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Western European Indicators and Insights

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EUROZONE: Output fall afresh?

Coming in a little worse than expected, Eurozone industrial production dropped afresh in December, with the 1.1% M/M being the largest decline since the 2.1% slump seen in September, albeit with numbers in the interim having been largely unchanged. The sector break-down also brought mixed messages in December, with a slump in energy being the main factor (surely a result of the warm weather through the month), this offsetting a slight rise in durable consumer goods production. Meanwhile, in Y/Y terms, output growth turned negative at -2.0%, still the lowest since the end of 2009.

Notably, there was also worse news regarding output in only some of the peripheral economies, with bleaker numbers in Portugal and Greece (the latter arriving alongside much weaker Q4 GDP for both countries, particularly Greece).

It could be argued that a clearly weaker undertone is very much evident, with Q4 output already down almost 2% below the Q3 average, auguring poorly for GDP last quarter (these numbers arriving on Wednesday, with a result slightly below the 0.4% drop envisaged by the consensus on the cards. Regardless, the production data help underscore the very high likelihood that the Eurozone entered recession last quarter, but also that activity is far from being in freefall despite the apparent soggy ending to the quarter in the factory sector.

In other words, while downside risks may be amassing, the extent to which they may actually be materializing is still limited, with it notable that these official production updates have yet to corroborate the much more downbeat picture seen in survey data at least prior to the recovery in the latter seen of late. Indeed, survey data seem to be offering a more upbeat message if the latest ZEW results are anything to be believed.