

Italy: Industrial production rebounds in May

The rebound was driven by investment goods, reversing the contraction seen in April. With order books suggesting that manufacturing is still vulnerable to trade war uncertainty, we should not expect a strong rebound in production in the short term though there is a reduced risk of a negative quarter-on-quarter GDP reading in 2Q19



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Stronger industrial production in May

According to Istat data, Italian industrial production was surprisingly strong in May, posting a seasonally adjusted 0.9% month-on-month expansion (-0.8% MoM in April). The working days adjusted measure, better suited to monitor the underlying trend, was down 0.7% (-1.5% in April). This provides indirect tentative evidence that the April reading might have been affected by calendar effects due to the timing of Liberation Day on 25 April.

Broad based rebound, particularly strong for investment goods

The breakdown shows that investment goods (+1.9% MoM) led the rebound, followed by consumer goods (+0.9% MoM) and intermediate goods (+0.6% MoM), with energy production alone in negative territory (-2.1% MoM).

There were no major changes from the sector breakdown but it did confirm that sectors topping the production rankings in 2018 have clearly slowed down over the first four months of 2019. In the Jan-May 2019 period year-on-year, working-day adjusted data shows that energy production (2.4% YoY) and food and tobacco (+2.3% YoY) led the pack, followed by other manufacturing (+1.7% YoY). At the other end of the spectrum stands coke and refining (-6.3% YoY), transport equipment (-3.3% YoY), metal products (-3% YoY) and pharmaceuticals (-2.6% YoY).

Reduced risk of negative GDP QoQ reading in 2Q19

The solid investment component is worth noting, as it might indicate that the re-introduction of the “super-depreciation” measure in the “pro-growth” decree (which allowed businesses to accelerate amortisation on their investments) approved in April could help to spur investment activity over 2H19.

To be sure, businesses look set to remain concerned about the lingering uncertainty on future developments on the US-China trade war, but might find some temporary comfort from the decision of the EU Commission not to open yet an excessive deficit procedure against Italy. We should not get carried away by today's rebound, though, as April order book data was clearly weak; still it should help limiting the scope for negative quarterly GDP growth in 2Q19. We still believe that the seasonally adjusted industrial production might marginally contract QoQ over 2Q19, and confirm our flat QoQ GDP forecast for 2Q19 and our meagre 0.1% average GDP expansion for the whole of 2019.

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