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**Markit Economic Research**

13/02/2013

# Eurozone

## Industrial production suffers steepest quarterly fall since early-2009

- **Better-than-expected growth of production in December fails to avert steep quarterly decline**
- **Further sign of GDP having fallen at increased rate in Q4**
- **Uplift in December and PMI data suggest worst is over**

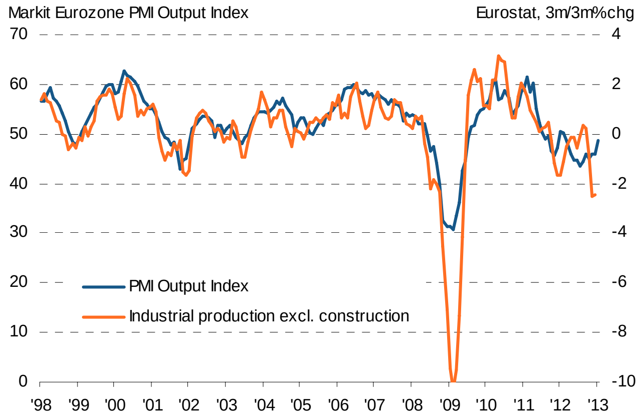
Industrial production rose across the euro area in December, but the increase follows steep falls in each of the previous three months and care should therefore be taken in interpreting this single data point as the start of a recovery. The data nevertheless add to survey evidence which suggest that the region's economy is showing signs of being on the mend and that prospects have brightened considerably since late last year.

Industrial production in the eurozone rose 0.7% in December, according to official data from Eurostat, far better than analysts' expectations of a 0.2% rise. The increase merely made up for a 0.7% drop in output in November, however, and failed to prevent the region seeing the steepest quarterly drop in production since the first quarter of 2009 in the final three months of the year, a 2.4% decline. By contrast, the sector grew 0.2% in the third quarter.

The industrial sector is therefore likely to have acted as a serious drag on the overall economy late last year, meaning the euro area's double-dip recession deepened. GDP is likely to have fallen by at least 0.4%, dropping for a third consecutive quarter.

The final quarter of last year was clearly a tough time for producers across the region, with output falling in all major countries. Compared to a year ago, the steepest declines were seen in Spain and Italy, where production in December was down 6.9% and 6.6% respectively. However, while production in France and Germany was down a far more modest 2.1% and 0.7% respectively on last year, the quarterly rates of declines in these two 'core' countries were the fastest since the first quarter of 2009.

**Eurozone**




### Overstated Q4 decline?

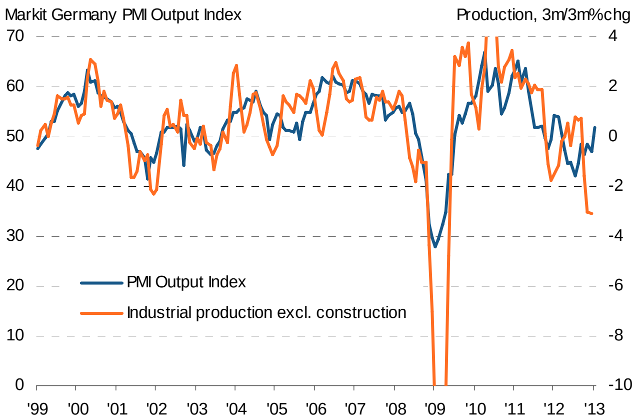
It is likely that the 2.4% decline in industrial production in fact overstates the extent to the weakening of the industrial sector at the end of last year. Comparison charts of PMI data against industrial production show the PMI tends to provide a smoother guide to the trend in the economy compared to the more volatile official data, and recent months have been no exception. We had noted back in November that the resilience of the economy in the third quarter, when production rose 0.2%, was most likely due to temporary factors, possibly also linked to seasonal adjustments. We also argued that payback from this resilience compared to the PMIs was likely in the fourth quarter. We estimate that the true underlying trend in the industrial sector in the second half of last year was for output to have contracted by 1.1% in the third quarter followed by a 0.9% contraction in the fourth quarter. However, while showing a different trend that would still leave production at around the same level as the official indicated at year-end.

### Brighter New Year

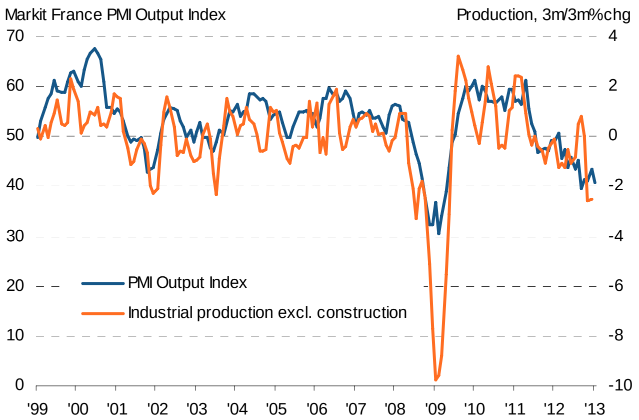
Prospects are looking better for the first quarter of 2013. While caution needs to be exercised in welcoming the improvement in the volatile official monthly data in December, the upturn follows the news that companies responding to Markit's PMI surveys reported the smallest drop in business activity for ten months in January, led by reports of increased production in Germany, the Netherlands and Ireland. On the current trajectory, a return to growth could be seen by the second quarter.

The worry is that signs of improvements are by no means universal, and skewed heavily towards Germany. Of greatest concern is France, which appears to be bucking the wider trend and suffering an increased rate of decline at the start of 2013.

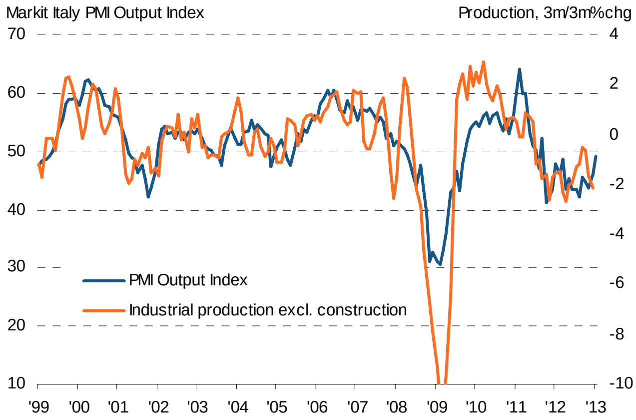
### Germany



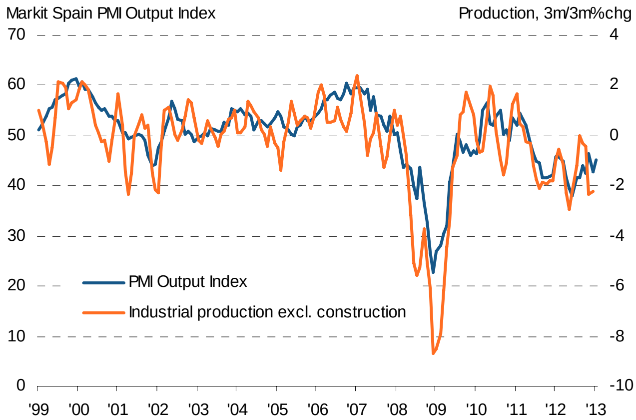

### France




### Italy




### Spain

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