

## 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.

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