

## Italy: Manufacturing soft patch continued in September

With no evidence of a manufacturing recovery in sight, the Italian economy will have to rely on service sector resilience to avoid a contraction in 4Q19



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### 3Q quarterly averages confirm negative production trend remained in place

According to Istat, seasonally-adjusted industrial production in Italy contracted by 0.4% month-on-month (+0.4% in August), slightly better than consensus. Averaging the July-September monthly numbers, we iron out possible distortions to monthly releases related to August closures. Over 3Q19, industrial production contracted by 0.5% quarter-on-quarter, following a 0.8% decline in 2Q19. The year-on-year measure, adjusted for working days, edged lower to -2.1% in September (from -1.8% in August), confirming that the trend in industry remains firmly in contraction. A brief look at the big aggregate decomposition shows that the SA monthly decline was driven by energy and intermediate goods, only partially compensated by increases in consumption and investment goods.

## No evidence of industrial rebound in 4Q19 from available data

Today's data confirms that the manufacturing recession continued over the summer, which mirrors the concurrent PMI readings hovering at six-year lows. Tentative high frequency evidence for 3Q19 is suggesting that an industrial turnaround is not imminent. The October manufacturing PMI edged down marginally from already low levels, and the moving average of volatile order books has been contracting both on the domestic and on the external front over the summer months. With trade war- and Brexit-generated headwinds still blowing in 4Q19, we struggle to see any sustainable rebound in manufacturing materializing in 4Q19.

## Service sector resilience will be decisive in avoiding a GDP contraction in 4Q19

However, as has likely been the case over 3Q19, the service sector should continue to offer support in 4Q19. Employment data has remained resilient to quasi-stagnation and the October service sector PMI has shown a decent acceleration, moving into expansion territory. Domestic consumption might benefit from this, possibly providing a positive contribution to growth over 4Q19. Our tentative call remains that this will allow Italian GDP to post flat growth in 4Q19, which would bring average 2019 GDP growth to 0.2%.

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