Italian industrial production picks up in June, but continues to drag on growth

The Italian industry seems to be plateauing but could remain a growth drag in the second quarter, when the onus of growth is on services and construction. For the time being, the Italian economy will struggle to do much better than stagnation

We already know that Italian GDP contracted in the first quarter and that industry played a role in the decline. Yet today's release of June industrial production data adds some colour to the picture.

After rebounding in May, seasonally-adjusted industrial production increased by 0.5% on the month in June, beating expectations. The positive surprise did not prevent the April-June quarterly average from posting a 1.2% contraction from the previous quarter.

The monthly gain was more marked in investment goods, and intermediate goods and energy also posted positive growth, with only consumer goods posting a monthly contraction. Sector-wise, the good performance of transport equipment seems to confirm that the improvement in supply chains is ultimately filtering through the sectors which were most severely penalised at the height of the pandemic. Energy-hungry sectors more vulnerable to the acceleration of energy prices are offering a mixed picture: while chemicals seem to still be suffering, the production of non-metal mineral products and paper is showing signs of improvement, suggesting that the fall in energy prices might start having positive supply-side effects.

Looking ahead, the decline in production might be plateauing, but we do not believe that a sustainable rebound is in the making yet. July business surveys showed a further deterioration in order books and fairly stable inventories. Not the best mix to accelerate production over the summer months. The manufacturing PMI posted a modest monthly gain in July, but, at 44.5, remains in contraction territory.

Industry, therefore, looks set to remain a growth drag in the third quarter, but possibly less than it was in the second. The onus of growth will likely rest on services and construction, benefiting in turn from a good tourism season and the final rush to complete works benefiting from generous tax incentives. We believe that the combination of these factors will allow a return to modest positive GDP growth in the second quarter. The Italian economy might thus manage to avoid a technical recession, but, for the time being, can hardly do better than stagnation.

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