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Eurozone industry is slowly slipping as the Middle East conflict continues

For the third month in a row, industrial production declined in the eurozone. While manufacturers remain upbeat about output, production data paints a less rosy picture. Industry may not be immune to higher energy prices and global uncertainty after all



Eurozone industry may not be quite so immune to global uncertainty after all. We expect higher energy prices to continue weighing on production over the coming months

After a surprisingly strong start to the year despite the war in the Middle East, production data has weakened in recent months. The 0.5% decline in August compared to July was the third monthly decline in a row. The start of the year saw Europe profiting from a relative improvement in energy costs compared to Asia, which boosted production briefly in energy-intensive industries. That effect has clearly faded, with production in the chemical sector now 1.7% lower than in January.

The car sector has seen a significant decline in production since June, which also holds true for the pharmaceutical sector. This weighs significantly on overall production numbers.

On the other hand, computer and electronic products continue to perform well, and so has

machinery production in recent months, boosted to a significant degree by Dutch chip machine manufacturing. This shows that the tech cycle is also boosting production in the eurozone, albeit to a much smaller degree than in the US, for example.

For the months ahead, we expect that continued high energy prices will weigh more on production, especially with natural gas prices now much higher than in the spring. At the same time, manufacturer optimism reveals that the order pipeline is expected to remain decent. With tech and public investments expected to continue, expectations of a modest growth outlook remain.

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