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Italian industrial production posts a small contraction in May

After three consecutive monthly gains, production took a breather in May. Resilience in the sector has been broadly confirmed, suggesting that industry will likely remain a growth driver in the second quarter, when GDP could still expand marginally

Resilience in Italian industrial production is likely to bolster growth moving forward

Both hard data and business surveys have so far pointed to industry as the most resilient part of the Italian economy over the first part of 2026, irrespective of the war in the Middle East and its impact on energy prices. Industrial production for May data just released by Istat seems to confirm that this remains the case; seasonally adjusted industrial production contracted by 0.3% on the month, a whisker more than consensus and our expectations. This comes after three consecutive monthly gains, and leaves the quarterly gain seen in the March-May period at +0.9% from December-February. On a yearly basis, the calendar-adjusted measure is up 1.1% as of April.

Looking at the breakdown by major aggregates, the pattern of the first months of the year is clear: production increased substantially in the investment goods domain (+4.2% over the same period of 2025), decently in intermediate goods and energy (+0.4%) and contracted in the consumer goods domain (-2.9%), particularly for durables (-8.9%). The sector breakdown confirms a strong performance in the first five months of 2026 for transport equipment (+11.5%), with solid growth also visible in machinery (+2.8%) and computers and electronics (+2.8%) and a recovery in pharma (+3.4%), the undisputed leader over the course of 2025. At the other end of the spectrum, textiles (-4.8%), coke and refined products (-3.9%), chemicals (-3.5%) and other manufacturing (-4.8%) continue to lag.

Looking ahead, the statistical carryover for the second quarter after May's release has industrial production up 0.7% over the first quarter. Based on available business surveys, a relatively flat June reading appears a good estimate, with a possible improvement down the road if signals of diminishing stocks of finished products are confirmed and improvements on the German industrial front materialise. We are not seeing evidence of a rapid acceleration in production, but rather of a tentative and gradual turnaround – similar to that seen at the beginning of the year before the outbreak of the US-Iran war.

Translating this into GDP growth perspectives, the May industrial production release points to a positive contribution of industry to quarterly GDP growth. This should only partially compensate for the negative contribution of services, likely reflected in softer consumption in the quarter. We continue to expect GDP growth to decelerate in the second quarter after a surprisingly strong +0.3% in the first, while remaining just marginally in positive territory. Our preferred profile for the second half of 2026 foresees a very gradual acceleration, with average Italian GDP growth for the whole of 2026 at 0.8%.

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