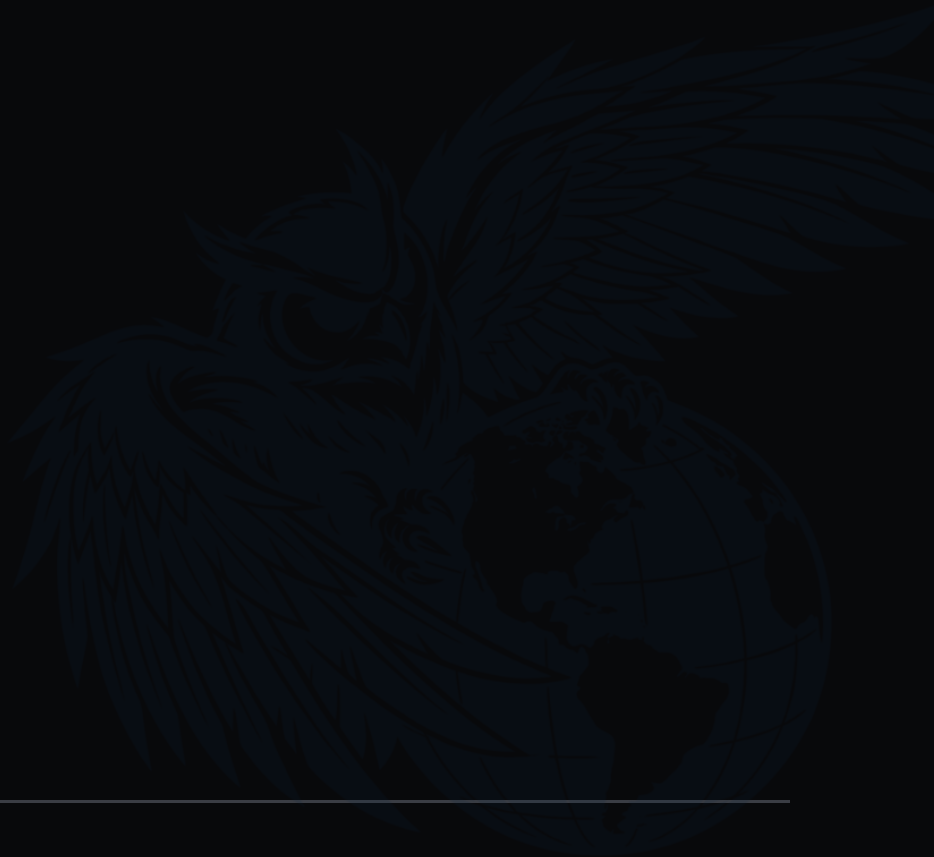

PUBLISHED MARKET RESEARCH

Europe's Industrial Recession Test

Surveys say the euro area factory recession is over; hard output
and an energy shock have yet to agree

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Europe's Industrial Recession Test

Surveys say the euro area factory recession is over; hard output and an energy shock have yet to agree

Euro area factory surveys have climbed to their strongest level in more than four years, but official output is flat, German orders are lumpy and an energy shock is pushing the central bank to tighten. We judge that the November flash survey will most likely stay in expansion while easing from its peak, and that the recovery is narrow: investment goods are carrying it while energy-intensive and consumer industries remain in recession.

The survey recovery in euro area manufacturing is real, broad across countries and led by investment goods, so a relapse into contraction by November is unlikely. Official production has not yet confirmed it: euro area output was flat on the year in July and German output swings month to month on construction and large orders. The energy shock from the Middle East conflict is the main threat, lifting input costs, squeezing energy-intensive branches and pulling the central bank into rate rises. Our base case is a November flash reading still in expansion but below the September high. The test the catalyst sets is whether the survey gains finally show up in hard output before tighter money and dearer energy cap them.

