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Eurozone industrial output shrinks

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By Ralph Atkins in Frankfurt

Eurozone industrial output contracted significantly late last year, foreshadowing grim economic growth data for the fourth quarter, due for release on Wednesday.

Industrial production across the 17-country bloc fell by 1.1 per cent in December, compared with the previous month, according to Eurostat, the European Union's statistical office. The drop added to evidence that the escalating eurozone debt crisis had had a significant impact on the real economy towards the end of 2011.

Eurozone gross domestic product is thought to have contracted by about 0.4 per cent in the fourth quarter compared with the previous three months. That could herald the start of a technical eurozone recession – two consecutive quarters of falling GDP.

The slowdown has been sharpest in southern Europe. Portugal on Tuesday reported a fifth consecutive quarter-on-quarter contraction in growth, with GDP falling by 1.3 per cent in the final three months of last year. Portuguese GDP was 2.7 per cent lower than a year before.

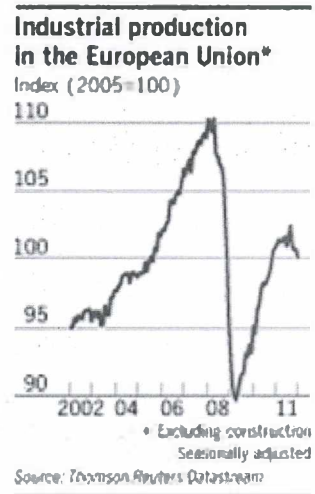
Separately, Greece said fourth-quarter GDP was 7 per cent lower than the same period a year before.

More recent survey data have led the European Central Bank to spot signs of "stabilisation" across the eurozone, and Germany's economy – the region's largest – is already showing signs of rebounding. The Mannheim-based ZEW economic institute reported on Tuesday that its indicator of German investor sentiment – used to predict economic turning points – had turned positive for the first time since May last year.

However, Martin van Vliet, economist at ING, warned that "with the fiscal squeeze set to intensify and the debt crisis unresolved, any upturn in eurozone industrial activity will probably be modest". He forecast "an arduous and long road to recovery – production is currently almost 11 per cent below its 2008 peak."

Since late last year, eurozone industry has been supported by a weaker euro, which may have boosted exports, while the ECB's provision of €489bn in three-year loans to banks in December could in the coming months soften the impact of a "credit squeeze" across much of southern Europe.

Details of the industrial production data showed Germany accounted for much of December's fall, reporting an exceptionally large 2.7 per cent drop compared with November.



Overall eurozone industrial production in the fourth quarter was about 1.8 per cent lower than in the third quarter.

Marco Valli, European economist at UniCredit, said the weakness was concentrated in the production of consumer goods. Production of investment goods, reflecting trends in capital spending, fell by a smaller -than-expected 1.3 per cent over the quarter.

"This suggests that companies did scale back their investment plans at the end of 2011, but probably not as aggressively as many had feared."

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