Markit Economic Research
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Eurozone

Eurozone industrial production falls for second month running in June

- **Eurozone industrial production drops 0.3% in June after 1.1% slide in May**
- **Production flat in Q2 compared to Q1**
- **ECB expected Q2 weakness, so no impact on policy**

Eurozone industrial production fell for a second successive month in June, raising the possibility of the economic recovery losing further momentum in the second quarter. The decline is unlikely to jolt the ECB into triggering more stimulus however, with policymakers hoping that June's stimulus measures will revive growth in the second half of the year.

Data from the official statistics body Eurostat showed industrial production across the region falling 0.3% in June following a 1.1% decline in May. That left output unchanged in the second quarter compared to a 0.2% rise in the first quarter.

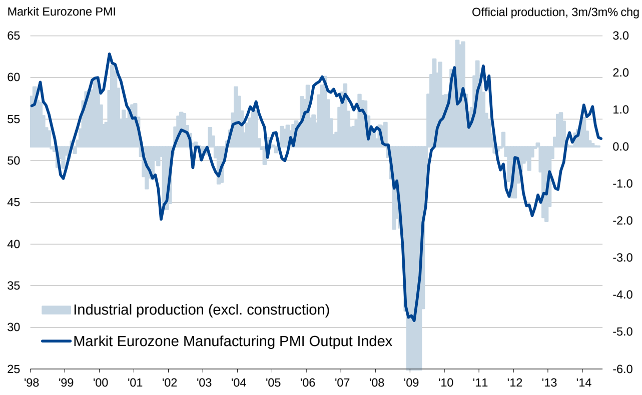
ECB unfazed by second quarter woes

The disappointing performance of the economy in the second quarter will do little to affect policy. ECB President Mario Draghi has already largely dismissed the weakness to temporary factors, notably a higher than usual number of holidays having not been accurately reflected in the seasonal adjustment of data (this was due to some public holidays falling on a Thursday, meaning many people also took the Friday off to bridge the gap with the weekend).

While there are signs from the PMI surveys that the pace of economic growth remained frustratingly weak at the start of the third quarter, the ECB wishes to assess the impact of June's stimulus measures before committing to new action. This could include asset purchases. However, it seems that the bar to further stimulus remains high. Not only does the ECB emphasise that prior stimulus should boost growth and inflation sufficiently, but Draghi continues to stress that national governments need to speed up structural reforms.

The extended weakness of the industrial sector in June, and the subdued PMI readings in July, will surely have caused some concern that the recovery is faltering.

Eurozone industry



Sources: Markit, Eurostat via Ecowin.

The main risk is that the events in the Ukraine could escalate and derail the current fragile recovery, though as yet there is little hard evidence to show any significant impact of the crisis on the real economy.

In the detail of the industrial production report, the decline in June was led by a 1.9% drop in output of non-durable consumer goods, compounded by a 0.7% drop in energy production. More reassuringly, output of long lasting, durable consumer goods rose by 2.3%. Production of machinery and equipment was meanwhile stable.

Periphery beating core

Output was up 0.2% in Germany, failing to revive from a 1.5% slump in May, but rebounded in France and Italy. France saw a 1.4% increase after production collapsed 1.3% in May, while production in Italy rose 0.9% in June to help offset the 1.2% decline seen in May.

Spain, however, saw output fall for a second month running, down 0.8% after a similar decline in May.

The largest declines were seen in Ireland and the Netherlands, however, where output slumped 16.5% and 3.0% respectively.

Over second quarter as a whole, Germany saw production slide 1.0% compared to the first three months of the year and France saw a 1.2% drop. A more modest decline of 0.4% in Italy left Spain as the only one of the big-four eurozone economies to see production rise in the second quarter, up 0.7% on the first quarter.

The official data therefore follow the broad pattern of recent PMI surveys, which show that some of the so-called 'periphery' member states are now performing better than the core countries of France and Germany.

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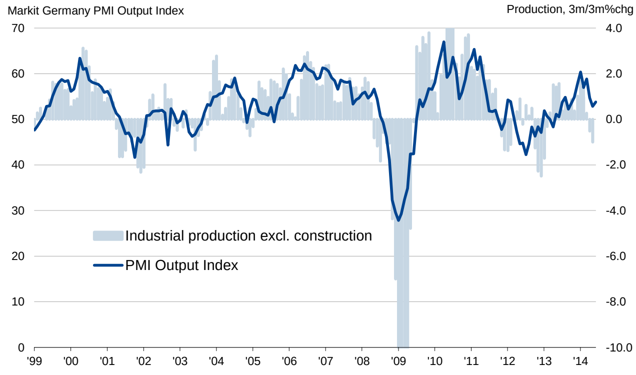
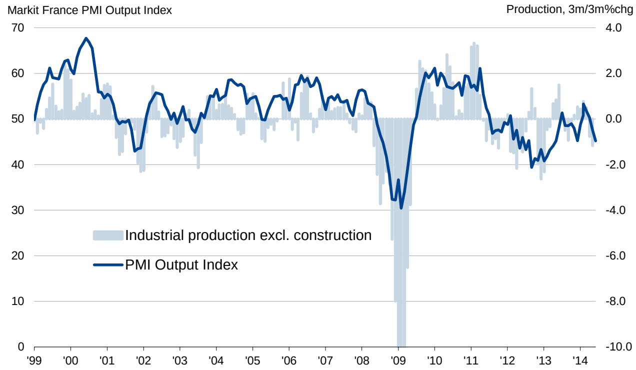
Germany



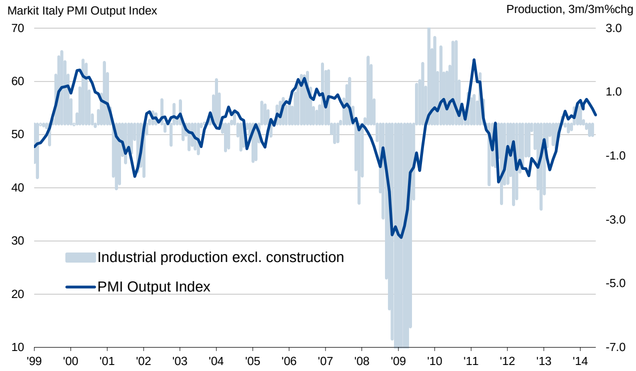
Source: Markit, Ecowin.

France



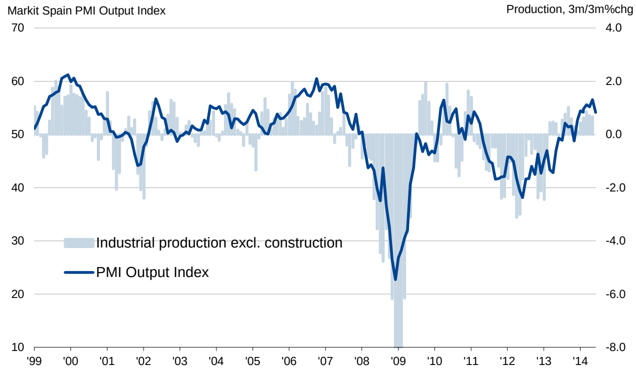
Source: Markit, Ecowin.

Italy



Source: Markit, Ecowin.

Spain



Source: Markit, Ecowin.