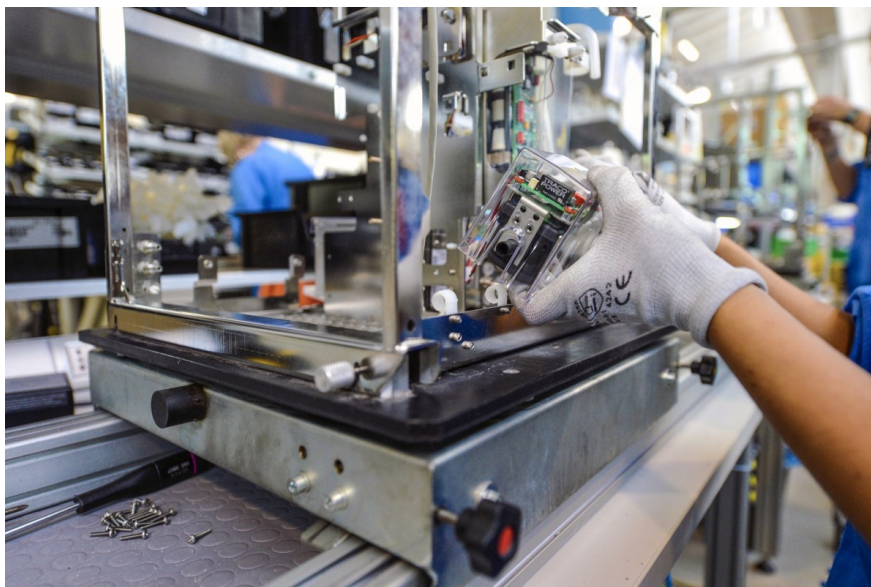


Another month of contracting industrial production in Italy

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.

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