

Italian industrial production back to pre-pandemic levels

The positive April surprise in Italian industrial production adds upside risks to our recently revised growth forecast of 4.3% for 2021 average GDP growth



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Strong industrial production acceleration in April

After two flat readings in February and March, industrial activity in Italy picked up strongly in April, clearly beating expectations.

The seasonally adjusted measure was up 1.8% month-on-month (from an upwardly revised 0.3% in March) and the working days adjusted version increased 79.5% YoY (from 38.4% in March). The latter reflects the fact that April 2020 was the month when strict lockdowns also applied to industrial activities, a factor that looks set to disappear.

The April release shows that the Italian industrial production has now fully recovered and is now above pre—pandemic levels.

All macro aggregates positive, led by investment goods

The breakdown shows that all macro aggregates posted positive monthly increases, with investment goods leading with a 3.1% MoM gain, followed by energy (+2.4% MoM), intermediate goods (+1.1% MoM) and consumer goods (+0.5% MoM). This suggests that the investment pull, which had been the main demand driver together with inventories of the 0.1% QoQ GDP growth in 1Q21 might still be in place over 2Q.

No big news from the sector detail, where huge sector differences in YoY terms simply reflect the geography of lockdowns in April 2020 (food and pharma were not closed then).

More industrial strength to come, according to business surveys

The solid April reading is clearly a positive surprise.

Moreover, with industrial activity unaffected by the last round of soft lockdowns, it seems that Italy has been less affected by supply shortfalls in the semiconductor industry and the Suez canal temporary blockage.

Looking ahead, the underlying picture for manufacturing remains positive. After Istat, the statistical agency's decision to stop the disclosure of industrial order data since January 2021, we now have to rely on the order subcomponent of the monthly business confidence survey, which unambiguously confirms that both domestic and foreign order books have been accelerating since March, feeding higher production expectations for the months ahead.

Upwards risks to our 4.3% GDP growth forecast for 2021

After today's release, industry looks set to confirm a strong GDP growth driver for 2Q21, hopefully in conjunction with services, which will be benefiting from the ongoing accelerated re-openings made possible by a successful vaccination campaign.

We have recently upgraded our forecasts for average 2021 Italian GDP growth to 4.3%, but after today's release, we anticipate a stronger than expected acceleration over 2Q21, which adds clear upwards risks.

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