurozone industry continues to struggle

The 0.1% month-on-month decline in June means a continuation of a long trend of contraction for industry in the eurozone. While a turnaround has been expected for a while, there is little evidence that this will happen soon. For GDP, this means that growth expectations depend on doubtful service sector strength



For now, the outlook is showing little relief for the manufacturing sector in the eurozone. Pictured: a motorbike factory in Berlin

After the high of the Olympics, it's back to reality for the eurozone. Governments struggle to get budgets in order and economic data disappoints. Industrial production data for June was not much different. The small month-on-month decline continued the contraction that started in September 2022. It has to be said that most of the decline was due to volatile Irish data, but the overall picture remains bleak regardless of this volatility.

The outlook shows little relief for the manufacturing sector. Surveys point to a weakening of incoming orders at the start of the third quarter and therefore a further contraction in production. And inventories remain at high levels, indicating that the scope for an imminent recovery of industrial production is very limited.

The problem for industry is that consistent weak demand is met by increasing cost pressures. Think of increasing energy prices and transport costs as a result of conflict in the Middle East. With weak demand, it's much harder to price these higher costs through to the consumer than in

2021-22. This means that pressure on margins is likely to remain a theme for manufacturers in the second half of 2024.

For GDP growth, which was confirmed at 0.3% for the second quarter this morning, this means that the upside in the short run is limited and very dependent on service sector performance. With recent numbers casting doubt about service sector strength, expectations for GDP growth in the rest of the year have weakened.

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