

Italy

Industrial production fall raises worries over third quarter GDP

- **Production down for second month running in August, meaning GDP could fall in Q3**
- **PMI data suggest underlying recovery in place**

The latest official data are painting a disappointing performance of the Italian industrial sector in the third quarter, raising concerns about the ability of the country to pull out of recession. However, survey data suggest that the weakness is a temporary payback after a better than expected second quarter, and that – barring any shocks – the economy is on a firm recovery path.

Industrial production fell for a second month running in August, down 0.3% after a 1.0% decline in July. The renewed downturn takes production to its lowest since March 2009. So far, the production data for the third quarter have fallen 1.0% below the second quarter average.

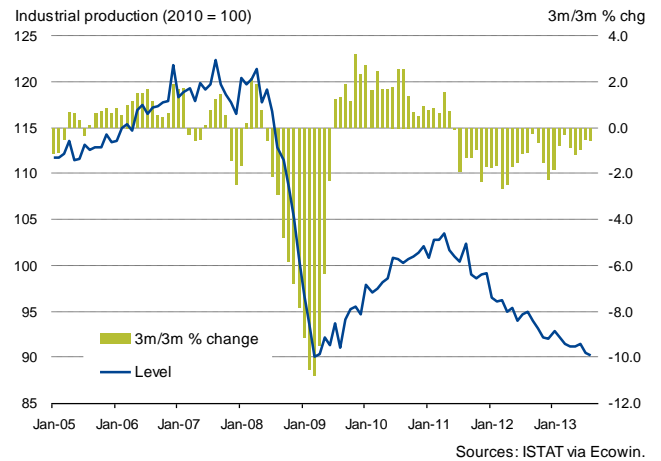
However, the declines follow two months of better than expected performances in May and June, when modest expansions were recorded. This suggests that we may simply be seeing some temporary payback in the third quarter from the surprising return to growth seen towards the end of the second quarter, in which case growth will pick up again in coming months.

The official data also contrast with PMI survey evidence which indicate that manufacturing output rose in the third quarter after contracting in the second quarter.

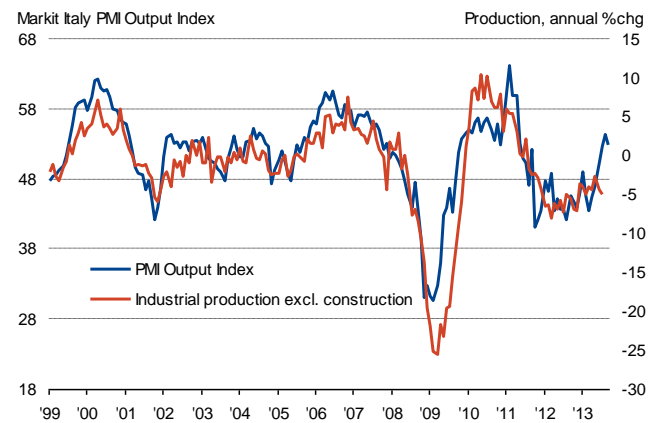
Services have also improved alongside the manufacturing upturn, and in September the PMI covering both sectors rose to its highest since April 2011. This took the third quarter average up to 50.9 compared to 46.7 in the second quarter.

The data therefore suggest that the official third quarter GDP data may show the country still mired in recession. However, the good news is that the underlying trend looks to be one of a gradually recovering economy.

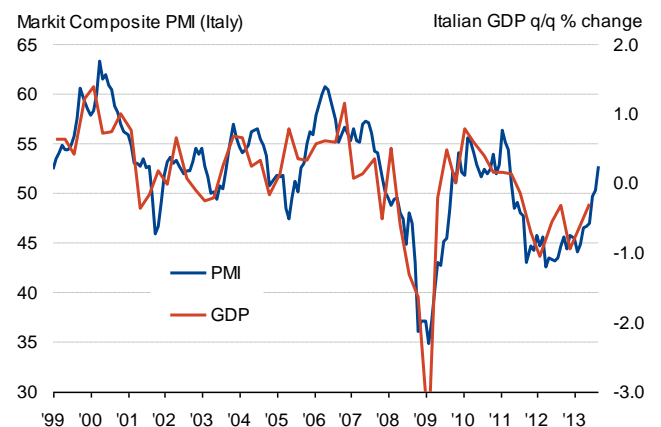
Industrial production



Manufacturing PMI



GDP and the PMI



Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com