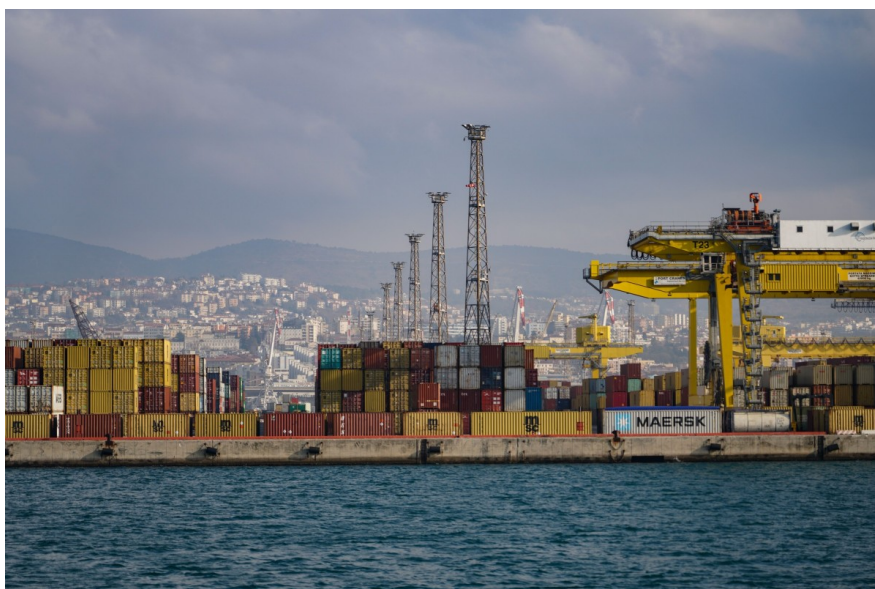


Temporary tariff truce to ease pressure on Italian industrial production

The manufacturing picture remains uncertain in Italy, but could be temporarily helped by the potential impact of a 90-day suspension of US tariffs announced by Trump yesterday



Hitting pause on tariffs could bring a brief recovery of Italian exports to the US. The positive impact on production could be helped even further by a temporary drop in energy costs

A weak start of the year for Italian industrial production

In February, seasonally adjusted Italian industrial production fell 0.9% from January, when a strong rebound in output had offset the December contraction, according to data released today by Istat. As is often the case in the months at the turn of the year, the volatility of the data is amplified by the distribution of holidays. As a result, it's helpful to look at the quarterly average, which smooths out this effect. Well, this shows that from December to February, industrial production fell 0.7% from the previous quarter. The level of production in February was still 7% below pre-Covid levels.

A breakdown by major industry groupings shows that driving the monthly decline in output are capital goods, intermediate goods, and consumer goods; only the energy sector shows a positive monthly change.

No big changes in the sector breakdown

Digging into the details, the sector breakdown does not indicate significant changes. We saw a significantly positive change for electricity production (+19.4% year-on-year) and, on the opposite side, confirmations of weakness in the manufacture of means of transport (-14.1%), textiles and clothing (-12.9%) and the manufacture of machinery and equipment (-9.7%). In cyclical terms, of note is an improvement from the construction sector, weighed down by the waning of the superbonus effect but supported by NRP-related infrastructure investment.

90-day tariff truce may temporarily help production

The outlook for the coming months is obviously going to be influenced by what occurs on the tariff front. From this point of view, the 90-day suspension of reciprocal duties against Europe announced yesterday by US President Donald Trump is certainly a positive, which should (if confirmed) help reduce uncertainty.

However, the economic picture remains complicated, with the economy almost stagnating. The manufacturing recession is still not over, and the short-term outlook remains uncertain. In March, manufacturing business confidence indicators gave mixed signals, with the Istat confidence index falling, and the PMI improving slightly but remaining in contraction territory. Still weighing on the former were unsatisfactory order dynamics and a process of inventory reduction that is struggling to materialise. It is hard to imagine that the recent market volatility will not leave any traces in businesses' behavior. However, the prospect of a 90-day tariff truce could bring a temporary recovery of exports to the US, possibly with positive effects on production, helped further by the temporary drop in energy costs.

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