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Eurozone: Soft patch 1 - Start of a severe downswing 0

Rebounding industrial production adds to evidence of a stabilising Eurozone economy

After a disappointing start to the year and a never-ending discussion on whether the Eurozone economy has only gone through a soft patch or was already in the middle of a severe slowdown, May industrial production offers some welcome relief. At least for now. Industrial production in the Eurozone increased by 1.3% MoM, from -0.8% MoM in April. On the year, industrial production was up by 2.4%.

The increase was driven by all components and almost all countries. Alarmingly, however, France and Portugal continued their recent trend of shrinking industrial activity. After three drops in the first four months of the year, today's increase in industrial production is finally good news. However, at its current level, industrial production is still flat compared with the first quarter of the year. Also, a closer look at individual components and countries shows that there is still a significant divergence in industrial activities.

Industrial output in the entire Eurozone is currently some 15% above its crisis level of 2009. However, this number masks huge differences across countries. While industrial output is some 30% above its 2009-levels in Germany and to a lesser extent in Belgium, most other countries are still only marginally above these levels. Today's data bring some relief and adds to our conviction that the Eurozone economy only went through a soft patch in the first months of the year and should gradually rebound in the coming months.

However, with the ongoing and escalating trade tensions, it is far from certain that the fall in confidence indicators will come to an end soon. For now, sound fundamentals, filled order books and reduced inventories still bode well for industrial activity in the months ahead. Interestingly, capacity utilisation is also above historical averages in most Eurozone countries, suggesting that supply-side constraints are increasingly becoming a hurdle for future growth. In this regard, the Eurozone economy could take two directions in the wake of the ongoing trade tensions: either a further drop in sentiment indicators will also lead to stagnating domestic activity or trade tensions are the final trigger to boost domestic investments. The latter would obviously be good news for the growth outlook.

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