

10 November 2017  
Snap

## Italian industrial production takes a breather

September's temporary setback shouldn't be over-emphasised. The data is still compatible with a slight acceleration in quarterly GDP growth

**1.3%** Industrial production

Worse than expected

According to Istat, Italian industrial production contracted 1.3% MoM in September in seasonally-adjusted terms and expanded by 2.4% YoY once working-day adjusted (WDA) - worse than expected. Today's disappointing reading comes after a positive surprise in the August release, suggesting the summer holiday closure effect might have been poorly reflected in seasonal adjustment procedures. We don't think this setback, after three consecutive monthly increases, should be over-emphasised.

The contraction was driven by the energy component (-6.3% MoM), followed by intermediate goods (-3% MoM) and by investment goods (-2%), while consumer goods were marginally in positive territory (+0.4%). The sector breakdown shows that manufacturing equipment installation was the fastest growing sector (+11% YoY in WDA terms), followed at some distance by transport equipment (+5.6% YoY in WDA terms). The ongoing pick-up in the investment equipment component is not jeopardized, in our view, as businesses are ultimately taking advantage of an improved external backdrop and of tax incentives introduced in the last budget law.

With the September reading now in the bag, we note that industrial production has expanded by 1.5% QoQ in 3Q (from 1.2% in 2Q). When read in conjunction with recent progress in the labour market and synchronized gains in confidence indicators, this seems enough to justify our forecast for a slight acceleration of quarterly GDP growth in 3Q17 to 0.5% QoQ (from 0.4% in 2Q).

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