

## Italian industrial production softens in May

In our view, notwithstanding the monthly decline, industry will manage to provide a positive supply-side contribution to GDP growth in 2Q22



We continue to note a relative resilience in Italian production data

After three consecutive monthly gains, seasonally-adjusted industrial production in Italy contracted by 1.1% month-on-month in May, in line with expectations. The working day-adjusted measure reads +3.4% year-on-year (from 3.9% in April). In May, the level of seasonally-adjusted production was 3.3% above February 2020 (pre-Covid) levels.

Looking into the broad aggregates, we note that the main driver of the monthly contraction was energy production (-7.7% MoM) while manufacturing production was down by only 0.6% MoM.

Comparing May's Italian reading with data from other core European countries, we continue to note a relative resilience in Italian production data with respect to the resurgence of supply constraints. While Italy is not immune to those developments, for the time being, it seems that the combination of a favourable production specialisation pattern (which is less polarised than, say, the transport equipment sector in Germany and France, which leaves them vulnerable to chip supply disruptions), and a possible re-opening effect is temporarily acting as a powerful hedge.

Looking forward, based on June business confidence surveys, we expect Italian industrial production to post a small rebound in June. Order books have held up decently, and the level of

inventories, while trending up, is not yet at levels warranting a phase of decumulation. If this is the case, chances are that, unlike in 1Q22, industrial production will end up being a supply-side growth driver in 2Q22. Even a flat reading in June would lead to a comforting 2.1% production gain in 2Q22.

We are currently anticipating Italian GDP to grow by 0.2% quarter-on-quarter in 2Q22, but we do not rule out upside risks to our call. For the whole of 2022, we forecast Italian GDP to grow by 2.9% YoY.

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