HEADLINE INDICATORS

52.9 EUROZONE MANUFACTURING PMI, SEPTEMBER 2026	53.9 GERMANY MANUFACTURING PMI, SEPTEMBER 2026	0.0 percent EURO AREA INDUSTRIAL PRODUCTION, YEAR ON YEAR, JULY 2026
-10.6 percent GERMAN MANUFACTURING NEW ORDERS, MONTH ON MONTH, AUGUST 2026	18.8 percent EURO AREA ENERGY INFLATION, FLASH, SEPTEMBER 2026	2.50 percent ECB DEPOSIT FACILITY RATE FROM 16 SEPTEMBER 2026

DOCUMENT CONTROL

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CENTRAL JUDGMENT

Europe's industrial recession has ended in the surveys but not yet in the production data. The upturn rests on demand for machinery, defence and data-centre equipment, while consumer goods and energy-intensive processing still shrink under high energy prices and a cost-of-living squeeze. That split makes the recovery real but narrow. The November flash survey is a test of breadth: a reading that holds in expansion while official output turns up would confirm that the factory cycle has turned; a fall back towards the threshold would show that the energy shock and rising rates are already biting.

KEY JUDGMENTS

KJ-1	The euro area manufacturing survey is likely to remain in expansion in the November flash reading, though below its September high. New orders, export orders, backlogs and expectations all strengthened in September, which gives the headline a cushion of several months against a demand shock.	MODERATE
KJ-2	The recovery is narrow, carried by investment goods while energy-intensive and consumer industries keep contracting. Both the survey commentary and the official German and euro area breakdowns show capital goods rising while non-durable consumer goods and energy-intensive branches fall.	MODERATE
KJ-3	Official production will confirm the survey upturn only slowly and unevenly, so month-on-month German output is more likely to fall than rise after the August jump. The August gain was led by construction and machinery while automotive output fell and orders excluding large contracts were flat.	MODERATE
KJ-4	The energy shock and central bank tightening are more likely to cap the upturn in early next year than to reverse it before the catalyst. Input and selling prices are accelerating and markets price further rate rises, but those effects work on investment demand with a lag of quarters, not weeks.	LOW
KJ-5	The German order book is a noisier guide than usual and should not be read as a turn in demand. The August fall was almost wholly a reversal of exceptional large orders for other transport equipment, which includes military vehicles, after a surge in July.	LOW

KEY STATISTICS

52.9 index points Eurozone manufacturing PMI, final reading for September 2026, 2026-10-01 ⁴	53.6 index points Eurozone manufacturing output index for September 2026, 2026-10-01 ⁴	53.9 index points Germany manufacturing PMI, final reading for September 2026, 2026-10-02 ⁸	-0.1 percent Euro area industrial production, month on month, July 2026, 2026-09-16 ¹
+2.0 percent German production in industry, month on month, August 2026, 2026-10-07 ²	-2.1 percent German energy-intensive production, year on year, August 2026, 2026-10-07 ²	-10.6 percent German manufacturing new orders, month on month, August 2026, 2026-10-06 ³	-0.1 percent German new orders excluding large-scale orders, month on month, August 2026, 2026-10-06 ³
3.8 percent Euro area annual HICP inflation, flash estimate, September 2026, 2026-10-02 ⁵	2.50 percent ECB deposit facility rate after the September decision, 2026-09-10 ⁶		

Scope and method

METHOD

This paper sets the euro area purchasing managers' surveys against the official production and orders series of Eurostat and the German Federal Statistical Office, and reads both against the energy price shock and the central bank's response. Survey readings are taken from wire and trade press reports of the S&P Global releases, because the survey publisher is not on our Source List. Official statistics are taken as first published and may be revised. Probabilities are the author's own judgment and are not anchored to a reference class. No client-attributable material is used.

SECTION 01 • ASSESSMENT

The survey upturn is real and broad

The S&P Global eurozone manufacturing PMI rose to 52.9 in September 2026 from 52.7 in August, its third straight monthly gain and the highest reading since May 2022, with the output index at a 55-month high of 53.6, Reuters reported on 2026-10-01.⁴

Reuters reported on 2026-10-01 that new orders grew at their fastest pace since early 2022, export orders at their fastest in more than four and a half years, manufacturers ended a run of job cuts of more than three years in August and growth was broad-based, led by the Netherlands with Germany solid and France, Italy and Spain modest.⁴

The Germany manufacturing PMI was revised up to 53.9 in September 2026 from a flash of 53.8, below August's 54.3, with backlogs of work rising at the steepest pace since April 2022 and expectations at their highest since February, Hellenic Shipping News reported on 2026-10-02.⁸

ASSESSMENT • MODERATE CONFIDENCE

The survey recovery is broad enough across countries and forward-looking components to keep the headline in expansion through the November flash reading. Rising backlogs and new orders give a cushion that a single month of weaker demand would not erase.

