

Eurozone

Industry rebounds in August, adding to survey signs of recovery

- **Factories rebound with 1.0% output rise in August...**
- **...but production still 12.5% below 2008 peak**

Production in eurozone factories rebounded in August, but the upturn merely brought output back to June's level, which was still some 12.5% below its April 2008 pre-crisis peak. The upturn is nevertheless an encouraging sign that the sector is slowly recovering, following the trend of gradual improvement recorded by the business surveys.

The surveys suggest that production will have increased again in September (the PMI survey's output index signalled an expansion of production for the third month running), and ongoing growth of new orders is consistent with further production gains as we move into the fourth quarter.

Third quarter still negative

In the detail, industrial production in the euro area rose 1.0% in August, according to [Eurostat](#), registering the strongest monthly rise for two years. However, the increase needs to be looked at in the context of a 1.0% decline in July, and production in the third quarter so far is on average 0.1% below the average seen in the second quarter. This disappointing decline in part reflects a pay-back from stronger than anticipated growth in the second quarter, when production increased 0.7%, and should not be seen as a reversal of the recovery trend. We suspect that the second quarter was buoyed temporarily by an improvement in the weather from harsh conditions earlier in the year, as well as by stock building.

Policymakers will be encouraged by the ongoing recovery trend, but will be reminded of the huge surplus of capacity that persists compared to before the crisis struck, which means any growth is unlikely to ring inflationary alarm bells for quite some time.

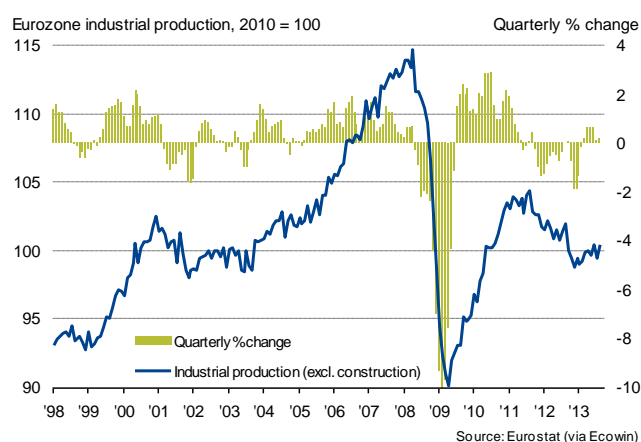
Periphery recovering

The August rise was driven by a 1.8% surge in production in Germany, and the first – albeit modest

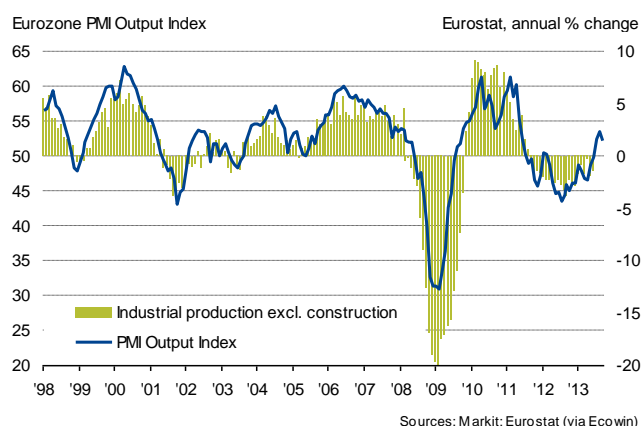
(0.2%) increase in output in France for four month. However, the official data are also starting to confirm the trend shown in the survey data, of the region's periphery joining in the nascent recovery. Output rose 8.2% in Portugal, 1.0% in Greece and 0.1% in Spain. Rates of decline meanwhile moderated in Italy and Ireland.

Although the strong volatility in the official data prevent us from drawing any firm conclusions about underlying growth momentum, Markit's latest [Eurozone PMI](#) showed that the rest of the region outside of France and Germany enjoyed its strongest pace of expansion since early-2011.

Eurozone industrial production



Eurozone production: official and survey data



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