

## Italy's industrial production surprisingly accelerated in August, but it won't last

Volatile August production data should be taken with a pinch of salt as underlying developments continue to point to more accentuated weakness over 4Q22, when industry will very likely be confirmed as a drag on growth



Car production line in Turin, Italy

According to Istat data, Italy's seasonally-adjusted industrial production increased a surprisingly strong 2.3% month-on-month in August (from an upwardly revised 0.5% in July). The working day adjusted measure posted a 2.9% year-on-year change (from -1.3% YoY in July).

### **"August effect" possibly at play, in 3Q22 industry should remain a drag on GDP growth**

The broad aggregate breakdown shows that consumer and investment goods were the main drivers of the acceleration while the production of energy contracted. To be sure, this is a positive reading, but it should be taken with a pinch of salt, as the August release is often affected by marked volatility due to firm closures and their impact on seasonal adjustments. In order to get a sense of the underlying developments, we look at the moving quarter and note that over the June-August period, production contracted by 1.2% from the previous three months.

## Confidence and PMI data point to a deterioration in September

While the August reading can still be partially interpreted as evidence that Italian industry continues to be relatively more resilient to international supply chain disruptions and to ballooning energy prices, we expect the picture to get gloomier over the coming months. The manufacturing PMI has been in contraction territory since July and business confidence plunged in September, with the expected production subcomponent down to levels not seen since November 2020. The set of measures recently put in place by the outgoing government to weather the energy inflation shock will help limit the damage for businesses but is unlikely to stop industry from becoming a drag on growth in both 3Q22 and 4Q22. The European Central Bank's tightening mode will not make things any easier over the next few months, possibly weighing on the investment component.

## A GDP contraction could still be avoided in 3Q22, not in 4Q22

After today's reading we are mildly comforted in our view that the Italian economy might manage to avoid a contraction in 3Q22 (we expect a minor 0.1% GDP expansion) but remain convinced that this will not be possible in 4Q22, when we project a 0.5% quarter-on-quarter contraction, which should mark the start of a recession.

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