

Eurozone

Eurozone industry grows twice as fast as expected in April

- Eurozone industrial production up 0.8% m/m in April, +1.4% on a year ago
- Strong gains seen in the periphery, France lags
- Region on course for 0.5% GDP rise in Q2

The euro area recovery gathered significant momentum in April, with a much stronger than expected rise in industrial production adding to signs that economic growth picked up at the start of the second quarter. Strong gains in the periphery provided particularly welcome news that the recovery is broadening out across the region, but the weak performance of France remains a major concern.

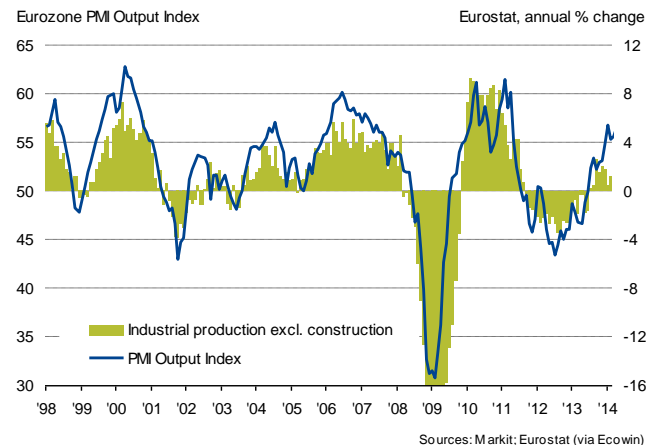
Data from the official statistics body Eurostat showed industrial production across the region rising by 0.8% in April, double analysts' average expectations of a 0.4% rise, according to a poll by Reuters. Compared to a year ago, output was 1.4% higher in April.

The strong increase in production had been flagged ahead by Markit's PMI survey data, which also indicate that the expansion continued into May. The survey and official data point to industrial production rising by as much as 0.7-0.8% in the second quarter.

Combined with the robust pace of expansion seen in the service sector (the services PMI hit a 35-month high in May), the stronger performance of the industrial sector means GDP growth should accelerate to around 0.5% in the second quarter. This would be the fastest growth seen for three years and would provide reassurance that the recovery remains on a firm footing after the disappointing 0.2% GDP increase seen in the first three months of the year.

Given the stimulus measures announced by the ECB last week, growth should strengthen further as we move into the second half of the year. Even if (as many suspect) the policy measures themselves turn out to be less effective than policymakers hope, the very fact that the ECB is prepared to act should help foster greater confidence in the economic outlook among business and households.

Eurozone production and the PMI



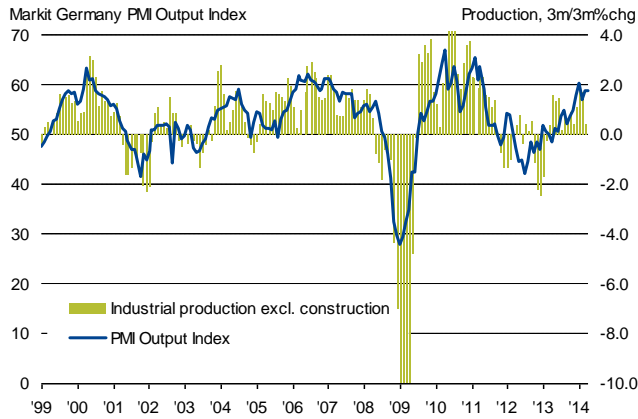
Peripheral boost

It was the 'periphery' which saw some of the strongest gains, highlighting how the previously struggling countries are now seeing an economic revival. Production rose 2.1% in Ireland, 1.7% in Spain and 0.7% in Italy. Even Greece saw a 0.9% rise. Portugal was the stand-out performer, however, with growth hitting 6.7% in the previous month. The Netherlands saw a 3.5% gain, while Germany recorded a more modest but still reasonable 0.4% increase in production. France continued to act as a major drag on the region's overall performance, recording a mere 0.1% rise.

The improving data flow, especially in the periphery, underscores how the greatest near-term risks to the eurozone recovery are perhaps now political rather than economic, notably the growing lack of political cohesion in Europe and the crisis in Ukraine.

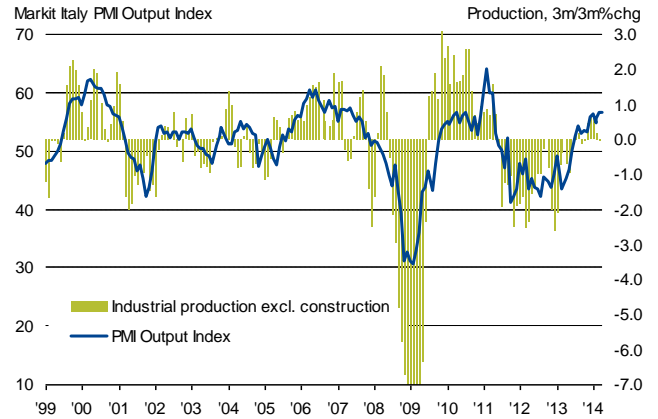
See over for country charts.

Germany



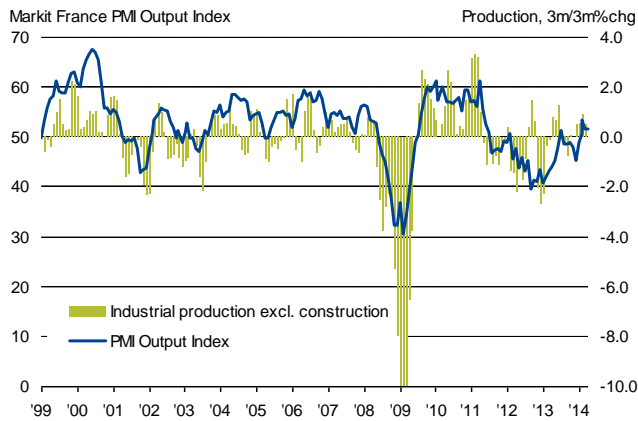
Sources: Markit, Ecwin.

Italy



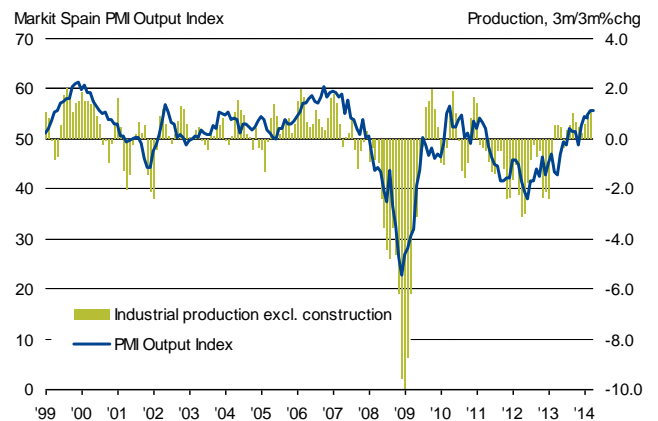
Sources: Markit, Ecwin.

France



Sources: Markit, Ecwin.

Spain



Sources: Markit, Ecwin.

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