Output down in October

Industrial production fell significantly in October, decreasing by 1.1% on a monthly basis, down for the second month in row. Today’s data remind us that the recovery is still fragile and needs to be strengthened. Against a backdrop of low inflation and weak recovery, further actions from the ECB are likely.

- In October industrial production fell by 1.1%, down for the second month in a row. The weakness was widespread, with activity contracting in all sectors but intermediate goods. By country output fell in all major economies with the only expectation of Italy, where output increased for the second month in row.
- On a three month rate of change, a better gauge of its underlying trend, industrial production was stable. This suggests that the recovery, for the time being, is failing to gather pace. Survey data, mainly the PMIs, have been signalling indeed that activity is growing but is not peaking up. The new orders-to-inventory ratio, a good leading indicator of activity within the manufacturing sector, has just stabilised over recent months.
- We currently expect GDP to increase by 0.3% q/q in the last quarter of the year. However, the release of hard data is challenging this outlook. Even assuming a moderate growth, industrial output, highly related to GDP growth, is likely to contract by more than 0.5% q/q (assuming zero growth in the last two months of the quarter, industrial output would contract by almost 1% q/q). Nonetheless, activity in the services sector might offset the industrial weakness. This is the message coming from the business confidence indicator from the European Commission Survey. However, the recovery suggested by the activity index of the PMI survey is less pronounced.
- To sum up, today data were everything but buoyant, reminding us that the recovery is still fragile. Hard data suggest that activity is losing momentum also in core countries, namely in Germany, even though survey data signal a strong growth going forwards (see EcoFlash Germany: Industrial output surprise on the downside in October, on 10/12/2013). The recovery has to be strengthened and needs further doses of the ECB medicine.

Clemente DE LUCIA
clemente.delucia@bnpparibas.com

Baisse de l’activité en octobre

La production industrielle s’est contractée significativement en octobre, perdant 1.1% sur le mois. Ceci est la deuxième baisse consécutive. Les données publiées aujourd’hui nous rappellent que la reprise reste fragile et a besoin d’être soutenue. Dans un contexte de baisse inflation et faible reprise, d’autres actions de la BCE sont possibles.

- Fragile recovery
  - Industrial production (3mma);
  - New orders to inventory ratio

Sources : Eurostat, Markit

Data in details

<table>
<thead>
<tr>
<th>October 2013</th>
<th>m/m**</th>
<th>3m/3m</th>
<th>yy***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurozone</td>
<td>-1.1</td>
<td>-0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Germany</td>
<td>-1.2</td>
<td>-0.7</td>
<td>1.1</td>
</tr>
<tr>
<td>France</td>
<td>-0.3</td>
<td>-0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Spain</td>
<td>-0.8</td>
<td>0.2</td>
<td>-0.7</td>
</tr>
<tr>
<td>Italy</td>
<td>0.5</td>
<td>0.2</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Breakdown

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate goods</td>
<td>0.4</td>
<td>0.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Energy</td>
<td>-4.0</td>
<td>-1.8</td>
<td>-3.4</td>
</tr>
<tr>
<td>Capital goods</td>
<td>-1.3</td>
<td>0.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>-1.4</td>
<td>-0.2</td>
<td>-3.4</td>
</tr>
<tr>
<td>Durable</td>
<td>-2.4</td>
<td>-2.0</td>
<td>-5.4</td>
</tr>
<tr>
<td>Non-durable</td>
<td>-0.9</td>
<td>-0.1</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Source: Eurostat. *Total industry excluding construction. ** SA. ***WDA
ECONOMIC RESEARCH DEPARTMENT

Jean-Philippe COTIS
Chief Economist
+33.(0)1.55.77.47.31
jean-philippe.cotis@bnpparibas.com

OECDE COUNTRIES

Jean-Luc PROUTAT
Head
+33.(0)1.58.16.73.32
jean-luc.proutat@bnpparibas.com

Alexandra ESTIOT
Deputy Head – Globalisation, United States, Canada
+33.(0)1.58.16.81.69
alexandra.estiot@bnpparibas.com

