Italy: 1Q GDP revised down to -5.3%

Unsurprisingly, the steep contraction in GDP was driven by private consumption, mostly due to the lockdown. Expect an even steeper plunge in 2Q

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1Q20 GDP estimate revised down, more in line with severity of lockdown indicators

In its second estimate, Istat revised its preliminary release of 1Q20 GDP data down to -5.3% quarter-on-quarter (from -4.7%), almost double the worst quarterly contraction recorded during the 2008/2009 global financial crisis. Unlike in the past, the very nature of the current crisis makes preliminary estimates susceptible to substantial revisions as more information is available. When looking at the relationship between the GDP estimates and the strictness of the lockdown as measured by Google Mobility Data, today's downward revision should not come as a surprise. The preliminary estimate had the Italian contraction somewhat mis-aligned with what the estimated relationship predicted.

Private consumption and gross fixed capital formation the main drivers

Unsurprisingly, today's data shows that the shock of the lockdown hit private consumption and gross fixed capital formation particularly hard, the most obvious victims of mobility constraints and forced plant closures. Private consumption, which reflects most of the pain of tourism and leisure related activities, was clearly the main driver, subtracting 4% from quarterly growth. Gross fixed capital formation subtracted another 1.5%, clearly signalling that sudden liquidity constraints and an extremely uncertain environment had pushed investment back in the business priority list. The 0.75% quarterly drag of net exports might reflect the symmetric nature of the Covid shock, which compressed domestic demand almost everywhere at the same time, inevitably draining export opportunities. Public consumption proved growth neutral, while stock accumulation, in isolation, provided a positive 1% push to quarterly growth. Unfortunately, rather than signalling voluntary stockpiling in anticipation of future demand, this more likely reflects unwarranted stockpiling of producers confronted with demand in freefall.

A similar pattern, with a deeper plunge, might also hold in 2Q20

Given the longer period of lockdown experienced over 2Q20, a similar pattern is expected to show up in 2Q20 GDP data. With a full five weeks of lockdown from early April to early May, and a gradual loosening thereafter, the growth picture looks set to get gloomier before improving. This seems to be confirmed by both the Google Covid19 Mobility data and by Istat confidence data, published again in May after a break in April due to lockdown-related data collection issues.

It's no surprise to see a new historic low set by the composite business index, but some less negative signals on the consumer front, where the index fall was more contained, kept it above the levels seen during the sovereign debt crisis. On the business front, the Covid pattern seen in March also held for May, with retail and service sectors penalised more than construction and manufacturing. On the consumer front, the gloomier perception of the economic climate was not matched by that of the personal climate, notwithstanding increasing worries about future unemployment. This might signal that consumers still felt, to some extent, protected by the combined effect of the reinforced unemployment insurance scheme and the temporary redundancy ban. However, this was not enough to prevent a clear decline in the survey for consumers' willingness to buy durable goods. In our view, the consumption contraction looks set to accelerate in 2Q20, but a decent rebound might materialise in 3Q. This will crucially depend on two factors: developments in the epidemic allowing full intra-region mobility for the Summer holiday season and an improvement in income support and unemployment protection schemes, which so far have not proved flawless.

After today's data, we confirm our current forecast of a 9.8% YoY GDP contraction for the Italian economy this year, but acknowledge new downside risks.

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