

## Italy: Soft industrial production casts shadows over 3Q18 growth

A broad-based contraction in July, with modest consolation coming only from investment-related sector resilience. This should prove to be more food for thought for Italian political actors currently negotiating the content of the next budget



Source: Flickr

Latest Italian industrial production data came in extremely soft, suggesting Italy's economic soft patch possibly deepened over the summer.

In July, the seasonally adjusted industrial production contracted 1.8% month on month (from a downwards revised +0.3% in June), doing much worse than expected. The annual working days adjusted measure, better suited to monitor the trend in production, was even worse, signalling a 1.3% YoY contraction (from +1.4% YoY in June), the worst reading since January 2015.

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*Today's release shifts the balance of risks towards 0.1%, which would still be compatible with our average yearly GDP growth*

## forecast of 1.1% for the whole of 2018

A quick look at seasonally adjusted broad aggregates shows that softness was broad-based, affecting the production of investment goods (-2.2% MoM), consumer goods (-1.7% MoM), intermediate goods (-1.2% MoM) and energy (-0.8%).

Sector-wise, from a YoY WDA perspective, the production of pharmaceuticals, which led the charge so far this year, falls in deep red, as do sectors closely linked to the production chain such as non-metal minerals and wood and paper. The turnaround in the construction sector seems delayed once more. The only sectors which show positive YoY percentage readings are mining, electrical equipment and machinery and plants. The latter suggests that the good performance of investments shown by 2Q18 national accounts data might not be over.

Looking forward, industrial production perspectives don't look rosy.

August manufacturing PMI came in very soft at 50.1, very close to the contraction territory, which casts some shadows for 3Q18 growth. On past norm, the July-August composite PMI reading would be compatible with a 0.1/0.2% quarterly GDP expansion in 3Q.

Today's release shifts the balance of risks towards 0.1%, which would be still compatible with our average yearly GDP growth forecast of 1.1% for the whole of 2018. More food for thought for Italian political actors currently negotiating the content of the next budget.

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