# Italian industrial production fell again in June, raising doubts over 3Q growth

The poor reading increases the risk that industry will be a drag on growth in the third quarter and that the reopening push coming from tourism might not be enough to secure positive GDP growth this quarter


Car production line in Turin, Italy

The latest Istat data shows that Italy's industrial resilience has its limits. The Italian statistical office just reported that in June, seasonally-adjusted Italian industrial production fell by 2.1% month-on-month (-1.1% MoM in May), clearly worse than expectations. Looking at the big aggregate breakdown, only energy production expanded, while consumer, intermediate and, more intensely, investment goods, posted monthly contractions. In 2Q22, seasonally-adjusted industrial production posted a 0.6% quarter-on-quarter gain over 1Q22.

Looking ahead, the prospects for Italian industrial production do not look good. In July, manufacturing business confidence fell three points on the month, driven by a sharp decline in both domestic and foreign orders. Manufacturing PMI data also turned down: the headline index, at 48.5 in July, fell into contraction territory for the first time since June 2020. For the time being, the deterioration in confidence has not been matched by a decline in the employment component, though, possibly indicating that businesses still see the current decline as a temporary soft patch rather than a structural turn for the worse. This also fits with the modest contraction in production expectations in the confidence survey.

Having said that, second quarter production has a negative 1.8% statistical carryover from the first. It seems likely therefore that in 3Q22, industry will act as a drag on quarterly growth, leaving the onus of growth on services, from the supply side angle. This highlights the risks to our growth forecast for 3Q22. We are currently anticipating a minor GDP expansion for Italian GDP in 2Q22, based on a continuation of the reopening effect hinging on tourism and financed by a re-composition of consumption from durable goods to services. A fully-fledged industrial recession over 3Q22 would add downside risks to that call.

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