

## Italy: New record low for industrial production in April

The poor reading was hardly a surprise and provides additional evidence of the close link between the duration and severity of the lockdown and manufacturing performance



### A two-month production nightmare

Another awful reading for Italian industrial production. Istat estimates that in April, seasonally-adjusted industrial production contracted by 19.1% (-28.4% in March) and by a whopping 42.5% year-on-year when corrected for working days. Needless to say, this fall sets fresh record lows in the production time series. Over the March-April period, seasonally-adjusted industrial production contracted by 42%; during the global financial crisis it recorded a peak-to-trough fall of 26% over a period of 11 months. The power of mandated closures.

### Usual pandemic pattern for sector breakdown

A quick look at the sector breakdown confirms that manufacturing was more heavily hit, with textile production (-41.4% MoM), rubber and plastic (-39% MoM) and transport equipment (-38.4% MoM) as the worst performers. Unsurprisingly, pharmaceuticals (+2% MoM) and the food sector (-0.1% MoM), less affected by mandated closures, were the best performers. Once again, in the current circumstances, developments in economic activity, and this is particularly true for

manufacturing, have been mostly driven by the timing and the severity of lockdowns. According to Istat, almost two thirds of industrial companies, generating 46.8% of total industrial turnover had to suspend activity, with an over-representation of exporters. As April has been a month of full lockdown, the -42.5% YoY fall in working days-adjusted industrial production reported today seems consistent with the forced closure pattern story.

## Things to improve from May, but demand and supply uncertainty will remain elevated

Improvements on the industrial front should materialise in May. On 4 May, industrial activity was allowed to re-open upon compliance with new sanitary rules. The re-opening effect was reflected in a rebound in the May manufacturing PMI which climbed to 45.4 from April's 31.1 historic low, but the order book indicator remained very soft, and respondents signalled poor foreign demand conditions. The external channel will be very important in determining the speed of the future recovery in industrial production, both on the demand and supply fronts. On the demand front, while demand for non-durable consumer goods could pick up relatively fast, we see rising risks of a softer recovery in demand for investment goods, as buyers will likely be feeling the combined effect of financial constraints and of ample spare capacity, at least in the short run. On the supply front, the hard-to-answer questions are if and how fast the unfolding cross-country exit strategies allow complex global supply chains to function properly again.

## The economic recession looks set to deepen in 2Q20, but should end in 3Q20

A very poor reading for April industrial production data is not unexpected. Looking forward, we anticipate a gradual improvement in economic conditions starting from May. This will not be able to prevent 2Q20 GDP data from falling at a quicker pace than in 1Q20. We anticipate a decent rebound in GDP over 3Q, but the expected profile is very unlikely to look like a 'V'. For the time being, we tentatively confirm our base case 2020 GDP growth forecast for Italy at -9.8%, with downside risks.

### Author

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

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