SECTION 02 • ASSESSMENT

Hard output has not followed

Euro area industrial production fell 0.1% month on month in July 2026 and was unchanged on July 2025, with June revised to a fall of 0.1%; capital goods rose 0.5% on the month and non-durable consumer goods fell 1.6%, according to Eurostat's first estimate of 2026-09-16.¹

German production in industry rose 2.0% month on month in August 2026 and 2.3% on the year, after a revised fall of 1.2% in July; construction rose 9.3% and machinery 5.3% while automotive output fell 5.4%, and production excluding energy and construction rose 0.6%, the German Federal Statistical Office reported on 2026-10-07.²

UNKNOWN: Euro area industrial production for August 2026 had not been published when this paper was written; Eurostat schedules it for 15 October 2026. The exact release date of German production for September 2026 is not confirmed.

ASSESSMENT • MODERATE CONFIDENCE

Official output is lagging the surveys, and the German August jump overstates the underlying trend because it was carried by construction, which the euro area industrial production index excludes. The breakdown shows factory output excluding energy and construction rising far less than the headline, with automotive output falling.

SECTION 03 • ASSESSMENT

A lumpy German order book

Real new orders in German manufacturing fell 10.6% month on month in August 2026 but were 2.7% higher on the year; excluding large-scale orders they fell 0.1%, and orders for other transport equipment, which covers aircraft, ships, trains and military vehicles, fell 61.5% after more than doubling in July, the German Federal Statistical Office reported on 2026-10-06.³

In the same release, domestic orders fell 17.3% and foreign orders 5.4% in August 2026, orders in the three months to August were 1.3% higher than in the previous three months but 2.6% lower excluding large-scale orders, and real turnover was unchanged on the month.³

ASSESSMENT • LOW CONFIDENCE

The order book shows lumpy defence and transport contracts on top of flat underlying demand, which supports a narrow recovery rather than a broad one. Excluding large contracts, orders fell over three months even as the survey rose, so the two measures disagree on breadth.

SECTION 04 • ASSESSMENT

The energy shock

Euro area annual HICP inflation rose to an estimated 3.8% in September 2026 from 3.2% in August, with energy inflation at 18.8% against 14.3% and inflation excluding energy, food, alcohol and tobacco at 2.5%, according to Eurostat's flash estimate of 2026-10-02.⁵

German production in energy-intensive branches fell 0.5% month on month in August 2026, 2.9% over three months and 2.1% on the year, the German Federal Statistical Office reported on 2026-10-07.²

Non-Iranian-linked transits of the Strait of Hormuz reached at least 477 in September 2026, the highest monthly count since the war began at the end of February, while at least 13 attacks on tankers or gas carriers were recorded from 28 September, a seven-month high, Lloyd's List Intelligence reported on 2026-10-08.⁷

UNKNOWN: This paper holds no Source List reading of European wholesale gas or power prices for September or October 2026, so the size of the energy cost hit to manufacturers is inferred from consumer energy inflation and survey commentary.

ASSESSMENT • MODERATE CONFIDENCE

The energy shock is the main threat to the factory recovery, and it is hitting energy-intensive processing hardest while sparing machinery and defence supply chains. Energy inflation is accelerating, energy-intensive output keeps falling and shipping risk in the Gulf rose again at the start of October.

SECTION 05 • ASSESSMENT

Monetary policy turns against the cycle

The European Central Bank raised its deposit rate by a quarter point to 2.50% on 10 September 2026, its second rise of the year after a move on 11 June, citing inflation pressure from the Middle East conflict, the Associated Press reported on 2026-09-10.⁶

Reuters reported on 2026-10-01 that markets were pricing three ECB rate rises by mid-2027, and that S&P Global's chief business economist said input costs and selling prices were both rising at increased rates while demand for consumer goods continued to fall.⁴

UNKNOWN: The central bank's next decision falls on 29 October 2026 according to press reports, and this paper does not hold its outcome or the market pricing after the October data.

ASSESSMENT • LOW CONFIDENCE

Tighter money is more likely to slow the investment-led upturn in the first half of next year than to end it before the November catalyst. Rate rises work on capital spending with a lag, and the September survey shows firms raising output and hiring despite the first two increases.

