

## Italy's industrial production decline worsens in April

This is a poor reading, which suggests that softening demand is, for the time being, outweighing the positive effect on supply of improving supply chains and declining energy prices



A woman works on a car production line in Turin, Italy

### Industry temporarily confirms the soft spot

According to Istat data, Italian industry had a very poor start in the second quarter. Seasonally-adjusted industrial production data was down 1.9% on the month in April (-0.6% in March), posting the fourth consecutive monthly decline. The working days adjusted measure was down a staggering 7.2% on the year (-3.2% in March), the worst contraction since the Covid pandemic in 2020. Today's report clearly exceeded the already negative expectations.

### Energy-intensive sectors still suffering

The monthly contraction affected all big aggregates, but was more marked for intermediate and investment goods. The sector breakdown shows that only pharma and coke/refined products posted positive monthly growth, while energy-intensive sectors such as metal products, paper, chemicals and tiles all contracted sharply.

## Widening gap between industry and services

Today's release marks a widening gap between industry and services. Production is deteriorating at a time when supply chain disruptions ease and energy prices are slowing down, suggesting that order books are emptying at a faster pace than suggested by monthly industry surveys. We have had some warnings from poor export data in the detailed national account release for the first quarter. A soft recovery in China, a technical recession in Germany (Italy's first export destination market) and the ongoing deterioration in the US do not bode well for short term developments in Italian production and a poor manufacturing PMI reading in May seems to corroborate these concerns.

## Industry a likely drag on growth in the second quarter

After April's release, the statistical carryover for industrial production in the second quarter is a poor -2.4% quarter-on-quarter: industry thus looks set to act as a drag on growth in the second quarter of 2023. The onus of growth will likely rest on services. Here, for the time being, indications are relatively benign. To be sure, in May the relevant PMI retreated somewhat, but at 54 it remains comfortably in expansion territory. We had warned that the surprisingly strong 0.6% GDP expansion in the first quarter would be difficult to replicate in the short run. Today's release reinforces our call. We are tentatively pencilling in 0.1% GDP growth in the second quarter, and forecast average growth at 1.1% for the whole year.

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