

## Italy: July Industrial production data disappoints

The first hard data published by Istat for 3Q19 confirms that Italy is not immune to the weak external backdrop. With little scope for a short-term production rebound, risks to growth lie to the downside



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July Industrial production data, released earlier today by Istat, turned out softer than expected. The seasonally-adjusted measure contracted by 0.7% month-on-month (-0.2% MoM in June) and the working day-adjusted version was also down 0.7% year-on-year, posting the fifth contraction in a row. The monthly contraction was broad based, with all the big aggregates except energy in negative territory, and was particularly marked (-1.6% MoM) in the key investment goods segment.

### Little hope for a short-term rebound, particularly for investment goods

Looking ahead, the combined reading of business confidence and manufacturing orders data does not validate hopes for a short-term rebound in production. Order data has been deteriorating recently, more clearly in the foreign component, which is apparently bearing the brunt of

international headwinds. The slowdown has so far been less pronounced on the domestic front, as this is likely benefiting from some resilience in the labour market, which is still helping to support domestic consumption.

The deterioration in investment goods deserves close monitoring. Business surveys show that an increasing share of domestic firms deem the current installed capacity more than enough to meet the prospective demand for investment goods over the next 12 months, reducing hopes for a supply-constrained push in the short run.

## PM Conte aware of growth challenge, but lacks tools for short-term stimulus

The economic backdrop that the new 5SM/PD/Leu government has to face is clearly difficult and Prime Minister Giuseppe Conte seems well aware of this. Yesterday, in his programme speech at the House of Deputies, he put strong emphasis on the need to get out of the current economic stagnation, pointing to a Green New Deal and at the related necessary stream of investments as possible key growth drivers for his government. We believe this is a theme which will likely become increasingly relevant in discussions on possible amendments to the European governance in Brussels, but will be less relevant where short-term Italian economic developments are concerned.

## Risks to our growth forecasts tilted to the downside

We are currently anticipating another flat GDP quarter in 3Q19 and flat GDP growth for the whole of 2019, and we tentatively stick to this call. However, after today's production data, the risks seem to lie to the downside. Should production weakness be confirmed in the Aug-Sep readings, the chances of inventory-driven support to quarterly growth would likely evaporate.

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