SECTION 06 • DECISION

Decision

Decision	Owner	Trigger	Pre-authorised action
Hold the view that the euro area factory upturn is intact	Manufacturing desk lead	The November flash manufacturing PMI holds in expansion	Keep the investment goods led recovery as base case and extend coverage to defence and machinery suppliers
Downgrade to a stalled recovery	Manufacturing desk lead	The November flash manufacturing PMI falls back to the expansion threshold or below	Move to the Deterioration scenario and review exposure to energy-intensive processors
Test breadth in hard data	Manufacturing desk lead	Euro area August or German September production disappoints against the surveys	Publish a short update on the gap between surveys and output before the catalyst

SECTION 07 • OUTLOOK

Outlook

Baseline • Narrow expansion. The November flash survey stays in expansion but eases from its September high as energy costs and rate rises cool new orders at the margin. Official production edges up in the euro area while German output gives back part of its August jump. Investment goods carry the cycle and energy-intensive branches stay weak.

Deterioration. Renewed attacks on Gulf shipping push energy prices higher and the central bank tightens again in October. New orders slow sharply, the November flash survey falls back to the expansion threshold, and the gap between surveys and output closes from the top rather than the bottom.

Stabilization. Energy prices settle, inflation peaks in the autumn and markets scale back rate expectations. Official production in Germany and the euro area turns up for consecutive months and the November flash survey holds near its September high, confirming a broad factory recovery.

Claim C-1. The eurozone flash manufacturing PMI for November 2026 is at or above 50.0. Probability 0.85. Resolves on 2026-11-23 from Reuters: YES if Reuters reports a flash eurozone manufacturing PMI for November 2026 of 50.0 or higher, as first published, whatever the method; NO if it reports a reading below 50.0. Horizon 60 days. The September reading sits well above the threshold with new orders, backlogs and expectations rising, so a fall of that size in two months would need a sharp demand shock. The energy shock and rate rises are the main risk, which keeps the probability short of near certainty.

Claim C-2. The eurozone flash manufacturing PMI for November 2026, as first published. Point and interval: lo 50.6, central 52.3, hi 53.8, unit index points, level 80. Resolves on 2026-11-23 from Reuters: the value of the flash eurozone manufacturing PMI for November 2026 as Reuters first reports it, in index points, whatever the method. Horizon 60 days. We expect some easing from the September high as energy costs and rate rises feed through, but forward-looking components argue against a collapse. The interval is wide because energy and shipping risk is elevated.

Claim C-3. Euro area industrial production for August 2026 is higher than in July. Probability 0.65. Resolves on 2026-10-15 from Eurostat: YES if Eurostat's first estimate of seasonally adjusted euro area industrial production for August 2026 shows a month-on-month change above 0.0%, as first published, whatever the method; NO otherwise. Horizon 30 days. German production excluding construction rose in August and the surveys point to rising output across the bloc. Ireland and energy output can swing the aggregate, so the call is moderate.

Claim C-4. German total production in industry for September 2026 is lower than in August. Probability 0.65. Resolves on 2026-11-10 from German Federal Statistical Office: YES if the first release of production in industry for September 2026 shows a seasonally and calendar adjusted month-on-month change below 0.0% for total production, as first published, whatever the method; NO otherwise. Horizon 60 days. The August jump was led by construction and machinery and German monthly output tends to reverse after large moves. Automotive weakness and flat underlying orders add to the case for a fall.

Claim C-5. German production excluding energy and construction for September 2026 is unchanged or higher than in August. Probability 0.45. Resolves on 2026-11-10 from German Federal Statistical Office: YES if the first release of production in industry for September 2026 shows a seasonally and calendar adjusted month-on-month change of 0.0% or more for production excluding energy and construction, as first published, whatever the method; NO otherwise. Horizon 60 days. Strong surveys and rising backlogs argue for higher factory output, but orders excluding

large contracts and real turnover were flat in August. We lean slightly towards a fall because of automotive weakness.

Indicators.

- Eurostat euro area industrial production for August 2026, due 15 October 2026
- The flash eurozone and Germany manufacturing PMI for October 2026, new orders and input prices
- The ECB monetary policy decision of 29 October 2026
- German production and new orders for September 2026, especially large-scale orders and energy-intensive branches
- Strait of Hormuz transit and attack counts in the fortnightly shipping briefs
- Eurostat flash inflation for October 2026, especially the energy component

SECTION 08 • SCORECARD

Scorecard

No earlier firm claim is resolved or advanced by this draft.

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