

Italy returned to growth in 1Q19

The 0.2% quarterly growth rate marks the end of a short-lived technical recession. Also thanks to better than expected March labour market data, the risks to our flat GDP forecast for the whole of 2019 now lie to the upside



Source: Flickr

According to the preliminary estimate released by Istat, seasonally- and working day-adjusted Italian GDP posted a 0.2% quarterly increase in 1Q19 (0.1% YoY), beating expectations.

Net exports push and domestic demand drag, reports Istat

As usual at the preliminary estimate stage, Istat gave only broad indications about the demand breakdown: net exports reportedly provided a positive contribution to quarterly growth, while domestic demand (gross of inventories) acted as a drag. From the value-added angle, Istat reported that industry, services and agriculture all posted positive gains.

The chances of a positive quarterly reading clearly went up after the publication of surprisingly strong February industrial production data and March service sector PMIs, which were above the key 50 level.

March labour market data positive, but manufacturing-services dichotomy still unresolved

Labour market data for March, also disclosed earlier today by Istat, provided another bit of good news. After a four-month period of stabilisation, employment increased by 0.3% month-on-month (or +60K) and unemployment declined by 3.5% (or 96K), the steepest monthly fall since July 2018, while the pool of inactive workers was stable on the month. All this translated into a surprising fall in the unemployment rate to 10.2% in March, from a downwardly revised 10.5% in February.

Looking ahead, confidence data published so far in April continues to point to a dichotomy between weak-ish manufacturing and healthier services. In principle, recent labour market developments should continue to provide support to private consumption in 2Q19, provided the oil-driven pick-up in CPI inflation does not accelerate. Still, manufacturing order book data remains volatile. The external component shows tentative signs of a recovery but a continued improvement in external risks such as trade talks and Brexit will be needed to confirm this development.

Upside risks to our flat 2019 GDP forecast after today's release

All in all, today's 1Q19 release and the scarce available data for 2Q19 confirm our forecast that Italy could post another marginally positive GDP increase in 2Q19. As for the whole of 2019, new data suggests that the risks to our current forecast of flat average GDP growth now lie to the upside.

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