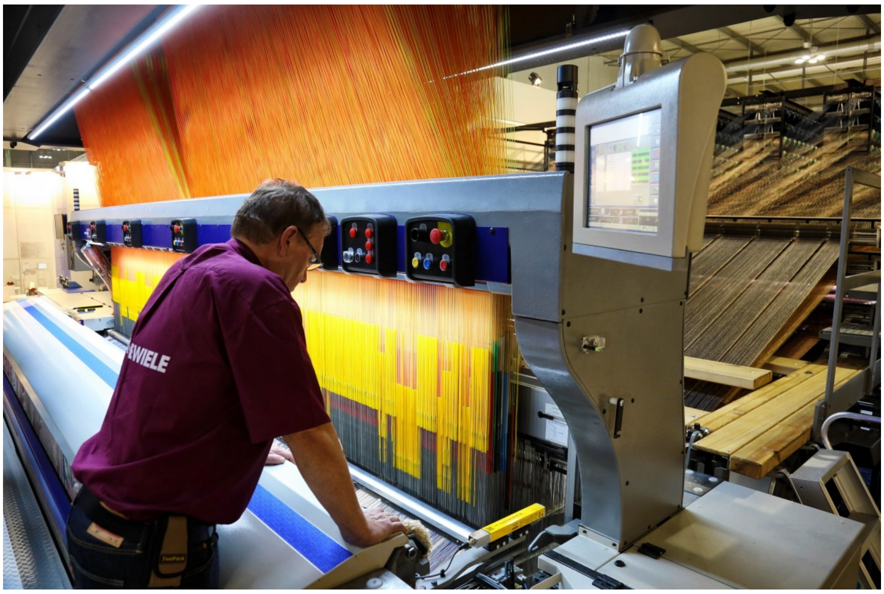
# Italian industry bounces right back

January Italian industrial production has regained the ground lost in December. Despite some short-term volatility, production appears to be stabilising with limited room for short-term acceleration




Manufacturing textiles in Milan

## Overall growth is flat when stripping away the volatility

After a surprisingly sharp 3.1% monthly fall in December, Italian industrial production fully regained the lost ground in January with a 3.2% monthly rebound, doing better than consensus. Such high volatility in the seasonally adjusted measure has to do with the distribution of working days over the two months. Comparing the November-January period with the previous quarter, we have flat growth, which is a more credible picture of the actual state of industrial conditions. The manufacturing soft patch is not over yet, but is stabilising.

## No big news from sectors

The working days adjusted measure posted a 0.6% yearly contraction, with intermediate, investment, and energy goods all in negative territory and consumer goods production modestly expanding thanks to the durable goods component. There was no big news from the sector breakdown, with pharma solidly growing (+21.7% on the year) and transport equipment (-13.1%) and textiles (-12.3%) as the clear laggards.

## No acceleration in sight in the short run

Looking ahead, there is some tentative evidence of improvement. In February, manufacturing business confidence ticked up marginally, and the relevant PMI increased to 47.4. It is still in contraction territory, but the softest rate of decline in five months. As for order books' indicators, they marginally improved in February, more perceptibly in the foreign component. We believe this might reflect some import frontloading ahead of likely upcoming tariffs rather than a sustainable improvement in demand. Surveys also report a very limited decline in stocks of finished goods year to date, too little to call an imminent start of a re-stocking cycle.

## EU military and German infrastructure spending may help longer term

If the short-term outlook is stable, the European Re-Arm plan and German infrastructure spending are likely to positively impact Italian industry in the long term. Although the urgency may expedite their approvals, it will take time for these investments to significantly reflect in Italian production figures. Nonetheless, there is some light at the end of the tunnel.

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