Italian industrial production: Poor start to 2Q19

Italian industrial production data turned out softer than consensus expectations, with the investment component being the main driver. With uncertainty remaining elevated on both the international and domestic front, we see little chances of any substantial short-term rebound

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Weak production data in April 2019

Italian industrial production came in disappointingly weak in April, posting a seasonally adjusted 0.7% month on month contraction (-1% MoM in March). The working days adjusted measure, better suited to monitor the underlying trend, posted a 1.5 YoY contraction (-1.6% in March). Admittedly, the April number might have been affected by calendar effects due to the timing of the 25 April national holiday, but we feel this only provides a partial explanation of the poor monthly turnout.

Industrial production still remains some 22% lower than the pre-crisis peak reached in 2007.

A negative drive from the investment goods sector

The breakdown by broad aggregates shows that investment goods (-2.5% MoM), intermediate goods (-0.7% MoM) and consumer goods (-0.5% MoM) were all in negative territory, with energy alone posting a monthly expansion (+3.6%).

No major change from the sector breakdown, but a confirmation that sectors topping the production rankings in 2018 have clearly slowed down over the first four months of 2019. In the January 2019 - April 2019 period annual working day adjusted data shows that energy production (2.9% YoY) leads the pack, followed by food and tobacco (+2.2% YoY) and electronic equipment (+0.5% YoY), with electrical equipment and chemicals hardly expanding. At the other end of the spectrum stand coke and refining (-7.7% YoY), transport equipment (-3.6% YoY), metal products (-3.7% YoY) and pharmaceuticals (-3.6% YoY).

Little chances of a substantial rebound in the short term

The poor reading of the investment component is worth noting, as it signals the underlying weakness in the national accounts investment component already shown by 1Q19 GDP data might be continuing over 2Q19.

Persistently high uncertainty on future developments, especially the US-China trade war and the vocal political campaign which accompanied the European election campaign, should have induced business to wait and see rather than revving up their gross fixed capital formation expenditure. Consumer goods developments are also reflecting underlying uncertainty, but seem at least temporary backed by decent labour market developments, which confirmed so far a notable employment resilience to the 2H18 technical recession episode. Cross reading today's data with business confidence and order book evidence, we see little room for imminent acceleration. Domestic industrial orders have recently remained weak both in the investment goods domain and, increasingly, in the consumer goods one and businesses expected production softened further recently.

We thus believe that industrial production might contract again over the whole of 2Q19, dragging down the meagre 0.1% QoQ 1Q19 GDP expansion to a flat reading in 2Q19.

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com