

Italian industrial production surprisingly strong in April

Production was strong in April, widening the gap with other big eurozone countries. Decelerating orders and persistent supply bottlenecks suggest that production might soften over the summer months



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Another positive surprise for industrial production

Italian industrial production data in April, released earlier today by Istat, continues to point to unexpectedly strong resilience in the country. The seasonally-adjusted production came in at +1.6% month-on-month, after an upwardly revised 0.2% MoM reading in March. The working-day adjusted measure was up 4.2% YoY. In January 2022, Italian data recorded a sharp monthly decline hinting at a re-alignment with other major eurozone countries. It has re-widened ever since, suggesting that a less pronounced concentration in the transport equipment sector, which is more vulnerable to persistent supply chain disruptions, remains a comparative advantage at the current juncture.

Some reopening and re-stocking effects possibly at work

Looking at the sector breakdown of the release, we get an indirect confirmation of this. Production expanded evenly across big aggregates, with the exception of durable goods, which contracted on the month. Interestingly, the fastest-growing sector was textile and apparel, typically considered one of the proxies of “reopening” activities. The reopening effect is likely temporarily providing support, notwithstanding the deep erosion of real disposable income resulting from the combination of accelerating inflation with slowly growing hourly wages.

Production might soon slow down, but risks to our quarterly GDP forecast now seem to tilt to the upside

Looking forward, we believe that this pace of expansion will not be sustainable. The order sub-component of business confidence declined in May when inflation accelerated again, with a possible negative bearing also on the supply side. To be sure, April production data marked an unexpectedly strong start to the quarter: the statistical carryover for production in 2Q22 is now a strong 4%, which increases the chances of industry turning out to be a growth driver in the quarter. We still believe that consumption will act as a drag, as inflation pressures will combine with employment topping out, but acknowledge that risks to our forecast of a 0.3% quarterly GDP decline now lie to the upside. We are currently projecting average Italian GDP growth for 2022 at 2.6%.

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