Italian industrial production in April confirms manufacturing soft patch

May's PMI and business confidence data point to a continuation of the manufacturing soft patch through the rest of the second quarter

April industrial production data came in softer than expected

Industrial production data for April came in softer than expected, confirming that the soft patch is far from over. The seasonally-adjusted production index contracted by 1% on the month, and the calendar-adjusted index was down 2.9% on the year. The monthly contraction was unevenly distributed: energy production was down 2.1% on the month and intermediate goods fell by 1%; investment goods were down 0.1% and consumer goods turned out flat.

A quick look at the sector breakdown shows that the monthly contraction was particularly marked for coke and refined oil products and for chemical products. The sectors part of the construction value chain, such as wood and non-metal mineral products, also contracted, possibly signalling that the accelerated phasing out of the superbonus tax incentive is finally starting to bite. The monthly growth in electronic and electrical equipment, on the other hand, might suggest that supply chains are functioning quite well, notwithstanding persisting disruptions in transits through the Suez Canal.

Soft PMI and business confidence production and order sub-components do not legitimate hopes for a quick turnaround

Looking ahead, evidence from the PMI and business confidence data for May do not signal any imminent improvement. The manufacturing PMI fell in May to 45.6 (from 47.3 in April), with the softening in the production component mirrored in the production level sub-index of the monthly business confidence survey. The weak readings of the order components in both surveys do not legitimate hopes for a quick turnaround in industrial production. Today's soft release attenuates the upside growth risks we highlighted when the GDP breakdown for the first quarter was disclosed a couple of weeks ago. We then signalled that a very negative contribution of inventory change could bring about higher growth when normalising. We still believe that this could be the case, but is less likely during the second quarter of 2024.

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