

Box 4**Developments in euro area manufacturing production and individual industries**

Year-on-year growth in euro area manufacturing production saw only a relatively limited slowdown in the period between the peak in the spring of 2000 and February 2001. This is a remarkable development in the light of the strong rise in oil prices in the course of 2000 and the deterioration in the external environment since the end of last year. Overall, production growth in the period up to the first two months of this year has not shown the clear slowdown which would be suggested by the decline in the EC industrial confidence indicator and the PMI (see Chart 15 in this issue of the ECB Monthly Bulletin). Moreover, the cumulative slowdown in production growth since the peak recorded in the spring of 2000 has so far been much smaller than in the corresponding period following the peak at the beginning of 1998. In this box the pattern of production growth of the sectoral components of manufacturing is examined in order to investigate whether the relative robustness in the more recent period should be attributed to developments in only a few specific

Sectoral breakdown of manufacturing in the euro area

(annual percentage changes, unless otherwise indicated)

	weight (%) ¹⁾	1999	2000	2000	2001	2001	2000	2001	2001	2000	2000	2000	2001
				Dec.	Jan.	Feb.	Dec.	Jan.	Feb.	Dec.	Nov.	Dec.	Jan.
							month-on-month			3-month moving averages			
Manufacturing	100.0	2.0	6.0	9.6	6.6	4.8	1.8	-0.5	0.5	1.0	1.5	1.8	2.2
Food, beverages, tobacco	11.5	2.2	2.0	2.0	1.0	1.3	1.4	-3.0	2.0	-0.7	-0.5	-0.5	-0.1
Textiles and textile products	5.2	-6.4	-0.3	8.3	3.8	2.1	3.0	-3.0	0.1	-0.6	0.7	1.2	1.7
Leather and leather products	1.1	-3.1	-1.5	2.5	2.5	1.2	3.7	-1.9	1.9	-2.2	0.2	0.5	3.1
Wood and wood products	2.0	3.5	4.7	2.8	0.5	-2.0	0.8	-1.5	1.0	-1.4	-0.8	-0.3	0.3
Pulp, paper, publishing	8.3	4.0	3.2	5.5	1.6	2.3	2.2	-3.2	1.4	0.2	0.7	0.5	0.6
Coke, refined petroleum products, nuclear fuel	1.3	-5.1	1.2	1.6	3.4	-1.4	-3.1	2.2	-1.7	2.6	1.7	0.8	-0.7
Chemicals, chemical products, man-made fibres	10.9	4.0	4.6	3.6	3.9	3.2	-0.4	-1.3	0.1	1.2	1.8	1.3	0.3
Rubber and plastic products	4.5	3.3	6.1	8.5	3.8	2.3	2.8	-2.9	-0.1	-0.6	0.2	1.2	1.7
Non-metallic mineral products	5.0	2.1	3.2	4.5	1.8	-0.9	1.6	-2.4	1.6	1.3	1.6	1.8	1.6
Basic metals, metal products	13.3	0.4	6.0	8.0	5.9	2.8	1.2	-0.5	-0.2	-0.1	0.4	1.3	1.7
Machinery and equipment	11.0	-1.1	6.9	15.7	8.8	5.4	5.2	-2.3	-1.6	1.8	0.3	1.2	2.3
Electrical, optical equipment	12.0	4.3	13.8	17.4	16.5	13.9	4.1	-0.4	0.3	2.9	3.7	3.8	4.8
Transport equipment	10.2	3.5	8.4	14.8	10.1	7.1	4.5	-1.8	0.3	-1.1	0.5	3.4	5.2
Other manufacturing	3.7	2.1	3.5	8.6	1.7	2.1	3.8	-3.4	0.8	0.1	0.9	1.2	1.9

Sources: Eurostat and ECB calculations.

Note: Annual percentage changes are calculated by using data adjusted for variations in the number of working days; percentage changes on the previous month and three-month centred moving averages against the corresponding average three months earlier are calculated using seasonally and working day adjusted data.

1) Weights are based on value added in 1995.

