

Italy: second-quarter GDP boosted by strong consumption

The GDP breakdown shows that the big driver of growth was private consumption, reaffirming our view that over the second quarter a re-opening effect was working at full speed. Unfortunately, this looks set to evaporate over the second half of the year



A good recovery in domestic and international tourism helped boost Italy's second-quarter GDP

Italy revises up second-quarter GDP growth estimate

Istat reported today that in the second quarter of the year, the Italian seasonally-adjusted GDP increased by 1.1% quarter-on-quarter (up from the 1% preliminary estimate) and by 6.3% year-on-year. This means Italian GDP in 2Q22 reached pre-Covid levels. The supply-side angle confirmed solid growth in value-added both in industry and in services, but a contraction in agriculture.

Private consumption was by far the most powerful driver

The most interesting part of today's release is the demand breakdown, not available at the preliminary estimate level. This shows that the main driver of the strong 1.1% GDP growth reading was private consumption (a 1.5% contribution), followed by gross fixed investment (0.4% contribution), whilst government spending (-0.2% contribution), inventories (-0.3% contribution) and net exports (-0.2% contribution) all acted as a drag.

A temporary reopening effect was likely at play helped by recovering tourism

What was behind such a strong consumption recovery? Very likely a re-opening effect following the lifting of all Covid-19 restrictions. This translated into a recovery in consumption of both goods (as suggested by solid retail sales) and services, the latter likely boosted by a good recovery in domestic and international tourism flows. This happened despite the strong acceleration in consumer inflation, which has been putting increasing pressure on real disposable incomes and which will likely be decisive over 2H22.

A sharp slowdown in 3Q22 looks set to turn into a recession in 4Q22

The big question now is to what extent this can continue. We believe that the second quarter's strong result will not continue and that a sharp slowdown will have started in 3Q22, before a recession begins in 4Q22. As far as the third quarter is concerned, we still expect that a GDP contraction might just be avoided. Anecdotal evidence points to a continuation of the strong tourism season throughout the summer, with solid labour market data (the unemployment rate fell to 7.9% in July, when employment contracted only marginally) temporarily helping households weather the inflation shock. However, business confidence data over the summer has clearly indicated an ongoing deterioration, more marked in the manufacturing domain. Industry will likely be a growth drag in 3Q, relying on services to provide the growth. In the coming months, as the reopening effect evaporates, and with inflation set to remain close to current levels until year-end, we expect consumption to turn into a growth drag in 4Q22, causing a GDP contraction.

After today's release, the statistical carryover for 2022 GDP growth is 3.5%. We confirm our forecast for average GDP growth of 3.3% in 2022 and anticipate a sharp slowdown to 0.2% in 2023.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.