

Strong rebound in Italian industrial production data in February

A surprisingly strong reading in February – but it should be read with caution, as it does not incorporate the impact of the war in Ukraine



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The publication of February industrial production data shows that in the current times, data can be extremely volatile and hard to interpret. February production data were collected before the start of the war in Ukraine, which raises an obvious note of caution.

Istat data shows that industrial production, having contracted 3.4% month-on-month in January, rebounded by a strong 4% in February in seasonally-adjusted terms, doing much better than expected. The working day-adjusted measure was up 3.3% year-on-year. In February, the Italian seasonally-adjusted industrial production index stood 2.5% higher than its February 2020 pre-Covid-19 level. The rebound was widespread across big aggregates but stronger for consumer goods, where the level of inventories had been reported as particularly low.

While confirming that Italian producers had proved relatively resilient to pre-war supply disruptions, February data cannot be interpreted as a signal of a turnaround, in our view. The impact of the war in Ukraine on commodity (energy and non-energy) prices has started weighing on manufacturing business confidence in March. Respondents to the survey signalled a clear deterioration both in orders and in production expectations, and anecdotal evidence of production

stops in heavy energy user sectors has grown frequent. All this will likely be reflected in production data over 2Q22.

Notwithstanding February's strong rebound, production in the December 2021 to February 2022 quarter posted a negative 0.9% change over the previous quarter. As we expect a new monthly contraction in March production data, industry should act as a drag on quarterly GDP growth in 1Q22. As the inflation backdrop remains extremely painful for consumers, we also expect private consumption to turn out as a growth detractor in 1Q22. The scope of the contraction is highly uncertain, though. We are tentatively pencilling in a 0.8% quarter-on-quarter decline in 1Q22 Italian GDP; today's release might add an upward risk to our call.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

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