

## Eurozone: Small decline in industrial production does not reflect trend

Industrial production declined in September but this was only due to a drop in Italy. The overall trend remains one of cautious recovery ahead of the fourth quarter, where manufacturing is unlikely to be immune to service sector lockdowns



A factory in the Netherlands

Yes, this was worse than expected but no, it was not because second wave problems started to be felt in September. Eurozone industry continued to recover at a modest pace, but September production figures were distorted by a specific Italian effect. After production rose sharply in August, thanks in part to some specific one-offs, there was a decline noted in September for Italy, which was the only large country that did not post solid gains. Germany, France and Spain recorded increases of 1.7, 1.5 and 0.6% respectively, indicating that underlying developments remain solid.

As lockdowns are starting to bite across the eurozone, the impact on industry is relatively mild for now. Surveys have indicated continued solid performance in manufacturing, and new orders suggest that there will be continued growth through the first weeks of the renewed lockdowns. This is mainly because lockdowns have centred around the service sector, while manufacturing remains open in all eurozone countries. Even for countries that never closed manufacturing sites

the outlook is better for production than in the first wave. As hospitalisations are lower and schools are still open, work is unlikely to be as disrupted this time around.

Even though the impact on manufacturing seems smaller than during the first wave, it is not immune to second wave effects and one can expect that the recovery of production will be significantly hampered in the fourth quarter. While that's the case, it will likely remain an outperformer compared to services in the second wave economy.

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