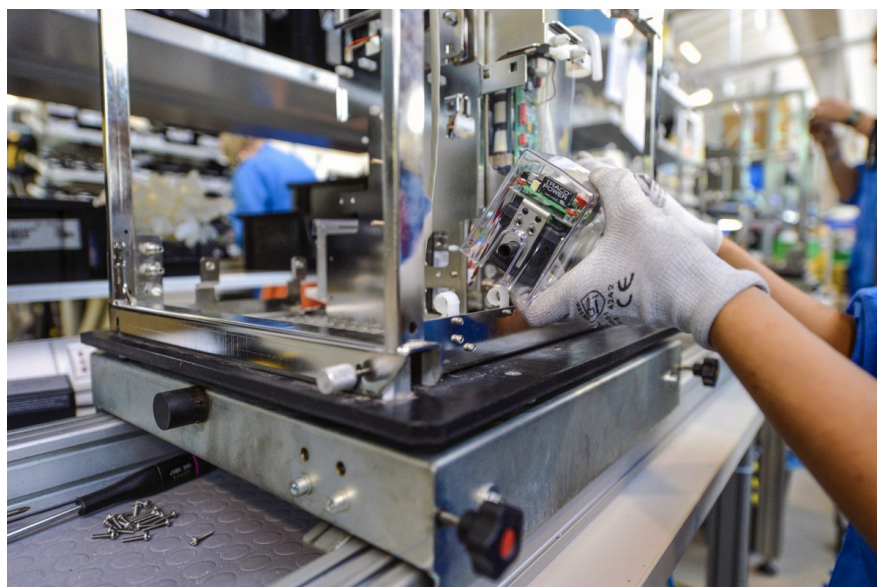


Soft patch in Italian industrial production deepens in November

The broad based deterioration suggests that industry will be a growth drag in the fourth quarter of 2023, and confidence data doesn't currently point to an imminent turnaround



Both Suez Canal disruptions and soft demand conditions are likely to hinder progress in production over the first quarter

Ending the year in stagnation mode

The soft patch in Italian industrial production deepened in November, according to Istat data. Seasonally adjusted data shows a 1.5% monthly contraction (from -0.2% in October), which was clearly worse than expected. The average yearly change in 2023 over January-November is down 2.5% from the same period of 2022. Current production levels stand more than 4% lower than in pre-Covid months.

A quick look at components shows that all big industry groupings posted substantial monthly contractions, with the exception of investment goods, which were only marginally down. The sector breakdown confirms previous patterns, with energy intensive sectors such as non-metal mineral products plastics, metal products and chemicals clearly down on the year. Coke and refined products, transport equipment and machinery were in positive territory.

Data seems to confirm that industry – having proved relatively resilient over the post-Covid rebound phase – is synchronising with the rest of core Europe, feeling the brunt of a weak German

economy and softer conditions than hoped for in China.

Looking ahead, business surveys do not legitimise expectations of an imminent turnaround in Italian industrial production. Confidence deteriorated in December among manufacturers, and the stabilisation of orders at low levels doesn't look especially comforting. The decline in the expected production component suggests that the first quarter of 2024 will be difficult for industry. For the time being, a positive supply side effect driven by the energy price deflation seems a bit premature, given the slow decline in inventories. An improvement might gradually materialise starting from the second quarter, when the rate cut expectation effect should start impacting demand.

As far as growth in the fourth quarter of 2023 is concerned, today's release confirms our view that industry should act as a drag. Over the September-November period, industrial production contracted by 0.8% over the previous quarter; we would need an very strong number in December for industry to act as a growth driver. We therefore confirm our forecast of a minor negative GDP contraction in the fourth quarter, which would simply confirm that the Italian economy ended the year in stagnation mode.

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