

Italy: GDP contracts in 4Q, confirming technical recession

The single biggest driver of the quarterly contraction was inventory destocking and the demand breakdown was better than expected. But this is not enough for us to change our forecast for another quarterly contraction in 1Q



Source: istock

The final estimate of 4Q GDP, while confirming a technical recession for the Italian economy, was slightly revised up from the preliminary release. In 4Q, seasonally-adjusted Italian GDP contracted by 0.1% quarter-on-quarter (following -0.1% in 3Q18) and was flat in year-on-year terms (from 0.6% in 3Q18).

The interesting part of the story, though, is the disclosure of the demand breakdown:

- Data shows that the quarterly GDP contraction was driven by inventory decumulation, which subtracted 0.4% from quarterly growth.
- The other main demand components proved to be growth positive.
- Gross fixed capital formation and private consumption contributed 0.1% each.
- Government expenditure proved to be growth neutral.

- Net exports, in turn, contributed a positive 0.2%, with exports expanding at a faster pace than imports.

Thus the demand breakdown was better than expected and the drag from inventories leaves room for a mean reversal in the future, provided that consumption and investment hold up.

Still, available monthly data for 1Q19 does not justify big hopes of an imminent quick reversal from the soft patch of the Italian economy. Both business and consumer confidence remained weak in January and February while the PMIs were mixed. Over January and February, the manufacturing PMI averaged 47.8, clearly in contraction territory, possibly reflecting the impact of the ongoing uncertainty in the global trade environment on exporters' production. The service PMI, instead, averaged around the 50 level, confirming the 4Q18 reading. Taking into account the decent January employment reading, we tentatively anticipate another 0.1% QoQ GDP contraction in 1Q19, but risks to the downside have diminished somewhat. Looking further out, the combined effect of a possible deal between the US and China on trade and the actual disbursement of funds of the "citizenship income" scheme should help to push the Italian economy out of recession.

All in all, after today's GDP data, we confirm our forecast for average Italian GDP growth of 0.1% in 2019.

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