

## Surprise jump in eurozone industrial production in August

The strong August reading does not fully reverse the losses from July, and expectations for manufacturing in the months ahead continue to weaken. Still, for the ECB this is another argument not to pivot towards a more dovish stance in the short run



Industrial production increased by 1.5% in August after a -2.3% drop in July. This was much better than expected but still does not erase losses from July. Ireland is experiencing very volatile production at the moment, which is affecting total eurozone numbers, but among the large industrial economies we see similar – though more muted – moves. France, Italy and Spain all experienced decent to strong growth in August, while Germany remained the exception with another month-on-month loss in production. This is the third consecutive month of declines in German production.

Industrial production is generally volatile from month to month and therefore we do not think this is to be taken as the start of a recovery. All survey data and anecdotal evidence point toward a more significant slump ahead as demand is weakening and high energy costs are forcing businesses to slow production or stop it altogether in certain energy-intensive sectors. The upside risk to that view comes from improving supply chains, which could unlock some backlogs of

production. Still, our base case is for the manufacturing sector to contract in the months ahead.

Overall, while the outlook for production is weakening, this data in itself is no reason for the ECB to change tack in terms of its rate hike strategy. For a dovish pivot, the ECB would need to see evidence that the economy is contracting quickly. While a quarterly contraction in manufacturing is definitely a possibility, these August data are far from alarming. A 75bp hike in October is therefore very much on the table at the moment.

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