Italian industrial production rebounds strongly in November

Industry looks set to provide a positive contribution to Italian 4Q21 GDP growth. However, it will confront additional headwinds in the first quarter of this year in the form of record-high energy prices and possible temporary labour shortcomings due to Covid's acceleration

A Fiat car factory in Turin, Italy

Positive surprise on the industrial production front

Italian industrial production was up 1.9%% MoM (-0.6% MoM in October) in seasonally adjusted terms, well beyond expectations. That's according to Istat data from November. The working days' adjusted measure was up 6.3 YoY. The level of industrial production was 3.1% above the February 2020 pre-Covid level.

The monthly rebound in production affected all big aggregates: energy production led the way, followed by capital and consumer goods, with intermediate goods following at a distance. The sector viewpoint shows that in YoY terms, the fastest growing sectors were refined oil products and electricity and gas production, followed by pharmaceuticals; at the other end of the spectrum, the sharp contraction in transport equipment production confirms the vulnerability of the sector to persisting chip shortages.

Industry to confirm a GDP growth driver in 4Q21

November data suggests that, as a whole, Italian businesses are still managing to live with continuing supply-side disruptions, supported by filling order books. Business survey data for December has shown that the order pull continued, and that production held up in the month, possibly anticipating another positive production reading in December. A positive contribution of manufacturing to 4Q21 GDP growth thus seems likely, supporting our view that, notwithstanding a services deceleration, quarterly growth in that quarter should have been sufficient to ensure an average GDP growth reading of 6.3% in 2021.

Headwinds will likely slow things down in 1Q22, hopefully only temporarily

Looking into the first quarter of this year, support coming from healthy order books looks set to remain in place but will continue to confront persisting supply disruptions, not helped by the upcoming Chinese New Year festivities and by selective Covid-related lockdowns in that country. Additional temporary short-term headwinds might blow in from the domestic front, as a combination of record-high energy prices and possible workforce disruptions following the steep acceleration in the Omicron variant. As the same factors will be affecting households and their disposable income, we expect GDP growth to temporarily decelerate over 1Q22. We believe that subsequent accelerations will bring about average GDP growth of 4% in 2022.

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com