

Europe Flash

Industrial production drops sharply in the dawn of Q4

Bottom line: In September, activity in industry decreased for the first time in Q3, losing 2% m/m, and might continue deteriorating in the near future, as PMI surveys already indicated earlier this month. The peripheral countries are suffering the most overall, but Germany did not escape a steep fall in production in September. Nevertheless, Q3 remained on average in expansion territory, recording a slight improvement over the previous quarter. Our updated MICA model continues pointing to flat GDP growth in the quarter, with downside risks now well established.

- September saw a worse than expected contraction, but economic activity remains positive in Q3**

Industrial production in September shrunk by -2% m/m, somewhat more than expected (Consensus: -1.5% m/m, BBVA: -1.8% m/m), after rising 1.4% m/m in August. A decomposition by sector reveals that the steepest fall was observed in capital goods (-4.2%), followed by durables (-3.8%), intermediate goods (-2.2%), energy (-1.4%) and non-durables (-1.3%). On a yearly basis, activity was up 2.2%, with the durable goods and energy segments registering losses (-1.3% and 2.9% respectively), whereas capital, intermediate and non-durable goods all grew (+5.7%, +2.0%, +0.6%). In Q3 as a whole, IPI increased by +0.9% q/q, after growing by +0.4% q/q in Q2. Thus, data continues suggesting a slight positive quarterly GDP growth in Q3.

- Periphery together with Germany are taking the lead in recent losses**

On a country comparison, the euro area member states that experienced the largest drops in production over the last month were Portugal (-5.8%), Italy (-4.8%), Ireland (-3.5%) and Germany (-2.9%) (see chart 1).

- Industrial activity in line with our MICA model forecasts**

After being updated with the latest industrial production figures, our MICA model for quarterly GDP barely changes. For the last quarter of 2011, we now estimate a GDP growth of -0.03% q/q versus +0.02% q/q previously expected. In addition, if incoming data continue to be as bad as anticipated, MICA could predict even negative figures for Q4.

- Hard data confirms earlier «soft» signals for a pessimistic start in Q4**

The results of the PMI surveys for October, released earlier this month, have already pointed to deteriorating economic activity in the beginning of Q4, which together with the latest hard data for September could be translated to an anticipated recession by the end of the year.

Chart 1

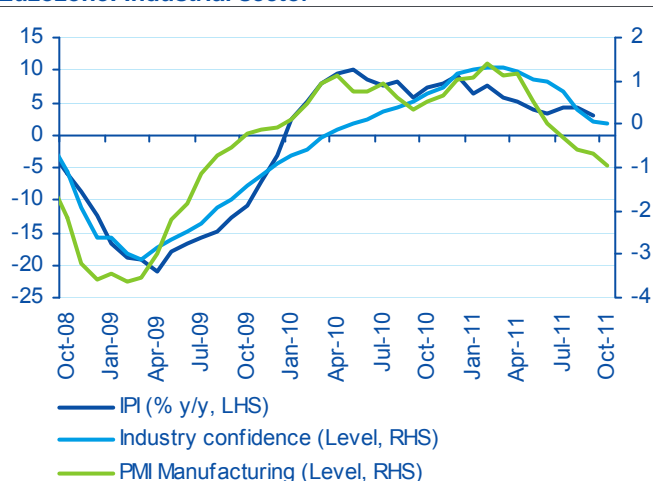
Eurozone: Industrial Production, excl. Construction

		May-11	Jun-11	Jul-11	Aug-11	Sep-11
Eurozone	% m/m	0.3	-0.6	1.1	1.6	-2.0
	% y/y	4.3	2.8	4.4	6.0	2.2
Germany	% m/m	0.8	-0.6	3.2	-0.3	-2.9
	% y/y	7.4	7.3	10.6	8.6	5.5
France	% m/m	1.8	-1.6	1.6	0.5	-1.9
	% y/y	3.2	2.0	3.3	5.4	2.3
Italy	% m/m	-0.6	-0.6	-0.6	3.9	-4.8
	% y/y	1.8	0.1	-1.1	4.7	-2.7
Spain	% m/m	0.5	-0.9	-0.5	1.2	-1.3
	% y/y	0.0	-1.9	-2.4	0.0	-1.8
Portugal	% m/m	3.2	-3.1	-3.1	8.5	-5.8
	% y/y	-0.2	-2.7	-4.4	-1.5	-2.0
Greece	% m/m	0.8	-2.1	4.3	-1.2	0.1
	% y/y	-10.1	-13.9	-3.0	-12.0	-2.3
Ireland	% m/m	0.3	-1.5	1.5	4.4	-2.9
	% y/y	0.0	3.3	4.9	10.1	10.2

Source: Eurostat and BBVA Research:

Chart 2

Eurozone: Industrial sector



Source: Eurostat and BBVA Research:

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