

Eurozone

Industrial production falls in May but sector showing signs of stabilising

- **Industrial production falls 0.3% in May**
- **Sector nevertheless still showing signs of stabilising, albeit well below pre-crisis peak**

Eurozone industrial output fell more than expected in May, but PMI data suggest the sector could stabilise in coming months. Slowing global demand presents a challenge to Eurozone producers, however, suggesting growth could remain weak for some time.

Official data showed industrial production falling 0.3% across the euro area in May. Analysts were expecting a 0.2% decline. The drop leaves production some 12.7% below its pre-crisis peak.

Although disappointing, the latest fall comes after three months of continual growth. Output in the latest three months was consequently 1.1% higher than in the prior three months period. This was the fastest 'quarterly' rate of growth seen since February 2011 and compares with a mere 0.2% increase in the first quarter.

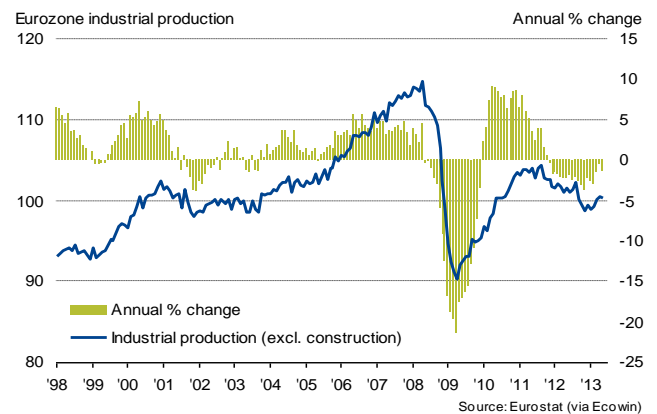
However, before we get too excited about this 'return to growth', it seems likely that the upturn in this three-month growth rate is overstating the health of the sector somewhat. We notice that the official data have been very volatile over the past year, and especially more so than the PMI business survey data. A comparison of the PMI with the three-month official growth rate, for example, shows output fell to a markedly greater degree than signaled by the PMI around the turn of the year; a downturn from which the sector now seems to be rebounding to a commensurately greater extent than the growth rate the PMI is consistent with.

Comparing the PMI with the annual rate of change in the official data paints a far more consistent picture of both survey and official statistics, pointing to a steady stabilisation of the industrial sector. The PMI's output Index rose to 48.8 in May and hit 49.8 in June, coming in just below the no change level of 50, recording the highest reading since March of last year. The annual rate of decline in the official data was meanwhile 1.3%

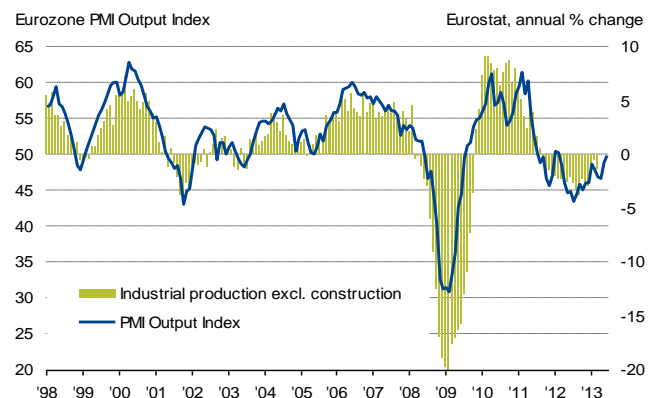
in May. Although worse than the 0.5% drop seen in April, the annual rate of decline has eased sharply compared to the 3.7% fall seen last November – largely mirroring the easing trend seen in the PMI.

Both the PMI and the more-stable annual rate of change in the official data therefore give hope for a possible stabilisation of the industrial sector as we move into the third quarter. The concern is, however, that [global demand has entered another soft patch](#) – largely reflecting weaker growth in the US and China, while at the same time UK and Japanese exporters are benefitting from depreciated currencies. Eurozone goods producers are therefore operating in an increasingly tough external environment at the same time as domestic demand remains subdued by record high unemployment.

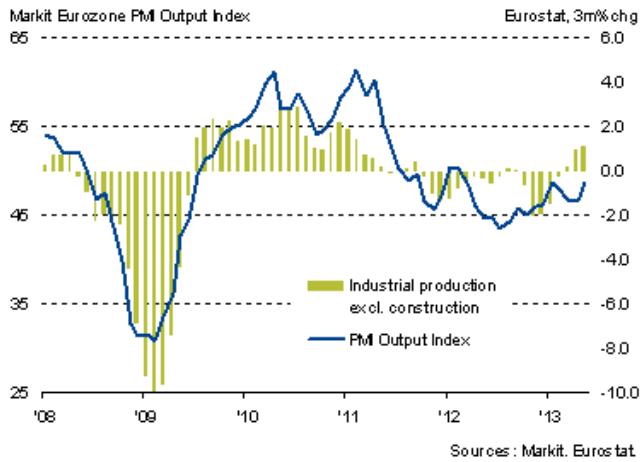
Industrial production



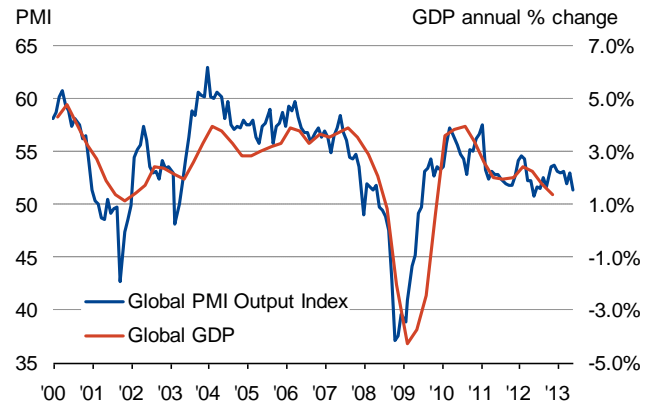
Industrial production: annual growth rate



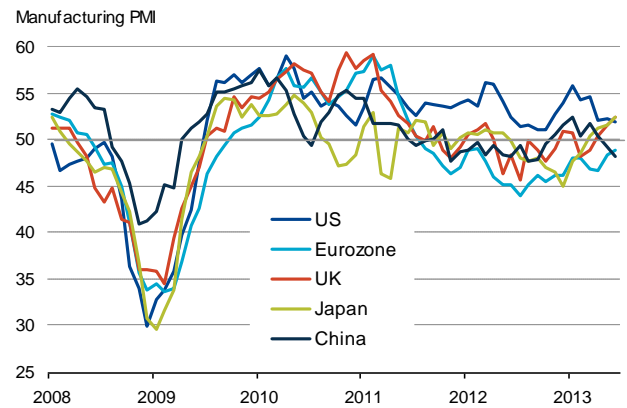
Industrial production: three-month growth rate



Global growth has slowed



Manufacturing comparisons



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