

Small rise in Italy's industrial production in November does not signal turnaround

Notwithstanding the small increase in November, the production picture is unlikely to improve anytime soon, burdened by a highly uncertain external environment which will continue to hamper the investment goods domain in the short run



Industrial production in Italy was up 0.3% on the month in November, broadly in line with consensus and our own forecasts.

Slight improvement in November production does not signal a turnaround, yet

The release of November industrial production data does not mark a break in the manufacturing recession big picture but tentatively suggests that production might be plateauing.

Seasonally adjusted production, released by Istat, was up 0.3% on the month in November (from +0.1% in October), broadly in line with consensus and our own forecasts. The working days adjusted measure contracted 1.5% on the year (from -3.5% in October), confirming an uninterrupted streak of negative yearly readings which started in February 2023.

Consumer goods fare better, investment goods burdened by weak demand

The big aggregate breakdown shows a monthly expansion in the production of energy and consumer goods and a contraction in intermediate and investment goods. This seems to reflect the development of the demand components towards the end of 2024, with private consumption somehow revitalised by gains in household purchasing power and subdued investment dynamics, particularly in the machinery and transport equipment domains. The sector breakdown in today's release provides supporting evidence of this, as the production of transport equipment (-15.5% on the year) and machinery (-13.8% on the year) indeed proved the worst performing sectors of the pack.

Uncertain external environment lays the ground for a softish start in the first months of 2025

Looking ahead, it seems too early to envisage a substantial improvement in the production picture. In December, the same drags that held back production in November were still in place and the prospect of possible new tariffs under the incoming Trump administration inevitably adds uncertainty over the first few months of 2025. This was reflected in the slight deterioration in the current and expected order book subcomponents of the December manufacturing business survey. Add to this the lingering difficulties in the French and German economies (the two top destination markets for Italian exports), which are unlikely to change in the short run, and we could well see further softness in Italian industrial production over the coming months.

As industry continues to act as a drag or, at best, turn neutral for growth, the onus will remain on the services sector to drive the economy. Consequently, Italy is expected to stay in its soft growth phase for now. We estimate average GDP growth at 0.5% in 2024 and forecast it to be 0.7% in 2025.

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