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Snap

Eurozone industry joins the recovery bandwagon

Eurozone industrial production increased by 1.4% MoM in August, adding evidence to a strengthening recovery

Industry starts to catch up with the broader recovery

After two weak summer months, Eurozone industry seems to be back on track. In August, industrial production increased by 1.4% MoM, from +0.3% in July and -0.6% in June. On the year, industrial production was up by 3.8%. In August, the strongest monthly increase came from the production of capital goods (up by 3.1% MoM). The industrial recovery, however, has not yet spread across all Eurozone countries. Lithuania, Germany and, yes, Greece recorded the strongest increases in industrial activity in August. At the same time, industrial activity has been lagging behind, particularly in the Netherlands and France.

Today's numbers are good news and contribute to the positive growth outlook

For the Eurozone as a whole, today's numbers are good news and contribute to the positive growth outlook. Contrary to previous recoveries, industrial production seems to be lagging rather than a leading indicator in the current cycle.

Returning to industrial activity, confidence indicators are (often far) above historical averages in all Eurozone countries, even in Greece. Production expectations in the manufacturing industry in the entire Eurozone are at their highest level since early 2011. Even though the comparison with 2010-2011 makes the current upswing weaker than it is as the 2010-2011 upswing was the result of the unique rebound after the 2009 recession. Excluding the 2010-2011 period, current production expectations in the manufacturing industry are only outperformed by the 2000-2001 period. Also, capacity utilisation is at its highest level since 2008, boding well for a further pick-up in investment.

1.4% Industrial production growth (MoM%)

Better than expected

Political and cyclical factors still cloud the outlook

Despite this positive outlook for industrial production and more generally-speaking, Eurozone growth, there are some clouds on the horizon: cyclical and political clouds.

As regards cyclical risks, a recent slowdown in demand for German investment goods from other Eurozone countries as well as the fact that the unemployment rate in the Eurozone excluding Germany has slightly increased suggests at least some levelling off could be in the making.

Continued political risks, both within the Eurozone as well as outside, could also dent the current growth optimism.

Bottom line

Against the above backdrop, we expect the ECB to take steps towards a dovish tapering in two weeks. The “lower for longer” tapering or, as the ECB likes to call it “recalibration”, has the advantage of withdrawing some monetary stimulus while at the same time keeping rate expectations at bay.

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