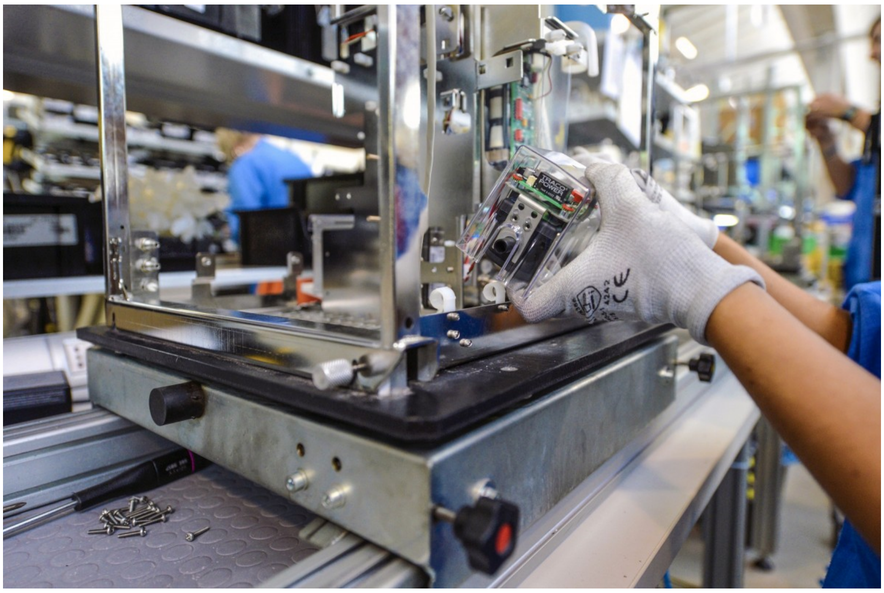
Italian industrial production rebounds in May, but it could prove temporary

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.

Author

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.