

# Italian industrial output plunges in January, putting growth at risk

The fall in January's industrial production was worse than expected and highlights its vulnerability to energy/commodity price developments, not just to Covid-related supply chain disruptions. A quarterly GDP contraction in 1Q22 now seems extremely likely



From a sector angle, only transport equipment and chemicals managed to post positive monthly gains

## Industrial production weakened sharply in January

Data from the Italian National Institute of Statistics (Istat) shows that in January, well before Russia's invasion of Ukraine, the Italian industry was feeling the effects of the commodity/energy price-induced deteriorating environment.

In January, seasonally-adjusted Italian production contracted by 3.4% month-on-month (from -1.1% month-on-month in December), which was much worse than expected. The sharp monthly fall brought the seasonally-adjusted production below the pre-Covid February 2020 level (1.9% lower) for the first time since January 2021.

## Almost all sectors down, with warning signals from intensive gas users

A quick look at the breakdown shows that the contraction was mostly affecting energy, consumer and intermediate goods, and, to a lesser extent, investment goods. From a sector angle, only transport equipment and chemicals managed to post positive monthly gains. Worryingly, the production of plastics and non-metal mineral products (such as tiles and ceramics) was particularly intense, against a backdrop of high demand. This seems to tell us that such sectors – intense gas users in their production function – were already suffering from the pressure of skyrocketing gas prices. As tensions on this front have increased following the war in Ukraine, pressure on production is unlikely to have eased in February and March.

## Production prospects for 1Q22 look grim

Today's very soft release had not been anticipated by January manufacturing business surveys, which had signalled stable demand and a contained drop in the level of production. After such a poor start, prospects for Italian industrial production in the first quarter of 2022 look grim. Just when Covid-related supply chain disruptions were beginning to ease, the energy/commodity price channel took over, threatening developments and reportedly forcing temporary production stops among intensive gas users. Recent anecdotal evidence referring to production stops among steel producers and paper mills suggests that the shock is spreading to other sectors.

## A GDP contraction in 1Q22 now looks extremely likely

Given the intrinsically uncertain geopolitical backdrop, we will not make strong predictions on medium-term growth developments. What we can say is that from a short-term perspective, a contraction in GDP in the first quarter of 2022 now seems extremely likely.

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