

## Italian slowdown turns to contraction in first quarter

This does not come as a surprise, given the inflationary and geopolitical backdrop. Notwithstanding ongoing compensatory measures by the government, a technical recession seems highly likely



The growth deceleration seen in the fourth quarter of last year turned into a slight contraction in the first quarter when the impact of the war in Ukraine compounded other negative factors which had already been affecting consumers and businesses.

The preliminary estimate of 1Q22 GDP points to a 0.2% quarter-on-quarter contraction (+5.8% YoY), the first negative reading since 4Q20, in line with consensus expectations. As usual at the preliminary estimate stage, no detail was disclosed about the demand breakdown, but the data indicates that domestic demand (gross of inventories) provided a positive contribution to quarterly growth, while net exports acted as a drag. From the supply side angle, Istat reports that value-added increased in agriculture, was stable in industry and contracted in services.

We suspect the positive demand contribution to GDP has come from a combination of inventory accumulation and investment (fuelled by incentive-propelled construction), with private

consumption possibly acting as a drag. Households' real disposable income has undergone increasing pressure over the quarter, and this has clearly been reflected in falling consumer confidence data. On the supply side, this was mirrored in the fall in services value-added.

Looking ahead, the economic picture is unlikely to get any brighter over 2Q22. To be sure, the government has introduced measures that are meant to weather the shock of skyrocketing energy inflation on household and business balance sheets, but this is providing only partial compensation. Admittedly, in April manufacturing business confidence stabilised, but businesses also reported that the availability of equipment and materials was an increasingly powerful obstacle to production. Also, consumer confidence fell again, reaching the lowest level since November 2020. Tourism flows might compensate somewhat, but we suspect that 2Q22 might have another GDP contraction in store, marking the start of a technical recession.

## Author

### Paolo Pizzoli

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto: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 [www.ing.com](http://www.ing.com).