Italian industrial production up only marginally in February

February data confirms that Italian industry remains in its soft patch. Survey evidence suggests this will still be the case in the first part of the second quarter. Tentative improvements in energy intensive sectors support some optimism around positive supply side effects from lower energy prices

Car production line in Turin, Italy

Having contracted by 1.4% month-on-month in January, the seasonally adjusted industrial production index posted only a minor 0.1% increase month-on-month in February, coming in lower than consensus. On the year, the index adjusted for working days was down 3.1%. The soft patch in Italian industrial production continued in February, with differences across the big underlying components. Production contracted on the month for non-durable consumer goods and energy, was flat for intermediate goods, and expanded in investment goods and durable consumer goods. This seems to reflect the underlying dynamics of demand, with relatively soft consumption still hampered by the past erosion of real disposable income, and investment temporarily helped by the inflow of European Recovery funds.

A quick look at the sector breakdown shows a 0.6% monthly gain in manufacturing, resulting from continued softness in the textile sectors and improvements in most other sectors, notably in pharma and in high energy users such as chemicals and machinery and equipment. This provides tentative evidence of some supply side push coming from lower energy prices. Digging deeper, we see that sectors related to the construction chain are holding up well, in principle providing evidence that the effect of past generous tax incentives (mainly the so-called "Superbonus") has not evaporated yet.

All in all, today's production data suggests that the soft industrial patch is not over yet and evidence from recent business surveys does not point to any imminent improvement. Order books have stopped deteriorating and the de-stocking process seems far from complete. As a consequence, businesses expect only a minor improvement in production levels over the second quarter. With February data now in the bag, an unlikely sharp rebound in March production data would be needed to make industry a growth driver in the first quarter of 2024. Luckily, both services and construction looks set to compensate, allowing for positive GDP growth to materialise. We are now forecasting average Italian GDP growth at 0.7% in 2024.

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