

Italy: Industrial production rebounds in May

Despite the broad-based improvement in industrial production data, we expect a slight softening in quarterly growth to 0.2% in 2Q18 and average yearly growth to 1.2%



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After contracting a downward revised 1.3% quarter on quarter in April, the seasonally adjusted Italian industrial production rebounded by 0.7% month on month in May, broadly in line with expectations.

The recovery was widespread across big aggregates, with energy (+1.2% QoQ), intermediate goods (+0.9% QoQ), investment goods (+0.4% QoQ) and consumer goods (+0.2% QoQ) all in the positive territory. From an annual perspective, the working day adjusted production was up 2.1% YoY, which is still a decent pace of expansion, albeit softer than the year to date 2.8% reading.

Investment-related sectors gaining ground, construction confirms laggards

Sector-wise and year to date, the pharmaceutical sector (+7.2% YoY in WDA terms) confirms the fastest growing sector, closely followed by electrical appliances (+5.3% YoY), machinery and plants (+5.1% YoY), all of them investment-related sectors. This is good news, as it signals that election-related political uncertainty hasn't stopped Italian businesses' investment process.

On a more negative note, construction-related sectors continued their mild contraction, confirming the turnaround has yet to materialise.

Expect a slight softening in GDP growth in 2Q18

In the three months to May, production was down 0.4% from the December-March period, confirming the soft patch might have extended into 2Q18. We believe this was the case and, notwithstanding some positive news coming from the labour market in May, which was reflected in resilient consumer confidence, economic activity might have softened a bit in 2Q18.

All in all, the combination of industrial production, labour market and confidence data seems to be pointing to a slow down of GDP growth in 2Q18 to 0.2% QoQ (from 0.3% QoQ in 1Q18). If, as we believe, quarterly growth will stabilise at a quarterly 0.3% QoQ pace over 2H18, we should expect average Italian yearly GDP growth at 1.2% in 2018.

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