

Article | 31 January 2019

ITALY

Italy entered technical recession in 4Q18

This was not surprising, on the back of available evidence. As chances of a swift exit from recession in 1Q19 now look slim, we revise our forecast for average 2019 Italian GDP growth to 0.2%



Source: Flickr

Domestic demand driven 0.1% QoQ contraction

Istat preliminary data, released earlier today, showed that the Italian economy entered technical recession in 4Q18. Data shows that the Italian seasonally adjusted GDP contracted by 0.2% quarter-on-quarter (QoQ) in 4Q18 (from -0.1% QoQ in 3Q18) and that the working day adjusted measure was up a meagre 0.1% year-on-year (YoY), signalling that also the trend is levelling off.

As it is always the case at the preliminary estimate stage, Istat did not disclose the detailed demand breakdown but indicated that domestic demand (gross of inventories) acted as a drag, while net exports provided a positive contribution to quarterly growth. From the supply side angle, Istat states that value-added contracted in agriculture and industry and was stable in services.

Private investment and inventory de-cumulation our tentative drivers, as resilient employment should have supported consumption

Lacking the official breakdown, we can only guess what the drivers were. Based on 4Q18 soft and hard data, we believe that the bulk of the contraction might be due to inventory de-cumulation and to another contraction in private investment, which was more vulnerable to the fallouts (on interest rates and business confidence) of the prolonged saga between the Italian government and the EU Commission on budgetary targets. We believe that private consumption might have been growth neutral, fuelled by still supportive labour market conditions. December labour market data, also released earlier today, showed that in 4Q18 employment was still in a (very mildly) expansionary mode. It increased by 0.1% QoQ, while the 0.8% QoQ outflow from the inactives pool fed the 2.4% QoQ increase in unemployment.

We see slim chances of a swift exit from recession in 1Q19

Looking ahead, chances of a sudden swift exit from recession already in 1Q19 look slim. Soft evidence available for January 2019 is not very encouraging, particularly on the business front. The composite business confidence indicator fell further to a new 4-year low, with manufacturers, service providers and retailers all reporting contracting confidence and only firms in the construction sector signalling a surprisingly strong improvement. Soft international trade conditions look set to remain in place over the current quarter as key pending uncertainties (US-China trade issue, and the Brexit saga) are unlikely to be cleared before the end of March. This should in principle continue limiting the scope for export accelerations, at least for the time being. Businesses will also continue being affected by confusing signals coming from the Italian government coalition partners, which are apparently struggling to strike a balance between their government management duties and European election campaign strategies, where each other is seen as a competitor and not an ally. The latest issue of the Bank Lending Survey provides unwelcome support to this, signalling a substantial contraction in expected credit demand for the first time since 2013.

Chances of positive surprises seem relegated to private consumption

Only private consumption seems to be in the position for possible positive surprises in the short run. In January consumer confidence posted an unexpected increase, possibly reflecting confidence that the introduction of the citizenship income and the pension reform as rubber-stamped by the budget will eventually propel households' income, which might partially be true, but only in 2H19, due to implementation times. In the shorter run, gains in real disposable income will have to rely on the combination of resilient employment and the likely oil-driven deceleration in headline inflation.

Average 2019 GDP growth forecast now trimmed to 0.2%

After today's GDP release, we now know that the statistical carryover for 2019 is a disappointing -0.2% YoY GDP contraction. Putting together GDP data with (scarce) available soft evidence for 1Q19, we have decided to trim our forecast for average Italian 2019 GDP growth to a tentative 0.2%.

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 www.ing.com.