Italian GDP growth shifts gears in 2Q21

The strong 2.7% quarterly GDP expansion in Italy seems to be built on a push from services on the back of widespread re-openings. Confidence data for July suggests that, barring further negative surprises, conditions should remain favourable for solid growth over the third quarter pushing average growth projections above 5% in 2021

Surprisingly strong GDP acceleration in 2Q21

The flash estimate for 2Q20 GDP brought about positive surprises.

According to Istat preliminary data, Italian GDP expanded by a whopping 2.7% quarter-on-quarter, widely beating expectations.

The 17.3% YoY change should be read in context as compared with the quarter when Covid-19 related restrictions affected most sectors in the economy. Istat did not disclose the demand breakdown at the preliminary estimate stage but told us that the strong expansion was built on positive contributions coming from domestic demand (gross of inventories) and net exports. Istat added the usual supply-side snapshot, picturing value-added stability in agriculture and expansion in industry and services.

We had expected a clear acceleration in GDP growth, but not to the extent the preliminary data shows. Re-openings worked their magic, boosting services well beyond expectations. This could have also applied to international tourism services, and the goods trade balance monthly data had not signalled widening surpluses.

Labour market improvements should have boosted private consumption

On the domestic demand front, we suspect both private consumption and gross fixed capital formation should have overperformed due to the combined effect of lifting restrictions and, on the investment front, in anticipation of the activity push which will come with the implementation of the recovery plan.

Labour market data for June, also released earlier today, turned out stronger than expected, combining a healthy expansion in employment and a decline in unemployment and the number of inactive people, pushing the unemployment rate down to 9.7% from 10.2% in May. To be sure, the lifting of the redundancy ban for most industrial sectors starting in July might bring about some disillusion, but surviving short-work schemes will limit the scope for large setbacks for another couple of quarters.

Investment should have benefited of recovery plan future boost

We note some interesting developments which support our view that investments look to remain a key growth driver in the current recovery phase.

On the one hand, the latest Bank Lending Survey published by the central bank showed that banks are reporting that their lending activity is increasingly meant to finance investments rather than working capital and debt restructuring (a welcome signal of normalisation). On the other hand, data from the latest business survey indicate insufficient plants, together with supply chain problems are now deemed by firms as obstacles to production.

In combination with persisting generous funding conditions, this bodes well for private and public investments ahead.

First confidence data for 3Q21 legitimate optimism on short-term growth perspectives

Looking forward, the first batch of confidence data for 3Q21 legitimate optimism about a continuation of the economic rebound at a healthy pace over the Summer. In July confidence continued improving in all sectors, more strongly in services, construction and retail, more moderately in manufacturing, and consumers remained upbeat. The recent government decree requiring the vaccinal green pass to access some activities starting from August might in principle temper some spirits, but we don’t see this as a growth breaker. Instead, if it will manage to revive requests for vaccinations (as it seems to be doing among young people), it could end up trading off some lower growth over the Summer months for higher growth over 4Q21, as a consequence of reduced lockdown uncertainty. To be sure, developments on the pandemic front remain a lingering risk due to the spreading of the delta variant. However, with some 62% of the population having received at least one dose and 50% fully vaccinated, and with occupancy rates in hospitals remaining at very low levels, the restoration of severe large-scale restrictions looks less likely, at least in the short term.

Today's GDP growth release is unambiguously positive and leaves a statistical carryover of 4.8% for 2021.

Our current 4.6% average GDP forecast for 2021 will surely undergo an upwards revision, probably north of 5%.

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