Italian industrial production stepped back in November

A soft industrial reading in November is unlikely to be reversed in December, as containment measures spread across countries. A GDP contraction in 4Q20 is almost inevitable, in our view.

Service/Industry decoupling not a given
Over the last few months, we have regularly observed a decoupling between activity indicators related to the service sector, which are more exposed to the impact of soft lockdowns, and those related to the industrial sector, whose resilience has been associated with the strong recovery of the Chinese economy. Today’s release of November industrial production data highlights the risk that even soft lockdowns could ultimately negatively affect the manufacturing sector once the reopening effect evaporates.

Soft production reading driven by consumer goods
Istat data shows that seasonally-adjusted industrial production contracted by a disappointing 1.4% month-on-month, cancelling out the upwardly revised 1.4% October rebound. The working-days adjusted measure was down 4.2% on the year (from -1.9% YoY in October). The November seasonally-adjusted index was 3.5% lower than in February 2020, the last month
before the pandemic crisis.
A quick look at the big aggregate breakdown shows that the monthly contraction was widespread and, unsurprisingly, was more marked among producers of consumer goods. November retail sales data, released a few days ago, had already flagged resurging weakness in consumption, very likely due to the new round of containment measures introduced by the government to flatten the contagion curve. The marked contraction in textiles, clothing and leather production, the main highlight in today’s report seems to be confirming this pattern.

4Q20 GDP contraction looks almost inevitable
The three-month average quarter-on-quarter percentage change was still a positive 2.1% in November, but its deceleration confirms that the summer production rebound was losing strength in 4Q20. The outlook for December 2020 does not look bright: widespread containment measures in the main European trading partners likely weighed on export flows and, as a consequence, on Italian production. We believe that in 4Q20, the Italian industrial sector was not strong enough to prevent a service sector driven quarterly contraction in GDP in 4Q20. As we suspect that the risks of longer-lasting containment measures are on the rise, both domestically and in the main trading partners, we anticipate a quarterly GDP contraction in 1Q21. Not the best environment for a possible government crisis.
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