

Italy: Industrial production disappoints in February

Fears of a recovery slowdown in Italy are picking up



-0.5%

Italy industrial production MoM

Second contraction in a row

Lower than expected

Industrial production contracts for the second month in a row

Italian Industrial production contracted by 0.5% in February MoM (-1.8% in January) in SA terms and by 2.5% YoY in WDA terms (+4.4% YoY in January), contradicting consensus expectations of a 0.8% MoM expansion. That's all according to the latest Istat data. The contraction involved consumer goods (-2.4% MoM), intermediate goods (-1.5% MoM) and investment goods (-1% MoM), with only energy in expansion (+8% MoM). Sector-wise, pharmaceuticals have clearly taken the lead in YoY terms, followed by machinery and metal products. The deceleration in transport equipment is apparently taking its toll on the aggregate reading, as is the continued softness in sectors which are part of the construction chain.

Risks of a softer growth data in 1Q18

February data shows that the risks of a softening of the ongoing recovery are rising. With domestic and external order books filling at a decent rate until December and with expected production still pointing north, we do not expect a protracted production setback in the short run. However, recent business confidence indicators suggest the combined effect of international trade tensions and domestic political uncertainty are becoming a concern to domestic producers. The investment goods component, and particularly the machinery component, which has been the main driver of the manufacturing recovery over 4Q17, will deserve close monitoring.

Today's release adds downside risks to our 0.4% QoQ forecast for 1Q18 GDP growth. While PMIs look still fully compatible, production data are making that call a bit stretched.

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