

## Soft start to 2023 for Italian industrial production

The worse-than-expected January release and business confidence data suggest that a clear turnaround in manufacturing activity won't materialise in the first quarter of 2023



The surprisingly strong 1.2% monthly expansion of industrial production recorded in December 2022 did not continue in January, which saw a worse-than-expected 0.7% contraction. The working day adjusted measure is up 1.4% on the year, providing only partial comfort.

The sector breakdown does not provide strong directional indications but shows that energy-intensive sectors such as chemicals and metal products performed better than others, possibly reflecting the positive impact of falling energy prices. There were no clear indications from sectors more heavily hit by past supply chain disruptions, where production contracted in transport equipment and expanded in electronics.

Looking ahead, we don't expect an imminent substantial acceleration in production. In February, manufacturing confidence was stable on the month, with production and the order subcomponents improving only marginally. The consolidation of gas prices at relatively low levels

should in principle continue to help energy-intensive sectors, but at the same time the impact of past interest rate hikes should be increasingly visible on demand. Indications coming from the finished goods inventory component of February's business confidence survey look still inconclusive. There is no generalised strong need to re-stock for the time being, but a timid indication that some re-stocking could be more likely in investment goods than in consumer goods.

Today's release seems to suggest that the Italian economy will flirt with a technical recession in the first quarter of 2023. We are currently pencilling in flat GDP growth in the first quarter, and expect a very gradual recovery over the rest of the year, with average GDP growth at 0.7% in 2023.

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