Italian industrial production plunged in December

The decline was widespread, marking the second consecutive year of industrial recession. Given the highly uncertain environment, the prospects for a swift and sustained recovery appear bleak

A factory worker in Milan

Anyone looking for signs of a potential recovery or at least stability in Italian industrial production by the end of 2024 will be disappointed by the December data.

Production had been almost stable since July 2024 but December marked a downward shift. The 3.1% monthly contraction in seasonally adjusted terms (vs +0.3% in November) was markedly worse than expectations. On the year, working day adjusted industrial production was down 7.1%, the steepest contraction since the Covid-19 period. Production contracted on a quarterly basis in every quarter of 2024 and the average yearly contraction for 2024 was a hefty 3.5%. This marks the second consecutive year of deep industrial recession.

A quick look at the sector breakdown shows that December brought about a broad-based deterioration in yearly performances: transport equipment, textiles and metal products were the confirmed growth laggards, while energy and quarrying were the only big sectors posting yearly positive growth.

Looking ahead, the macro environment isn't quite conducive to an imminent recovery in industrial activity. Order books as reported by business surveys have been subdued over the last few months, and the January reading posted only a minor uptick in a declining trend. This looks consistent with a reported level of inventories which has not declined enough to spur a re-stocking cycle. Add to this growing concern about a possible new round of US tariffs on EU exports, and you have the perfect mix for a continuation of manufacturing struggling over the next few months. The recent acceleration in gas prices is not helping either; if protracted, it might temper the tentative supply-side push impulses we had noticed in some energy-intensive sectors over the second half of 2024.

If today's data partly reflects firms' decisions to start the Christmas break early due to weak demand, a technical rebound in January cannot be ruled out. This would not alter the broad picture, which remains gloomy in the short term. For the time being, industry is not set to become a growth driver, and the onus of growth will likely lie on services and part of the construction sector.

We currently expect average GDP growth of 0.7% in 2025; today's release adds downside risks.

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

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