

## Italian industrial production rebounded in December, beating expectations

Industry may have been less of a drag on fourth-quarter GDP growth than expected. Positive signals from confidence data in January warrant some optimism, but do not clear the way for a substantial short-term acceleration, given the uncertain external environment



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### Production rebounds, not in energy-intensive sectors

In December, industrial production rebounded an unexpectedly strong 1.6% in seasonally-adjusted terms, after three consecutive monthly declines. Production expanded on the month in all of the large aggregate categories, but more markedly in capital goods and energy. The sector breakdown shows that the ongoing improvements in the functioning of supply chains had a positive effect on transport equipment. However, energy-intensive producers of chemicals, plastics and tiles, paper, and metals and metal products continued to suffer, signalling that the impact of the energy shock was still weighing on supply by the turn of the year.

## The consequences of the energy crisis weighed heavily on industry in 2022

During 2022 as a whole, industrial production posted a 0.5% increase, driven by consumer and capital goods. Almost inevitably, the consequences of the war in Ukraine on energy prices weighed heavily on the manufacturing sector over the year. The measures put in place by the government provided only partial compensation and manufacturing acted as a drag on economic growth. This put the onus on services to fuel growth.

## Confidence improvement encouraging, but short-term acceleration unlikely

With the December release now in the bag, we now know that the statistical carryover for 2023's industrial production is a modest 0.3%. Business confidence data published after the turn of the year was positive but did not dispel uncertainty. While the PMI entered expansion territory, orders remained soft and the stock of finished goods is relatively high, suggesting that a substantial acceleration in production is unlikely, at least in the short run. To be sure, the consolidation of wholesale gas prices at current levels could help to support businesses, particularly in energy-intensive sectors.

Today's release does not change the picture for GDP growth in 2023. We are currently forecasting average GDP growth at 0.7% in Italy, with a minor 0.1% quarterly contraction in the first quarter. Should early positive signals be confirmed, a flat or mildly positive first quarter could easily materialise.

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