

Italian industrial production inches upwards

No turnaround in Italy's growth soft patch just yet but more evidence that employment driven private consumption will act as a short-run hedge against downside risks



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According to Istat's seasonally adjusted data, a minor 0.1% MoM increase in Italian industrial production in November (-0.3% in October), points to stabilisation rather than a rebound. The working day adjusted measure was down 0.6% YoY, showing a deceleration in the contraction trend.

The broad aggregate breakdown shows a decent rebound in the production of investment and intermediate goods (+0.8% and +0.7% MoM, respectively), a mild contraction in the production of consumer goods (-0.2% MoM) and a deeper fall in energy (-2.1% MoM).

Dichotomy between manufacturing and services remains unresolved

The three-month average continued its recent declining trend, and soft data evidence recently

released suggests that a short-term turnaround in production is not yet in sight. In December the manufacturing business confidence stabilised and the order sub-components remained close to their recent lows.

The state of the cycle is still characterised by the dichotomy between the contracting manufacturing sector and expanding service sectors. Hard to tell at this stage in what direction the divergence will eventually reconcile. Developments in the trade war and in the complex geopolitical scene will likely play a role.

Positive employment developments - an effective hedge to short-term downside risks

For the time being the surprisingly strong resilience in the labour market is acting as an effective economic shock absorber.

November employment data, released yesterday, signalled a new high in employment, with job creation healthily dominated by open-ended contracts and with the good news of a substantial improvement in the 25-34 age bracket. The unemployment rate was stable at 9.7%, despite a new substantial decline in the pool of inactive people.

Overall, a good release, providing support to the continued role of private consumption as a growth driver in the short run.

Recent data continues to support our view of a continuation of the soft growth patch into 1Q20, with a possible mild acceleration thereafter.

We confirm our call for an average 0.4% GDP growth in 2020, up from 0.2% in 2019.

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