Italy: 1Q GDP grows 0.3% but outlook at risk

The demand breakdown and other confidence data published recently suggests that the soft-ish patch might be stretching into 2Q18 on a similar pattern

Source: Shutterstock

Inventories the main driver, with investment and exports as an unwelcome drag

In a day where attention was polarised by the formation of the new Italian government, Istat published the second estimate of 1Q18 GDP, which includes the detailed demand breakdown. This confirms GDP growth at 0.3% QoQ (as in 4Q17) and 1.4% YoY (from 1.6% in 4Q17), propelled by domestic demand, with net exports acting as a drag. Inventory accumulation was the main driver (0.7% QoQ contribution), followed by private consumption (0.3% QoQ contribution). Government expenditure was growth neutral. Developments in investments and exports are a reason for concern. Gross fixed capital formation subtracted 0.2% from quarterly growth, on the back of a disappointing contraction in the key machinery and plants component. The negative 0.4% quarterly contribution of net exports was the result of a contraction of exports which widely outpaced that of imports.

A similar pattern might hold in 2Q18

Available data evidence suggests that a similar pattern of growth should remain in place in 2Q18, with a slight downside risk. Employment growth, confirmed by March Istat data, should in principle continue to help support private consumption, but falling consumer confidence in May signals some lingering political uncertainty. Business confidence, while still at high levels, softened in both the manufacturing and the service sector in April and May, and the same happened to the manufacturing PMI, which fell in May to its lowest level since December 2016, also on the back of softening external demand. In the current environment, business investment looks relatively vulnerable, as softening external demand is compounded with domestic political uncertainty. On the external channel front, past euro appreciation and the rising risk of a trade war also cast some shadows over short-term export developments.

> Looking at average 2018 GDP growth, for the time being we tentatively confirm our 1.3% forecast, with downside risks.

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