

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.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.