Hélène BAUDCHON
France, Belgium, Luxembourg
+33.(0)1.58.16.03.63
helene.baudchon@bnpparibas.com

Frédérique CERISIER
Public finance – European institutions
+33.(0)1.43.16.95.52
frederique.cerisier@bnpparibas.com

Clemente DelUCIA
Euro zone, Italy - Monetary issues - Economic modeling
+33.(0)1.42.98.27.62
clemente.delucia@bnpparibas.com

Thibault MERCIER
Spain, Portugal, Greece, Ireland
+33.(0)1.57.43.02.91
thibault.mercier@bnpparibas.com

Caroline NEWHOUSE
Germany, Austria - Supervision of publications
+33.(0)1.43.16.95.50
caroline.newhouse@bnpparibas.com

Catherine STEPHAN
United Kingdom, Switzerland, Nordic Countries – Labour market
+33.(0)1.55.77.71.89
catherine.stephan@bnpparibas.com

Raymond VAN DER PUTTEN
Japan, Australia, Netherlands - Environment - Pensions
+33.(0)1.42.98.53.99
raymond.vanderputten@bnpparibas.com

Tarik RHARRAB
Statistics
+33(0)1.43.16.95.56
tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

Laurent QUIGNON
Head
+33(0)1.42.98.56.54
laurent.quignon@bnpparibas.com

Delphine CAVALIER
+33(0)1.43.16.95.41
delphine.cavalier@bnpparibas.com

Céline CHOULET
+33(0)1.43.16.95.54
celine.choulet@bnpparibas.com

Laurent NAHMIA
+33(0)1.42.98.44.24
laurent.nahmias@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François FAURE
Head
+33(0)1.42.98.79.82
francois.faure@bnpparibas.com

Christine PELTIER
Deputy Head - Methodology, China, Vietnam
+33(0)1.42.98.56.27
christine.peltier@bnpparibas.com

Sylvain BELLEFONTAINE
Latin America - Methodology, Turkey
+33(0)1.42.98.26.77
sylvain.bellefontaine@bnpparibas.com

Sara CONFalONIERI
Latin America
+33(0)1.42.98.74.26
sara.confalonieri@bnpparibas.com

Pascal DEVAUX
Middle East – Scoring
+33(0)1.43.16.95.51
pascal.devaux@bnpparibas.com

Hélène DROUOT
Asia
+33(0)1.42.98.33.00
helene.drouot@bnpparibas.com

Jean-Loc GUIEZE
Africa, English and Portuguese speaking countries
+33(0)1.42.98.43.86
jeanloc.guieze@bnpparibas.com

Valentin LTEHIELLEUX
Latin America
+33(0)1.42.98.48.45
valentin.lethielleux@bnpparibas.com

Johanna MEUKA
Asia – Capital Flows
+33(0)1.58.16.05.84
johanna.meuka@bnpparibas.com

Alexandre VINCENT
Central and Eastern Europe
+33(0)1.43.16.95.44
alexandre.vincent@bnpparibas.com

Alexandra WENTZINGER
Africa
+33(0)1.55.77.80.60
alexandra.wentzinger@bnpparibas.com

Thierry VALLE
+33(0)1.43.16.95.53
thierry.valle@bnpparibas.com

Michel BERNARDINI
Public Relations Officer
+33(0)1.42.98.05.71
michel.bernardini@bnpparibas.com
The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereof. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions contemplated by this report will be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is solely prepared for professional clients. It is not intended for retail clients and should not be passed on to any such persons. This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA, incorporated in France with Limited Liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF) whose head office is 16 Boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas SA whose head office is in Paris, France. BNP Paribas S.A. – Niederlassung Frankfurt am Main, Europaallee 12, 60327 Frankfurt is authorised and supervised by the Autorité de Contrôle Prudentiel and it is authorised and subject to limited regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer to US major institutional investors only BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and an authorized member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed by Japanese based firms by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas that is not registered as a financial institutions firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial institutions firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japanese affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Futures Commission by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on https://globalmarkets.bnpparibas.com

© BNP Paribas (2013). All rights reserved.