Italian industrial production improves yet again

Italian confidence data points to a continuation of the recovery over the summer, which should be good news for 3Q GDP, but don't expect the gap with pre-Covid-19 levels to be filled anytime soon

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Stronger than expected industrial production rebound in June

Italian industrial production increased by 8.2% month on month in seasonally adjusted terms in June.

This comes after the 42.1% jump in May reflecting the impact of widespread manufacturing lockdowns easing since the second week of that month. This is a strong reading, clearly better than consensus, which supports the idea that the immediate follow-up to the shock of the nationwide lockdown might look like a V. However, the 13.7% decline in the working days' adjusted measure is a clear reminder that there is still a big gap to fill. The June seasonally adjusted index still stands 13% below January pre-Covid-19 levels.

From the macroaggregates perspective, we note that consumer goods (+9.8% MoM), investment goods (+8.1% MoM) and intermediate goods (+9%) all expanded healthily, with energy (+2.1% MoM) also increasing marginally too.

Too early for sector calls, but investment goods look more vulnerable

Sector-wise, the polarisation which had characterised lockdowns, with food products and pharmaceuticals as the sole areas of expansion, was less pronounced in June.

The broader re-openings impacted all macro sectors positively, with pharmaceuticals alone contracting modestly. It is very hard at this stage to make any meaningful sector calls, when data is still heavily influenced by the lockdowns (and re-openings).

More broadly, we feel that investment goods look more exposed to the Covid-19 second wave risk than consumer goods. The latter look better protected by the job protection schemes, which are likely to be extended, albeit with stricter terms, by the imminent August package.

July confidence and PMI point to further progress

Looking ahead, in July both business confidence and manufacturing PMI data signalled the possibility of a continuation of production gains in the short run.

In particular, both surveys signalled an improvement in orders, more markedly on the domestic front, foreign demand remaining more vulnerable to the mechanics of value chain at a time when evidence of a localised resurgence of the infection has been emerging around the world.

We expect the production recovery to decelerate in July, and to end the third quarter with a single-digit gap versus pre-Covid-19 levels.

Growth to shrink by approx 10%

The strong second half of 2Q20 and supportive confidence data for July still look compatible with our current GDP forecast of a 10% contraction in 2020, which builds on the assumption that a nationwide lockdown will not materialise after the summer.

However, against the current backdrop, the risks to this scenario now look biased to the downside.

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