

## Eurozone recovery still not for real

Industrial production contracts for the second consecutive month in October, showing that for the time being the recovery is only happening in the sentiment surveys, not in the hard data



Source: Shutterstock

Industrial production fell by 0.5% month-on-month in October after a downwardly revised 0.1% contraction September. Year-on-year it fell by 2.2%, compared to a 1.8% decline in September.

The main culprit was the 1.6% month-on-month fall in capital goods production, a direct consequence of the hesitant business investments in the wake of global uncertainty. After the disappointing German industrial production data, it was more or less expected that industrial production won't be looking pretty for the eurozone as a whole. However, this conflicts with the better sentiment data that has been published over the last few months.

### Contagion risk

So the question we have to ask ourselves now is whether the sentiment data has entirely based on hopes for improvement, while the underlying economic situation doesn't show much signs of recovery. Admittedly, industrial production is only a small part of the eurozone economy and a better situation in the services sector could more than compensate for the industrial weakness. However, the risk is that the longer the industrial malaise lasts, the more likely contagion to other

sectors becomes. With industrial companies shedding employees, consumer confidence might get hurt, which could lead to a slowdown in consumption.

But let's not forget that the main reason for the weakness in the industrial sector derives from the trade war and the uncertainties surrounding Brexit, which have slowed down world trade growth. As the eurozone is more open than both the US and China, it is not surprising that European industries are hurting, even if they are not specifically targeted by import tariffs. The hope is of course that 2020 will bring a trade truce and more clarity with regards to Brexit. That should eventually stabilise the situation in the European industry.

## Weak starting base for 2020

Bottom line is that looking at real data, the fourth quarter started on a weak footing and this weakness could linger on a bit longer as the main uncertainties could still take some time to dissipate.

A weak quarter will create a negative base effect and that is the reason while, even taking into account some improvement over the course of the year, we only expect 0.7% GDP growth in 2020, clearly below consensus.

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