

Italian industrial production ended 2021 on a soft note

Business confidence indicators point to a weak start to 2022, adding downside risks to quarterly GDP growth



Pharmaceuticals is the fastest growing sector

Industrial production ended 2021 on a soft tone

As expected, industrial production ended 2021 on a soft note. According to Istat data, seasonally-adjusted industrial production contracted by 1% month-on-month in December 2021, slightly more than expected. Notwithstanding the contraction, the level of production in December was 2% higher than in pre-Covid February 2020. Working day-adjusted data for the whole of 2021 shows that average production expanded by 11.8%, against a 11.4% contraction in 2020.

No big news from the sector breakdown, which confirms the pharmaceuticals sector as the fastest-growing, followed by the wood industry, the latter likely benefiting from the ongoing pull from the incentivised construction sector.

A subdued start to 2022 likely, as the energy story is also becoming a supply-side issue

What next? After a soft end to the year, the prospects for production at the beginning of 2022 do not look rosy. In 4Q21 businesses continued to lament the existence of increasing obstacles to production, mainly in the form of insufficient capacity but also in the form of insufficient manpower. More recently, confidence indicators have confirmed an ongoing softening of the

manufacturing picture. Manufacturing business confidence slightly declined in January and the relevant Purchasing Managers' Index (PMI) posted a more relevant contraction due to persisting supply chain problems. The temporary deteriorating picture is likely down to surging energy prices and more generally commodity prices compressing margins. News of temporary production stops in energy-intensive businesses shows that the energy price risk factor is also becoming a supply-side issue. Based on available qualitative indicators, we expect that industrial production might post another monthly contraction in January 2022.

Risks to 1Q22 GDP growth are tilted to the downside

Against this backdrop, we believe that in the short term, risks to growth lie to the downside. We are currently pencilling in a modest 0.2% quarter-on-quarter expansion for 1Q22 GDP, mainly on the back of a deceleration in private consumption. Should current imbalances persist, a negative quarterly reading could easily materialise.

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