

## Italy: Strong industrial production rebound in May

A positive surprise, confirming that sector data was heavily affected by the uneven impact of the lockdown. Filling the 20% gap to pre-Covid levels will likely take some time, though



Source: Shutterstock

### Surprisingly strong rebound in May

After suffering the consequences of April's broad-based lockdown, Italian industrial production posted a strong rebound in May, easily beating expectations. The seasonally adjusted measure increased by a whopping 42.1% month-on-month, the highest monthly increase ever. To be sure, this came after a cumulative 50% fall over the February-April period, which on its own was a negative record, but the scale of the rebound came as a surprise.

### Covid-related sector distortions remain

The impact of Covid-19 and of the containment measures is still dominating statistics, both in levels and in composition. A quick look at the sector breakdown shows that the rebound has been particularly strong in transport equipment (+140.2% MoM) and textile products (142% MoM) which had been most heavily affected by the April lockdown. Many sectors recorded double-digit

monthly growth rates and, unsurprisingly, the underperformers were pharmaceuticals (+3.6% MoM) and food products (-0.5% MoM) which had almost been untouched by the lockdown.

## Good news, but don't get carried away

Notwithstanding the strong rebound, May data shows that the gap to be filled remains ample. In seasonally adjusted terms, May production remains 20% below January's levels, and the working-day adjusted measure, better suited to monitor the trend, is still down 20.3% YoY. As most of the reopening in the manufacturing domain was completed in May, we believe that the June release will have only very limited room for further progress in production. Indeed, relevant business survey data warns us that underlying domestic and foreign order books remained soft in the month. Add to this the pending uncertainty about what permanent damage the ongoing Covid crisis will leave on the economic fabric of the country in terms of losses in employment and in the number of businesses going bankrupt, and you can assume that the production gap with pre-Covid levels will not be closed over the summer months.

## Scope of rebound reduces the risk of extreme GDP contraction scenarios to materialize in 2Q20

All in all, the last batch of hard data is somewhat comforting. Inter-month data volatility is still too high to determine the pace of exit from the crisis. However, both production data and retail sales data for May have shown that reopening after the strict lockdown was quick. This should, in principle, reduce the risk of an extreme GDP contraction in 2Q20. For the time being, we are comfortable with our base case of a 9.8% average GDP contraction in 2020.

### Author

**Paolo Pizzoli**

Senior Economist, Italy, Greece

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

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security

discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.