

## Italian industrial production rebounds in May, but it could prove temporary

The distribution of holiday days in April could be one explanation behind the reason behind recent volatility in Italian industrial production. We continue to see industrial weakness, at least in the short run



Both Suez Canal disruptions and soft demand conditions are likely to hinder progress in production over the first quarter

### Recent strength may be short-lived

After contracting by 1.9% month-on-month in April, Italy's industrial production beat expectations and rebounded by 1.6% in May. We had anticipated a sound rebound – but we're also mindful that this could be heavily affected by the distortive effect of the distribution of holiday days in April that could have induced temporary plant closures. Under these circumstances, we prefer to look at the 3m rolling change. This shows the quarterly change in the February to May average to November to January remaining a negative 1.8% quarter-on-quarter.

When looking at yearly changes by sector, we're seeing clear indications of an improving trend for those who had been more exposed to supply chain disruptions related to chip shortages (automotive, computer and electronics) and of persisting difficulties in those more vulnerable to the energy price crisis (chemicals, refined products, paper, metal products). In year-on-year terms, all aggregates – aside from the production of investment goods – were in contraction. This was not

immediately obvious, considering existing delays in implementing the recovery and resilience plan.

Looking forward, we believe that industry looks set to flatline at best – at least in the short run. Manufacturing business confidence deteriorated further in June, as did the relevant PMI. Faced with softening orders and stable stock of finished products, production plans aren't likely to be stepped up – and declining energy prices are not yet providing a powerful enough supply incentive. Industry looks set to act as a drag on value added creation in the second quarter, but services should prove strong enough to allow for positive GDP growth.

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