

## Italian industrial production sees a soft start to 2024

Broad-based weakness across sectors shows that exiting the prolonged soft patch in manufacturing is proving difficult. Against a soft demand backdrop, the accelerated disinflation phase is not yet prompting any supply-side push



Despite improvements in monthly data, we believe it's still too early to call a rebound in Italian industrial production

Italian manufacturing is not out of the doldrums just yet. This is what January industrial production data – the first bit of hard evidence for the first quarter – is telling us. The Italian seasonally adjusted industrial production contracted by 1.2% on the month in January (from +1.1% in December), according to Istat data – beating to the downside our below-consensus expectation. The decline was particularly marked for investment (-3.6% month-on-month) and consumer goods (-2% MoM). Only the production of energy posted a positive gain (+2.5% MoM).

A quick look at the sector breakdown within the manufacturing domain shows that the contraction was broad-based and particularly notable for pharmaceuticals (-13.3% MoM), chemical products (-5.3% MoM), electrical and non-electrical household equipment (-5% MoM) and transport equipment (-4.1% MoM). Only rubber, plastic, and non-metal mineral products (+3.3% MoM) showed positive signs. The delayed start of incentives for car purchases is taking its toll. Against a backdrop of relatively soft demand, even a faster-than-anticipated disinflation phase has so far

been unable to provide a visible supply-side push in high-energy sectors.

Looking ahead, data from the EU Commission business confidence survey provides no short-term optimism for industry. In February, businesses reported a deteriorating production level, and the order subcomponent was confirmed to be at low levels, with the domestic part failing to signal any improvement. The decline in the stock of produced goods indicator was soft, implying no need for an imminent rush to re-stock given a light demand backdrop. This was mirrored in the forward-looking part of the survey, where the expectation for production and orders within a three-month horizon reached the lowest level since October 2020.

All in all, based on today's first bit of hard evidence on production and qualitative data, it seems likely that the first quarter will confirm that the exit from the manufacturing recession will not be swift. The risk that industry will not provide a positive push to GDP in the first quarter remains high.

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