Italian GDP narrowly avoids contraction in 1Q22

Revised data turned a contraction into a mild expansion, driven by gross fixed capital formation. Growing inflation pressures will continue eating into real disposable income, possibly resulting in a fall in 2Q22 GDP

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Revised data points to minor 0.1% GDP growth in 1Q22

The second estimate of 1Q22 Italian GDP substantially revised the preliminary release, turning a mild 0.2% quarter-on-quarter contraction into a minor 0.1% quarterly expansion. In year-on-year terms, GDP was up 6.2% on 1Q21. Revised data provides a detailed demand breakdown, which helps to explain the surprise.

Gross fixed capital formation the single growth driver

The small growth in GDP was mainly driven by investment (0.8% quarterly contribution), while public expenditure and inventories were growth neutral, and private consumption (-0.5% contribution) and net exports (-0.3% contribution) acted as a drag.

If we had anticipated weak consumption as a result of the sharp erosion of real disposable income due to the inflationary wave, we were surprised by the strength of investment, as businesses had also been lamenting the impact of higher prices on their production plans, particularly among high energy users. This reported resilience of investment, to some extent confirmed by 1Q22 industrial production data, might also be reflecting the impact of the European Recovery and Resilience facility, which remains a powerful mid-term growth engine for Italy, in our view. At the current juncture, this is acting strongly on the construction sector, propelling energy-saving renovations through generous tax credits.

Accelerating inflation will maintain pressure on private consumption

Looking forward, the broad growth picture remains blurred and vulnerable to inflation developments driven by geopolitical events. May preliminary inflation data, also released today by Istat, once again rings alarm bells, surprising on the upside. Headline inflation came in at 6.9% YoY (was 6% in April), the highest reading since February 1986, driven by an acceleration in non-regulated energy goods. The core measure, even more relevant in the eyes of ECB officials and markets, also accelerated to 3.3% from 2.4% in April. Energy prices pressures are apparently spreading to many goods, with wages for the time being remaining one of the few categories that's been scarcely affected. As wage increases will take time to materialise, we expect inflation to continue eating into households' real disposable income for some months yet, with negative consequences for private consumption. Good news from the tourism sector provides some comfort, but inflation developments suggest that some bookings might be at risk of cancellation, or that new holiday expenditures might come at the expense of other purchases.

Technical recession possibly avoided, but GDP contraction in 2Q22 remains likely

All in all, today’s positive surprise in revised GDP data reduces the risk of a technical recession. We continue to expect a quarterly contraction in 2Q22, but a promising tourist season could push up GDP in 3Q22. To be sure, a continued acceleration in inflation could complicate things, as the broadening of price increases through the consumption basket would make the government's intervention to cap energy prices less effective in supporting household balance sheets. With the statistical carryover effect for 2022 GDP growth now at 2.6%, we will likely revise upwards our current 2.3% GDP growth forecast for Italy.

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