

Italy: Industrial recovery still in place in June

The May hiccup proved temporary, and production has been confirmed as a growth driver, but it's not so powerful as to justify the surprisingly strong GDP gain in 2Q21. Filling order books and capacity constraints point to a continuation of the production recovery over the second half of the year



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Decent rebound after May's setback

Having contracted a downwardly-revised 1.6% month-on-month in May, seasonally-adjusted industrial production in Italy rebounded by 1% MoM in June, and stands 0.5% higher than in February 2020 before Covid-19 struck. The calendar-adjusted measure was up 13.9% year-on-year, down from 25% YoY in May, when data was more heavily distorted by the lockdown-driven base effect. All macro aggregates posted positive gains, driven by energy, and the sector breakdown did not send clear signals of any new trends.

The 1% quarter-on-quarter expansion in production in 2Q21 suggests that industry was a positive but non-decisive factor in determining the surprisingly strong 2.7% GDP gain in the quarter. Services likely played a more significant role.

Industrial picture still constructive, with a bigger role for investment goods producers

Looking ahead, the Italian industrial picture remains constructive. To be sure, Italian firms are not immune to shortages in the supply chain. In July, the manufacturing PMI survey reported problems on this front, but order books are being filled at a healthy pace and businesses seem confident that this is going to last. In fact, faced with rising input prices, they expect to be able to pass these through to customers.

At least in the near term, producers of investment goods look best positioned to benefit from the combination of increasing domestic and external demand and from the incoming boost from the Recovery and Resilience Facility. Capacity utilisation has now reached its highest level since 1998 and insufficient factories and capacity are increasingly indicated as the main limitations to production activity.

All in all, today's reading seems to confirm that, notwithstanding persistent supply chain issues and lingering uncertainty about the impact of the Delta variant, manufacturing remains a positive driver in the ongoing recovery, but not the main one anymore.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

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