Italy: industrial production falls again

Output unexpectedly fell again in August, following July's recovery (stability had been expected). Setting aside the high volatility of recent months (most likely due to seasonal and calendar factors), there are few signs consistent with a recovery in industrial activity in the coming months. However, thanks mainly to the services sector, GDP is expected to continue expanding in the second half of 2026, albeit at a slower pace than in the first half of the year.

09 October 2026

Research Department

Macroeconomic Research

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In August, Italian industrial production unexpectedly fell again, by -1.3% m/m, following the 0.6% m/m rebound seen in July. This marks the third decline in the last four months. The y/y change, adjusted for working days, remained largely unchanged, however (at zero, up from -0.1% in July).

In contrast to the previous month, the month-on-month decline affected all the main industrial sectors, with the sole exception of energy (which rebounded by +2.8% month-on-month after a fall of -1.2% in July). **The decline is particularly marked for intermediate goods** (-1.8% m/m). Among consumer goods, which fell by -1.2% m/m (following the previous +2%), **durable goods are the exception, growing significantly for the second month running** (+4.9% m/m). Production of capital goods also fell (-0.9% m/m), having essentially shown no growth since April. Both consumer goods and intermediate goods continue to decline on a year-on-year basis (-4.4% and -4% y/y respectively: the former have not grown for almost a year, the latter since May). Capital goods, on the other hand, recorded moderate growth compared with a year earlier (+0.7% y/y); **the only sector to record strong year-on-year growth was energy (+11.5% y/y, a record high in nearly five years).**

Output in the manufacturing sector alone recorded a smaller monthly decline (-0.6% m/m), but, unlike the overall index, it is down significantly year-on-year when adjusted for calendar effects (-1.9% y/y). A breakdown by sector shows a **marked m/m increase for the second month running in the pharmaceuticals sector** (+5.5% m/m), although this sector remains down y/y (-2.7%); other manufacturing industries also rose during the month (+2.1% m/m, +2% y/y), which, together with transport equipment (+1% y/y) and machinery (+0.5% y/y), are among the few sectors showing growth compared with a year earlier. Conversely, **several sectors showed a sharp decline both month-on-month and year-on-year** (computers and electronics –5.3% m/m, –9.9% y/y; electrical equipment –4.6% m/m, –9% y/y; textiles and clothing –1.9% m/m, –14% y/y; chemicals –1.2% m/m, –11.4% y/y). Outside the manufacturing sector, there was a **significant recovery in energy supply** (+3.4% m/m, +14.5% y/y) and in mining and quarrying (+3.1% m/m), although the latter remains down year-on-year (-4.7% y/y).

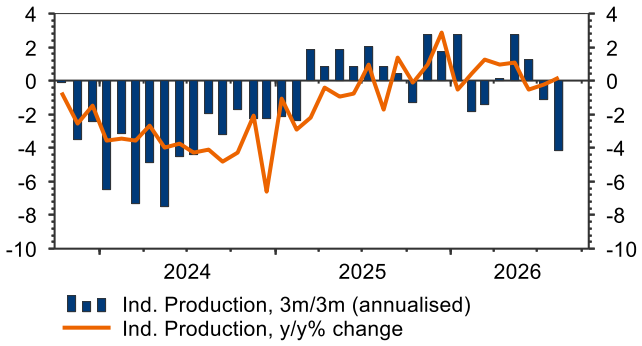
Following the decline in August, **industrial production is on course for a fall of -1% q/q in the third quarter**, after the 0.3% q/q rebound recorded in the spring months. However, we believe that the August figure was influenced by seasonal factors and therefore expect a recovery in September, although this will not be sufficient to prevent output from contracting in the quarter just ended. It is also worth noting that, in the most recent period, **the trend in output has not been particularly closely linked to that of value added** in the sector, which fell by as much as one percentage point quarter-on-quarter in the second quarter (thereby holding back GDP, which was instead supported by services and construction) against, as mentioned, a 0.3% q/q increase in IP.

In summary, **the high volatility observed in the monthly changes in industrial production over recent months appears to be due to seasonal and calendar factors**: in particular, August is a month heavily influenced by the summer holidays, with possible distortions caused by seasonal adjustments in the post-pandemic era. **That said, as we noted last month following the increase in July, the trend in industrial production remains weak**: energy-intensive industries (such as

chemicals) are beginning to feel the impact of rising energy costs; the more technology-related sectors do not appear to be benefiting from the global boom in Artificial Intelligence, whilst more traditional sectors (such as textiles and clothing) are suffering increasingly from competition from countries with low labour costs. Against this backdrop, sectors such as pharmaceuticals and transport equipment other than motor vehicles are holding up, buoyed by exports (which are weathering the impact of geopolitical shocks better than expected).

