Italian industrial production sees a small summer rebound

With industry at best flattening out in the third quarter, the onus remains on services and construction for growth. For the time being, the Italian economy will struggle to do better than stagnating

Italian industrial production data has seen something of a seesaw pattern over the summer. August's figures, which showed a 0.2% gain over the month from -0.7% in July, confirmed that pattern. Production stands now just 0.6% higher than in December 2019 in pre-Covid times.

The monthly gain was driven by consumer goods (+1.2%), while investment goods (-0.1%), intermediate goods (-0.9%) and energy (-2.2%) all contracted. Sector-wise, within the manufacturing domain, only pharmaceuticals (+18.3%) and transport equipment (+5.7%) are now showing positive gains in year-on-year terms. The others are all in negative territory, with wood and paper (-22%) and textiles and leather products (-12.8%) as the worst performers. The breakdown suggests that the normalisation of supply chains has had a positive effect on production and that energy-hungry sectors remain vulnerable, given the recent turns in the international backdrop.

Looking forward, it seems as though the decline in production might be plateauing, but we do not believe that a sustainable rebound is in the making as yet. September business surveys continued to show soft domestic and foreign order books, with firms signalling growing stocks of finished goods. A lack of demand is apparently becoming an obstacle to production. This isn't the best mix for generating a production acceleration over the summer months. True, the manufacturing PMI posted a modest monthly gain in September – but at 46.8, it still remains in contraction territory.

From June to August, production increased by 0.4% from the March-May period. A flat reading in September would result in fairly flat production over the third quarter. If this is the case, the onus will likely rest on services – tourism services in particular – and construction for growth over that period. Unfortunately, available tourism data does not allow us to draw a clear conclusion on the past summer season; it seems it was successful for international flows, less so for domestic flows.

On the construction front, the final rush to complete works benefiting from expiring generous tax incentives should have continued supporting activity over the summer, with a possible positive bearing on GDP. We believe that the combination of these factors could allow a return to very modest positive GDP growth in the second quarter, helping Italy to avoid a technical recession. But this would be of meagre comfort as the environment remains one of economic stagnation. Slow growth and higher-for-longer interest rates are not the best mix to appease rising debt sustainability concerns.

Author

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