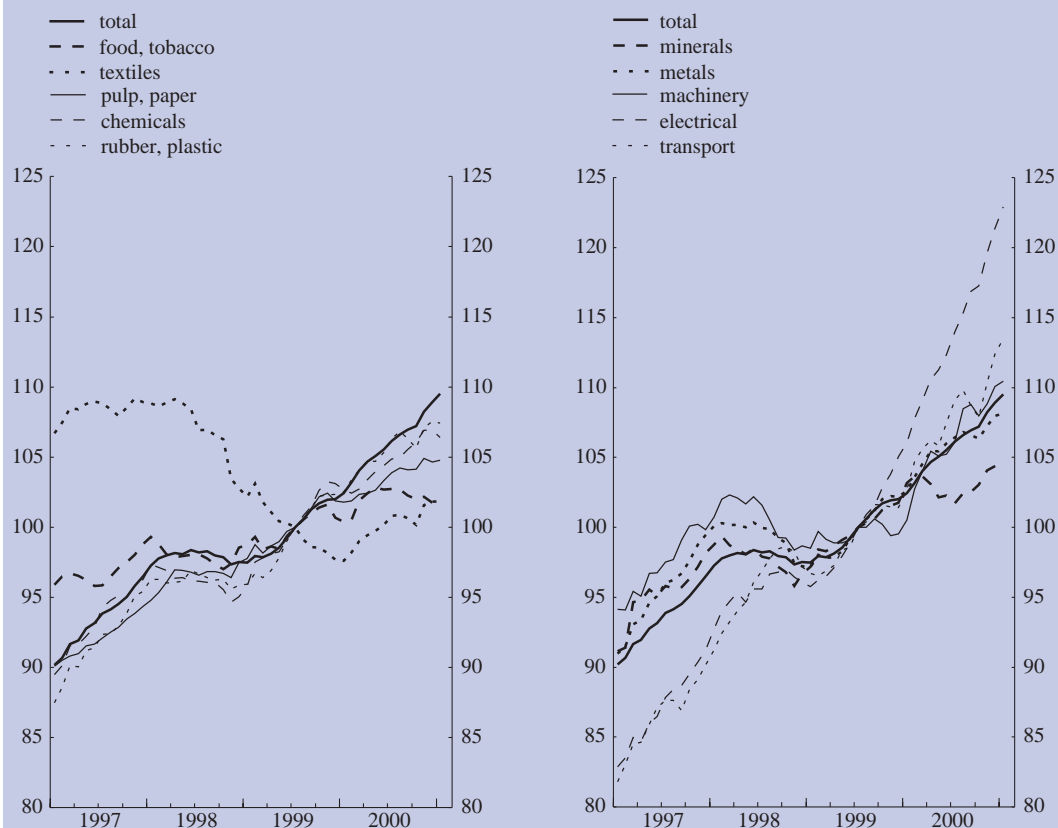
industries or whether it is a more general phenomenon. The former possibility is suggested, for example, by the somewhat higher degree of divergence between the year-on-year growth rates of individual manufacturing industries recorded in the more recent period. However, there may be several reasons for such a higher degree of divergence. In particular, the higher degree of divergence in production growth between individual industries in past months may reflect the different degrees of exposure to past oil price increases and to changes in the external environment.

The upturn in manufacturing production growth rates between 1999 and 2000 was relatively broadly based, but there were clear differences between sectors regarding the magnitude of the upturn and the rate of growth prevailing when the upturn took place (see the table). For example, production growth in industries producing textiles and leather was still negative in 2000 as a whole, although in the case of textiles there was a strong rise of 6 percentage points compared with 1999. By contrast, in industries producing machinery and electrical equipment, production growth increased by 8 and 9½ percentage points respectively, but it was only in the case of electrical equipment that the rate of growth in 2000 was clearly above average (13.8% compared with 6.0% in total manufacturing). Growth in industries producing basic metals and metal products and those producing rubber and plastic products was around 6% in 2000, which corresponded to the average level of growth in manufacturing, although the rise in growth compared with 1999 was more limited. Industries producing food, beverages and tobacco and those producing pulp and paper were exceptions in that their rates of growth in 2000 were lower than in 1999.

The pattern of growth in the first few months of 2001 was largely the same as in 2000. In particular, it appears that the relatively robust growth of manufacturing production was largely accounted for by those sectors

Manufacturing in the euro area

(index 1999 Q2 = 100; three-month centred moving averages; seasonally adjusted)



Sources: Eurostat and ECB calculations.

Note: For further information, see the table in this box.

which exhibited strong growth in 2000. For example, production in the electrical and optical equipment, transport equipment and machinery and equipment industries continued to record high growth rates (the average of the year-on-year growth rates in January and February 2001 being 15%, 8½% and 7% respectively). These industries account for one-third of total manufacturing output, and the strong increases in production more than compensated for the much lower growth in industries such as those producing food, beverages and tobacco, which recorded an average year-on-year rate of growth of 1% in the first two months of 2001, or non-metallic mineral products, where the average rate of growth was only ½% year-on-year in the first two months of this year. In other industries, such as those producing basic metals and metal products and those producing rubber and plastic products, which together account for almost one-fifth of total manufacturing production, the average rate of growth in the first two months of 2001 was 4½% and 3% respectively. Looking at the month-on-month developments, only industries producing food and beverages showed a clear tendency towards lower activity in the period up to February 2001. In the case of industries producing chemicals, rubber and plastic, as well as pulp and paper, the signs of lower activity have emerged more recently and are not particularly clear at the current juncture. (See the chart above, which shows the seasonally adjusted production indices of the largest sectors.)

Overall, it seems that the robust growth in manufacturing production in the months up to February 2001 can be attributed, in particular, to very strong growth in capital goods industries such as those producing transport equipment, machinery and equipment, and electrical and optical equipment. This strength may have benefited from the strong growth in the global economy in 2000 and the gain in competitiveness arising from the past depreciation of the euro and the moderate increases in wages and domestic prices. However, the particularly high exposure of capital goods industries to developments in the external environment may be expected to dampen growth in that sector in the coming months. The strong growth in capital goods industries up to February 2001 partly offset low growth in some non-durable consumer goods industries and intermediate goods industries. These latter industries may have been affected by the prolonged and steep increase in oil prices during 2000 and by the associated cost pressures and real income losses.