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# Eurozone

## Industrial production falls more than expected in January

- **Industrial production slides 0.4% in January**
- **Three-month-on-three-month rate of decline shows signs of easing**

Eurozone industry fared worse than expected in January, but the underlying trend in the sector is one of a moderating, albeit still severe, downturn.

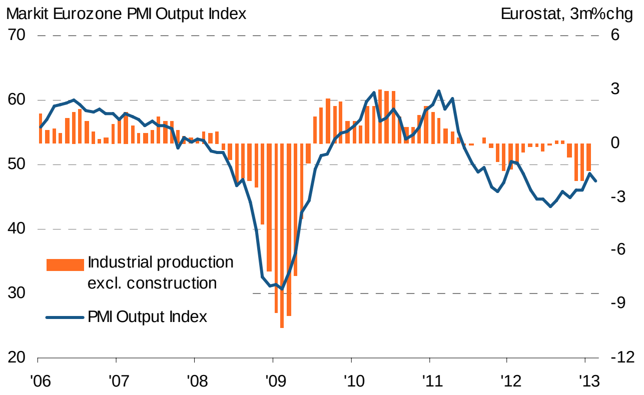
Industrial production fell more than expected across the eurozone in January, dropping 0.4% compared with analysts' expectations of a 0.1% decline, according to official data from Eurostat. The 'miss' against expectations is something of a surprise to us, given the Markit Eurozone Manufacturing PMI remained deep in contraction territory in January, albeit rising to an 11-month high of 47.9.

Despite the fall, there are some signs in both the official data and the PMI which suggest that the industrial sector is slowly pulling out of its downturn. The monthly official data are volatile – December had seen a 0.9% increase in output following steep declines in prior months – and the more reliable three-month trend shows output falling in January at the slowest rate since October. A 1.5% drop in output in the three months to January compares favourably to the 2.1% drop in production seen in the fourth quarter, suggesting that both official and survey data are now indicating that the region's downturn has eased rather than intensified at the start of 2013. A smaller drop in gross domestic product (GDP) is likely to be seen in the first quarter compared with the 0.6% decline seen in the final quarter of last year, with a 0.2% contraction signalled by the data available so far.

### Longer wait for stability?

A concern is that, although improving on late last year, a dip in the Manufacturing PMI Output Index in February suggests that the downturn has stretched beyond January, which raises the risk that the euro area economy may not see stabilisation until the second half of the year. It still seems unlikely, however, that this slower than expected stabilisation will spur the ECB into cutting its main policy rate from the current all-time low of 0.75% at its next meeting. It is more likely that policymakers will at least wait to see how the economy is faring in February and March, when a clearer picture emerges of whether the downturn is worsening or if the recent disappointments merely represent noise in data around the turn of the year. And even then a rate cut is by no means assured.

**Eurozone industrial production**




Sources: Markit, Eurostat.

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## Production by country

% change in industrial production in latest 3 months v prior 3 months