

# Italy

## Industrial production fall confirms survey signal of deepening downturn

- Industrial production slumps 1.0% in July
- Trend is weakest since May 2013
- Data add to risk of further GDP fall

Italy's economic nightmare shows no signs of abating as official data on the health of Italian industry showed a deteriorating situation in July, boding ill for economic growth in the third quarter and confirming downbeat survey data. Output fell 1.0%, more than reversing a 0.8% increase in June and adding to fears that GDP could shrink again in the third quarter, extending Italy's third recession since the financial crisis struck.

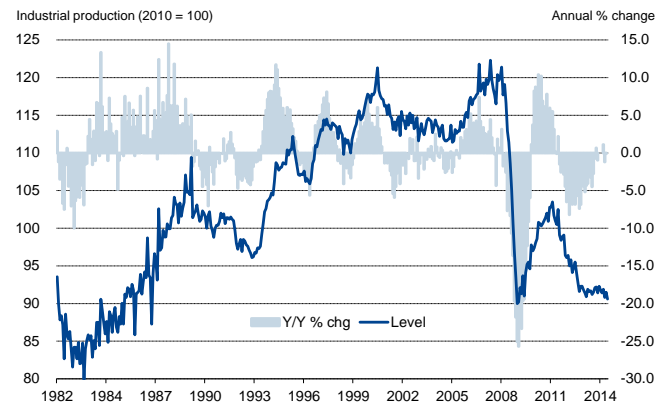
The latest data from Istat show industrial production trending firmly downwards again. In the latest three months, output is 0.8% lower than the prior three-month period, which is the worst performance since May of last year. This is a marked turnaround from earlier in the year. Output was growing 0.4% on a three-month basis in January. Production is now just 0.7% higher than in the depths of the financial crisis, having lost almost all of the gains seen as the economy rebounded in 2010 and early 2011.

### Third quarter weakness

Worse may be yet to come. Markit's PMI survey data showed a deterioration in manufacturing performance in August for the first time since June 2013. Although only marginal, the downturn signalled a disappointing weakness of the goods-producing sector after promising signs of renewed life earlier in the year. The survey responses suggest that weak domestic demand has been exacerbated by foreign trade being hit by the crisis in Ukraine, due to either sanctions or uncertainty about the outlook. Export orders rose at the slowest rate for 14 months.

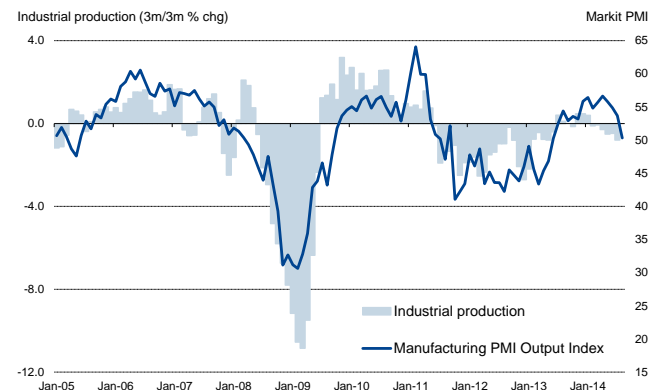
The data therefore represent a subdued picture of economic activity in the third quarter so far, suggesting GDP could fall again after dropping 0.2% in the second quarter and 0.1% in the first three months of the year. Italy's economy is now 9.1% smaller than its pre-crisis peak. Excluding government spending, it is 10.5% smaller and back to a size last seen in 1999.

Italy industrial production



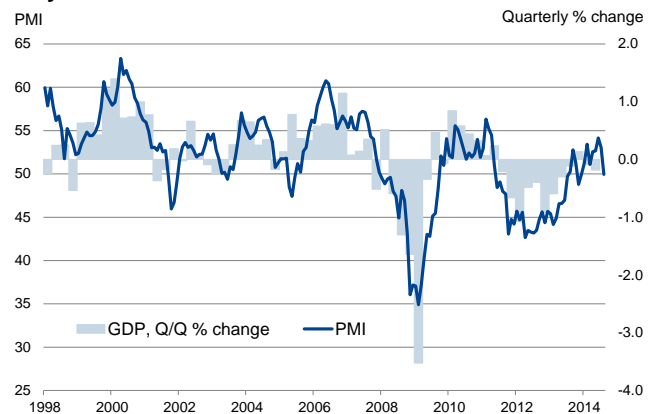
Sources: ISTAT via Ecowin.

Italy industrial production and the PMI



Sources: Markit, ISTAT via Ecowin.

Italy GDP and PMI



Source: Markit calculations from Ecowin

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