Italian GDP decelerated in the final quarter of 2021

With war developments supporting short-term energy prices, the disclosed demand breakdown highlights consumption vulnerability adding to risks of a GDP contraction in the first quarter of this year

0.6% quarter-on-quarter GDP growth confirmed for 4Q21

Revised data released by Istat has confirmed that Italian GDP expanded by 0.6% quarter-on-quarter in the fourth quarter of 2021, and by 6.2% in year-on-year terms. This marks a clear deceleration from the strong +2.5% quarter-on-quarter reading in the third quarter of 2021. The supply-side angle shows a quarterly expansion of value-added in manufacturing and in services, and a contraction in agriculture.

The most interesting part of today's release lies with the disclosure of the detailed demand breakdown. Somewhat surprisingly, stock accumulation was by large the main growth driver (1.1% quarterly contribution), followed by gross fixed capital formation (0.5% contribution) and public expenditure (0.1% contribution). Private consumption was growth neutral and net exports were a sizeable drag (1.2% subtraction).

Demand breakdown disappoints, with weak consumption and strong inventories...

We had anticipated a sharp slowdown in private consumption, but actual data shows this was even more intense, suggesting that households, notwithstanding solid support from the employment front, were already hit by the real disposable income effect of rising inflation and flat wage dynamics. The contribution of inventories was also stronger than we had anticipated as was the subtraction of net exports. The actual demand breakdown does not look encouraging for short-term growth developments.

...adding downside risks to our tentative forecast of a flat GDP in 1Q22

Looking at the first quarter of this year, growth developments look highly uncertain. Available high-frequency confidence data, with no exception, was collected before the Russian invasion of Ukraine. Business confidence data was pointing to a continuation of growth, with services catching up, very likely on the perception that, with vaccination rates at high levels, the announcement of an end to the state of pandemic emergency by the end of March would be credible with more extended re-openings likely.

Consumer confidence instead declined further, likely on inflation concerns. We believe that the war in Ukraine will have made the picture worse, at least in the short term. The energy price inflation spell looks set to stay for the time being, casting extra doubts on short-term consumption developments, and industrial production looks exposed to higher risks of supply disruptions. We had tentatively pencilled in a flat GDP reading for 1Q22, but the composition of the demand breakdown disclosed today by Istat adds downside risks to our call.

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