

Italy: Temporary relief from August industrial production data

The small production rebound is unlikely to signal the start of a turnaround, in our view. September confidence and Purchasing Managers' Indices data point to renewed weakness ahead, possibly fuelled by soft demand for investment goods



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Small rebound in seasonally adjusted production in August, but calendar adjusted in contraction

Having contracted both in June and July, seasonally adjusted (SA) industrial production posted a modest 0.3% month-on-month expansion in August (-0.8% MoM in July). The calendar adjusted (CA) measure, better suited to monitor the trend, posted another uncomfortably low 1.8% year-on-year contraction (-0.7% YoY in July). As it is often the case with the summer industrial activity data releases, some caution in interpretation should be warranted, as holiday closures might not have been properly picked up by seasonal adjustment procedures.

Signs of life in construction-related sectors, further pain in the automotive value chain

The monthly SA expansion builds on gains in the production of investment (+0.4% MoM) and

consumer (+0.3% MoM, driven by the durables component) goods, with both intermediate (-0.5% MoM) and energy (-0.9% MoM) goods in negative territory. There are no clear-cut directional calls, as yet. The modest investment rebound is welcome news, but no guaranty that the long-lasting investment goods soft patch is close to an end. On the consumer goods front, the positive reading might reflect the favourable combination of low interest rates and resilient employment still supporting durable goods consumption.

A quick look at the sector breakdown shows signs of life in sectors that are part of the construction chain and continued pain in sectors that are part of the automotive value chain, most exposed to developments in the German car industry. All in all, the data evidence seems to confirm that the consequences of international trade concerns are still biting. The eruption of the agri-food sector in trade disputes between the US and Europe, while not specifically targeted on Italy, might indirectly affect the food industry over the next few months.

Confidence data flagging the risk of investment-driven softer production in September

Looking ahead, chances of a production turnaround over the last part of 2019 seem slim, in our view. Manufacturing business confidence deteriorated further in September, well mirrored into a poor PMI reading which fell to a six-month low, dragged by weak output and orders. After showing good resilience over 1H19, export orders are reportedly softening, putting extra constraints on producers' pricing power. Pressure for a quick reversal of investments is hard to detect. The share of Italian businesses indicating insufficient capacity as a factor limiting production has been on a steady decline for months now. In perspective, sector-specific reversals cannot be ruled out, but these seem limited to initiatives deriving from a marginal green-investment friendly fiscal push.

We maintain our call for flat 2019 growth, with marginal upside risk due to recent data revisions

Barring unexpected positive surprises in September, industry looks set to confirm a drag on economic growth in 3Q19. Services, supported by employment resilience, could yet compensate, underpinning our confirmed call for flat quarterly GDP growth in 3Q19. The recent revision of national account time series has marginally improved the quarterly profile for 2019 and, as a consequence, the statistical carryover. For the time being, we prefer to stick to our forecast of flat average GDP growth in 2019, but the revision has added a marginal upside risk to our call.

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