Eurozone industry sees hole deepen at the end of 2018

A monthly decline of 0.9% in December leaves production in the monetary union 4.2% below that of last year. Temporary factors and downside risks continue to weigh on industry, making a swift recovery in 1Q unlikely

The eurozone industrial sector is plagued with more drama than an average episode of The Bodyguard. Trade wars, emission standard related production delays, yellow vest movements and slowdowns in emerging markets have all played a part in the weakening of production over recent months, causing two quarters of declining production.

While the headline figure was much worse than anticipated, durable goods production increased in December and intermediate goods production was flat after a sharp decline in November. Out of the large economies, both Germany and France saw production increase, while Spain, Italy and the Netherlands contributed to the decline.

The rollercoaster ride for industry is far from over as deadlines on the China-US trade dispute and Brexit are coming closer. The US study into the national security threat posed by car imports is also due soon, which would pave the way towards US tariffs on European cars. This means that downside risks are plenty for 1Q, but some relief is to be expected afterwards as escalation is not our base case on these factors for the moment.

There are also some signs of life for industry. Exports from Germany improved significantly in December and new orders outside of bulk also increased. In France, exports even contributed positively to GDP growth. A delayed recovery from temporary factors is expected in the months ahead, which could result in a modest pick-up in the second quarter. As the early survey indicators have shown, it is unlikely that 1Q will show the much anticipated jump in production just yet.

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