

## Italian economic stagnation confirmed in 2Q

There were no revealing messages in the demand breakdown and international headwinds are increasingly biting into the external channel, according to the latest figures from Istat. We don't expect this to change any in the short term and project flat average GDP growth for Italy in 2019



Newly-manufactured cars sit on rail freight wagons in Italy

### Stagnation confirmed by revised estimate

Istat revised GDP data confirmed that in 2Q19 the Italian economy had stagnated on a QoQ basis; the YoY reading was marginally revised down to -0.1% (after a flat preliminary estimate). The supply-side picture confirmed a contraction of the value added in agriculture and in industry and a marginal expansion of the value added in services.

### No clear directional hints from demand breakdown

The detailed demand breakdown shows that the flat quarterly reading was the result of a 0.3% positive contribution from investments which cancelled out a 0.3% quarterly subtraction from inventories. All other domestic demand components and net exports were growth neutral.

While the aggregate reading is in line with our forecasts, we expected private consumption a little stronger and investment a little softer. Apparently, labour market resilience has not induced increasingly prudent consumers to spend more while businesses did not feel downbeat enough to bring to a halt their modest investment plans. However, the null contribution of net exports (after a +0.7% contribution in 1Q19) suggests that Italian exporters have ultimately been feeling the brunt of international headwinds.

## Little hope for short term improvements from available indicators

There seems little evidence for any kind of rebound in 3Q19. In August consumer confidence fell back to June levels and business confidence was also down, more markedly in services than in manufacturing. Confidence in the retail sector, stable on the month, provided the single note of consolation.

It's worth noting that part of the August gloom might be due to the unexpected government crisis. That might go away in September if a new government is confirmed by the Italian parliament, as we're expecting. At least in the short run, however, the growth profile seems increasingly hostage to developments in the Brexit and trade war hot spots. The last batch of order data, which signalled a sharp decline in foreign orders in June, rang an unwelcome alarm bell. For an eventual (likely limited) fiscal push rubber-stamped by Brussels we will have to wait until 2020.

### No scope for positive average GDP growth in 2019

With so many international uncertainties, not least on Brexit and the US-China trade war, we're tentatively pencilling in another flat quarter for Italy in 3Q19, with zero average GDP growth for the whole of 2019, with downside risks.

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