

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.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

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 <http://www.ing.com>.