

## Eurozone

### Industrial production rebounds in July, but trend weakens in line with surveys

- **Industrial production rebounds 1.0% in July**
- **Upturn signals modest recovery after Q2 soft patch**
- **But underlying trend has softened to match renewed weakness in business surveys**

Eurozone industrial production rebounded in July, but the upturn masks an underlying trend of an economy that continues to struggle.

Official data from Eurostat showed that industrial production rose 1.0% in July, representing the first increase in production since April. The data provide hope that the economy will have picked up in the third quarter, rebounding from the stagnation seen in the second quarter which, we have argued, was affected by growth being subdued by special factors, including extra holidays.

The statistics body also said that employment rose 0.2% in the second quarter, improving on the 0.1% rise seen in the first three months of the year.

However, while a rebound in the economy may be on the cards, third quarter growth is likely to be modest at best.

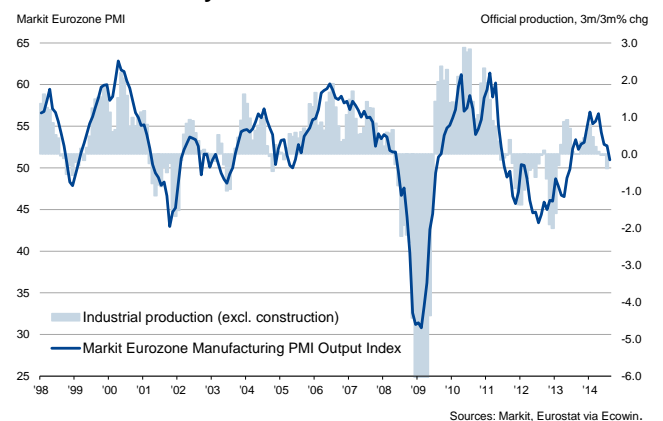
#### Modest rebound

Importantly, the monthly data can be volatile, meaning it would be dangerous to put too much emphasis on one month's improved performance as an indicator of the growth trend.

Instead, looking over the past three months, which provides a better guide to the underlying trend, the data show that output was 0.4% lower than in the prior three-month period. It could be argued that this includes the weak month in May, when production slumped 1.1% due to the higher than usual number of holidays, meaning the extent of the downturn may be somewhat exaggerated. However, a simultaneous easing in the pace of expansion signalled by Markit's PMI data add weight to the view that factories across the euro area as a whole are struggling in the face of

subdued domestic demand in many countries, as well as damage to demand caused by the crisis in Ukraine.

#### Eurozone industry



The August PMI surveys in fact pointed to the weakest rise in pan-eurozone output since June of last year.

It is hoped that additional stimulus announced by the ECB in June and earlier this month will help revive the industrial sector in coming months, meaning the underlying trend may start to improve as we move towards the end of the year. However, any further deterioration will boost calls for the ECB to take further action in the form of full-scale quantitative easing, including purchases of government debt.

#### Chris Williamson

##### Chief Economist

Markit

Tel: +44 207 260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

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