Eurozone industry underperforms as tariff worries loom

In April, eurozone industrial production ticked down by 0.1% compared to March. This means that production is now 3% lower than a year ago. Risks to the outlook remain, not least from politics, but some bottoming out is starting to show with a cautious recovery possible for the second half of the year

Eurozone industry has been in a recessionary trend since early 2023 and the latest data shows no imminent sign of recovery. The economy has started to pick up since the start of the year, but industry is lagging the recovery. The April production data showed a small tick down, mainly driven by Ireland and Italy. Expectations of a recovery have been growing, but so far the data still doesn't show much of it.

This comes just as the European Commission has announced higher tariffs on Chinese electric vehicles as of early July, a move that could, in the first instance, boost the prospects of European car makers in their home market but also increases the risk of a tit-for-tat trade war type scenario. Tariff threats – even without actually materialising – could dampen investment as we have learnt from the US-China trade war. While it looks like Chinese retaliation would mainly hit small symbolic industries, worries about retaliation will hang over eurozone industry as yet another risk to the recovery, along with energy uncertainty and possible weakening global demand, for example.

Risks abound, but there are signs of gradual cyclical improvement in the sector. New orders have been bottoming out for some time now and production is not declining as quickly as it was at the end of 2023. Recent months have shown some bottoming out in actual production figures, too. With consumers in the eurozone seeing purchasing power improve and investment possibly positively impacted by lower rates, industry might just be able to pull off some recovery in turbulent times.

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