

Unlike peers, Italian GDP shrinks again

Not much of a surprise from Italy's 4Q20 GDP data. And with vaccine supply constraints set to continue in 1Q21, short-term growth will continue to depend on lockdown restrictions mostly affecting the service sector



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Unlike other eurozone countries, Italian GDP didn't surprise

Unlike other eurozone countries, which have positively surprised us with fourth-quarter GDP numbers, Italian GDP was very much in line with our forecasts and consensus.

The Italian seasonally and working days adjusted GDP contracted by 2.0% quarter-on-quarter 4Q20 (from a revised +16% QoQ in 3Q20) and by 6.6% in YoY terms.

According to Istat, the national statistics office both the domestic component (gross of inventories) and net exports contributed negatively to GDP growth. And from the supply side, the value-added declined in agriculture, industry and services.

Little clarity on 1Q21 so far

Looking ahead, data on 1Q21 is so far limited to January confidence data, which doesn't provide much clear guidance.

We are forecasting a modest 0.5% QoQ GDP contraction in 1Q21 but a progressive acceleration thereafter to bring average GDP growth for the whole of 2021 at 3.3%.

Consumer confidence fell a bit, while the composite business indicator was broadly stable, reflecting a soft decline in manufacturing and retail components and an improvement in market services and construction.

The surprising improvement in manufacturing PMI, which gained more than two points in January climbing to 55.1, was likely driven by the output and orders component. However, respondents signalled increasing evidence of supply disruptions - a warning sign that the recovery path is still facing obstacles.

Covid-19 developments remain the short-term driving factor

Short term developments remain closely linked to the evolution of the pandemic and restrictive measures.

With the pace of vaccination still constrained by supply shortages, we see little chance of a substantial change over 1Q21. We will likely see regions floating in the three brackets envisaged by the Italian classification of risks, with possible stop-and-goes in re-openings.

The winter tourism season is still blocked and a re-opening from 15 February is a possibility, but not guaranteed. Some resorts might decide not to re-open due to their cost and contractual structures, which leaves a high degree of uncertainty over the growth profile over 1Q21.

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