Italy: Istat revised GDP estimate confirms end of recession, but with softer rebound in 1Q

As inventories and net exports were the main drivers of the quarterly GDP growth change in 1Q, pinning down a likely profile for 2Q is proving harder than usual. Increased political uncertainty after the recent European elections will not help either

Source: istock

End of recession confirmed, on a softer note

The revised estimate of 1Q19 GDP data, released earlier today by Istat, confirms that the Italian economy ended its short lived recession in 1Q19, but on a softer note than suggested by the preliminary estimate. Revised data shows that GDP increased 0.1% quarter-on-quarter (revised from 0.2%) and contracted 0.1% year-on-year (revised from +0.1%). On the back of the new release, the statistical carryover for the whole of 2019 is flat growth.

Big push from import driven net exports, big subtraction from inventories

The relevance of today's release lies with the disclosure of the detailed demand breakdown. The main driver of the quarterly expansion was net exports (0.5% contribution), reflecting a marked contraction of imports and marginally increasing exports. On the domestic demand front, private consumption and gross fixed capital formation (thanks to construction) both added 0.1% to quarterly growth, while inventories subtracted a hefty 0.6%. From the supply side, value added increased in agriculture and manufacturing and contracted in services.

From the available information we were expecting soft-ish domestic demand, but we were surprised by the sheer size of the inventory de-cumulation, the fourth in a row. The vagaries of inventories look set to remain a potentially powerful factor to determine short-term developments in the growth profile.

Another marginal quarterly expansion seems possible

Looking ahead, still lacking hard data for 2Q19, we can only rely on available confidence data for direction. After a weak reading for both consumer and business confidence in April, both indices posted an unexpected rebound in May. Digging into the detail, judgements about the level of inventories declined just slightly. A normalisation might be in the making, but persistent uncertainty on developments in the international trade backdrop and on the domestic political picture might limit the scope for a major rebound. Still, the sharp contraction of inventories in 1Q19 suggests this demand component will drive growth in 2Q. On the other hand, the Brexit variable, which likely helped to boost Italian exports to the UK in 1Q- possibly reflecting stockpiling there in anticipation of no deal- might play in the other direction in 2Q. We need hard data on the labour market and on production for a better assessment, well aware that the election result and the increased domestic political uncertainty which will likely follow might also be key in shaping the profile of domestic demand components, particularly for private investment.

Another marginal GDP quarterly expansion seems possible. For the time being, we prefer to stick to our current forecast of 0.2% average GDP growth in 2019.

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