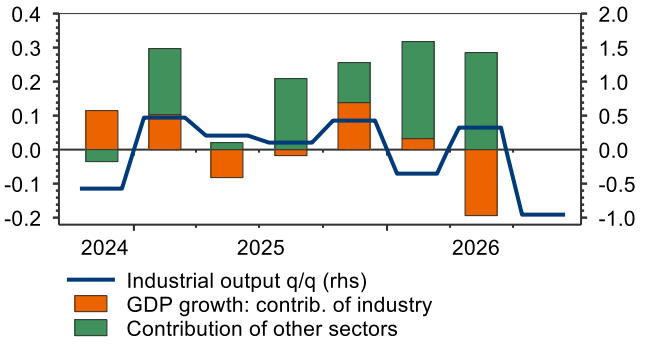
Looking ahead, the signals from surveys are not particularly encouraging: according to the PMI survey, manufacturing firms' production figures have been contracting again since August, although the Istat survey showed less negative signs in September. Overall, **industrial activity is likely to remain weak in the coming months**. The surge in natural gas prices is having a more widespread impact on production than that of oil prices. Furthermore, although economic activity in the first half of the year showed a somewhat surprising resilience to the geopolitical and energy shock, the effects may be more spread out over time. In general, the level of both domestic and foreign demand for industrial goods does not appear consistent with a sustained recovery in production activity in the sector. In any case, **the fortunes of the economic cycle are now less and less dependent on industry** and increasingly linked to the performance of the services sector, which in fact accounts for much of the acceleration in Italian GDP this year (0.9% on a working-day-adjusted basis in our estimates, up from 0.7% in 2025). Precisely in the wake of the resilience of the services sector, we confirm our current forecast for the Italian economy, which envisages **GDP continuing to grow in the second half of 2026, albeit at a slower pace (0.1% q/q on average) than that seen in the first half of the year** (0.25% q/q).

Industrial production fell again in August…



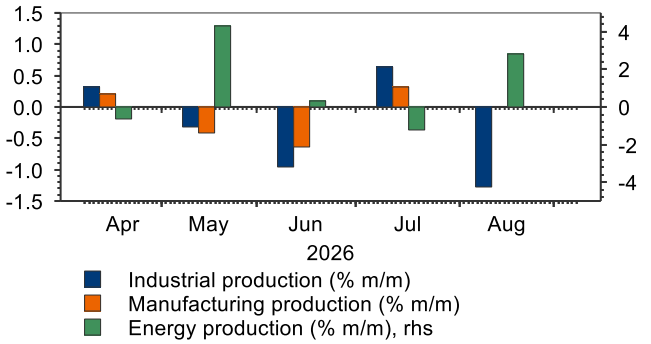
Source: Intesa Sanpaolo, Istat

…and is on course for a contraction in the summer quarter



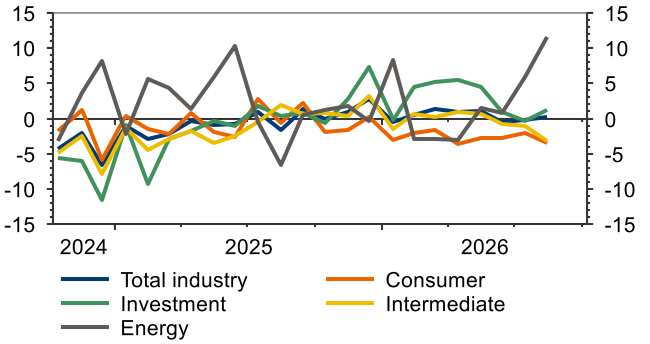
Note: assuming the industrial production index remains stable in September.
Source: Intesa Sanpaolo, Istat

Energy is the only one of the main industrial sectors to show significant growth both on a monthly basis…



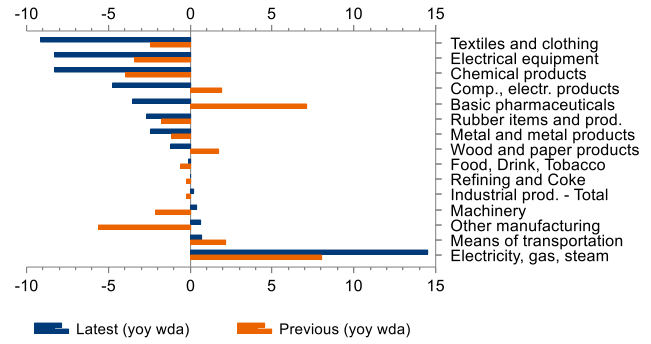
Source: Intesa Sanpaolo, Istat

…and on a year-on-year basis



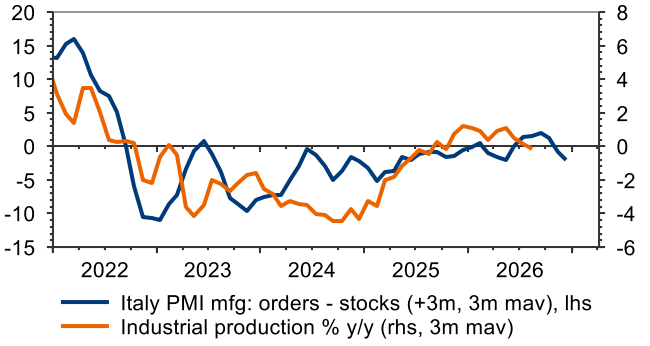
Source: Intesa Sanpaolo, Istat

Several sectors remain in sharp decline compared with a year earlier



Source: Intesa Sanpaolo, Istat

The PMI survey does not indicate any signs particularly consistent with a recovery in industrial production in the coming months



Source: Intesa Sanpaolo, Istat, S&P Global

Appendix

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