

# EUROPEAN DATA RESPONSE

14<sup>th</sup> Dec. 2011



## Euro-zone Industrial Production (Oct.)

### A bad start to Q4

- **October's euro-zone industrial production data add to evidence that the wider economy may have contracted pretty sharply in Q4.**
- Admittedly, the 0.1% monthly fall in production in October was a little better than the consensus expectation of a 0.3% drop. **But given that production fell by 2% in September, the level of output in October is well below the average for Q3.**
- **The country data also painted a fairly bleak picture.** The monthly drop in Italian output of 0.9% followed September's plunge of 4.6%. Meanwhile, although production expanded in Germany and Portugal, these rises only partially reversed the sharp falls recorded in September. By contrast a 6.6% monthly rise meant that Irish production rose to a new record high. So for now at least, Ireland appears to be weathering the slowdown rather better than its neighbours.
- Looking ahead, if euro-zone production remained unchanged in November and December, output would fall by 1% over Q4 as a whole. This would be far weaker than Q3's 0.7% rise and the first quarterly decline since Q2 2009. This alone would knock around 0.4 percentage points off GDP growth in Q4 relative to Q3. Given that GDP expanded by just 0.2% in Q3, the wider economy may now be shrinking.
- **Note, though, that the recent deterioration in the business surveys of industrial sentiment and activity suggests that industrial output may fall further over the rest of Q4.** The manufacturing PMI, which tends to be a pretty good predictor of industrial production growth, now points to pretty sharp annual falls in output. (See Chart.)
- **Given the recent intensification of the debt crisis, the more domestically-focused sectors of the economy are clearly in no position to pick up the slack. Accordingly, we expect the likely fall in GDP in Q4 to mark the beginning of another deep recession.** Indeed, we continue to think that the economy will contract by about 1% next year, far gloomier than the consensus forecast.

Ben May

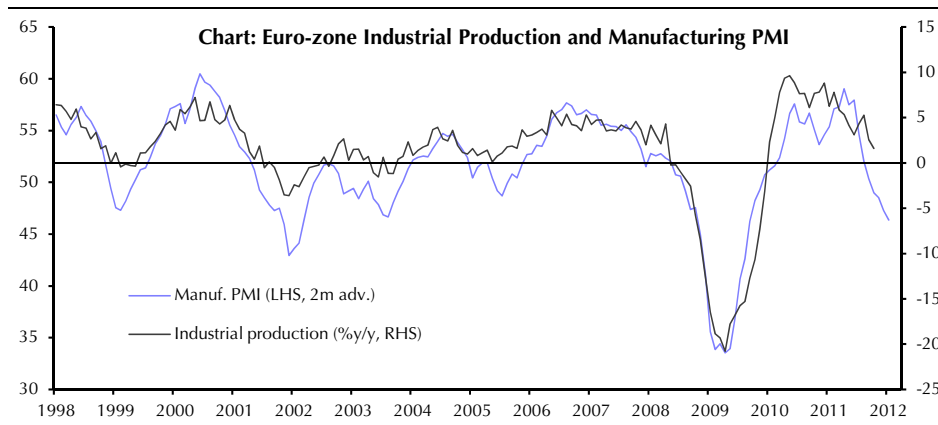
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### EURO-ZONE INDUSTRIAL PRODUCTION

	By Sector						
	Industrial Production		Intermediate Goods	Energy	Capital Goods	Durable Consumer Goods	Non-Durable Consumer Goods
	%m/m	%y/y	%m/m	%m/m	%m/m	%m/m	%m/m
Jul	0.9	4.4	0.6	0.2	2.9	3.6	-0.7
Aug	1.3	6.0	1.4	1.0	2.3	-0.1	1.7
Sep	-2.0	2.2	-2.2	-1.6	-3.9	-3.4	-1.4
<b>Oct</b>	<b>-0.1</b>	<b>1.3</b>	<b>-0.8</b>	<b>-0.9</b>	<b>1.2</b>	<b>-0.4</b>	<b>0.6</b>