

Another month of contracting industrial production in Italy

A third consecutive month of contraction confirms the ongoing soft patch in industry, with a divergence between consumer goods and investment goods. A swift recovery seems unlikely in the short term



Both Suez Canal disruptions and soft demand conditions are likely to hinder progress in production over the first quarter

According to data by the Italian National Institute of Statistics (Istat), seasonally-adjusted industrial production contracted by 0.6% month-on-month in March, posting the third consecutive monthly decline, against expectations of a modest expansion. The working day adjusted measure contracted by 3.2% year-on-year. With March data now in the bag, we know that industrial production contracted by 0.1% over the first quarter. However, as Istat signalled a positive contribution of industry to value-added at the preliminary estimate stage, we cannot rule out a minor downward revision when the second estimate is released.

Turning to the breakdown of today's data, we note a clear divergence between consumer, intermediate and energy goods, which are all in contraction, and investment goods, where production expanded on the month. We believe this is related to two ongoing factors: a re-composition of consumer demand away from goods and toward services, and the impact of the inflow of European Recovery and Resilience funds, which are activating private and public investments.

As far as the sector breakdown is concerned, we still see some weakness in energy-intensive sectors, such as chemicals, tiles and plastics, and a recovery in the production of transport equipment, possibly reflecting further improvements in the working of supply chains.

Looking ahead, based on business confidence and PMI data, a short-term recovery in industrial production does not seem likely, at least in the short term. Domestic and foreign orders have been slightly softening year to date and the April PMI fell to 46, well below the neutral level, also on the back of the production component.

The good news from these surveys lies with price indications. In April, both input prices and charged prices fell neatly, suggesting that, at least for goods, the disinflationary process will gain strength over the next few quarters, eventually helping a recovery in purchasing power and ultimately consumer demand. Having said that, we believe that although the strong 0.5% quarter-on-quarter GDP reading will be hard to repeat over the next few quarters, it will nonetheless leave 2023 with a positive statistical carryover. We now expect average GDP growth at 1.1% in 2023.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

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 www.ing.com.