

Italy: Production stabilizes, uncertain near future

October industrial production data was marginally up on the month. It tentatively looks compatible with a possible flat GDP reading in 4Q18, but soft November confidence seems to be putting a lid on positive short-term surprises



Minor production monthly expansion in October

The weak summer spell of industrial production seems to have taken a pause in October, according to Istat data published earlier today. The seasonally adjusted production index expanded 0.1% MoM (from -0.1% in September), and the working day adjusted measure was up 1% YoY (down from +1.4% YoY in September). The monthly meagre expansion was driven by a 0.6% MoM increase in consumer goods production, led by both the durables component (+2.6% MoM) and the non-durables one (+1.1% MoM), with investment goods (-0.1% MoM), intermediate goods (-0.3% MoM) and energy (-3% MoM) all in contraction territory.

Changing sector hierarchies over 2018

A quick look at the working day adjusted YoY sector breakdown shows that the year-to-date relative ranking continues to change. Transport equipment and pharmaceuticals, which had led

the group over the first half of the year, are losing ground to machinery and plants, and to electrical equipment. Sectors related to the construction chain such as wood and non-metal minerals confirm laggards.

First hard data batch tentatively points to flat 4Q18 GDP growth

The October industrial production release provides the first relevant bit of hard evidence for the fourth quarter together with already released October labour market data. Data seems to be pointing to stabilization rather than expansion, and available soft evidence coming from November confidence data provides no indications of an imminent reversal. Consumer goods, where inventories have not yet increased, looks set to confirm the main short-term production driver, while investment goods, where inventory accumulation has been recently picking up, seem more vulnerable to the combination of persistently high international economic uncertainty and unclear developments in the budget dispute between the Italian government and the EU.

We are tentatively anticipating flat GDP growth in 4Q18, with downside risks, which would yield average yearly GDP growth at 0.9%.

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