

## Strong 2Q GDP confirmed for Italy

The detailed GDP release shows that it was very much a private consumption story, which looks set to continue, at a softer pace, over 3Q21. We now expect average Italian 2021 GDP growth at 5.7%



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### Strong acceleration was very much a private consumption story

Revised estimates of the seasonally-adjusted Italian GDP released by Istat confirmed the strong 2.7% quarter-on-quarter GDP growth reported at the preliminary stage. The eye-watering 17.3% year-on-year growth builds on a very favourable base effect, as it compares with the months of the strictest lockdown in 2020.

The detailed demand breakdown confirms our expectation that this was very much a domestic demand story, as a reflection of the reopening effect. Unsurprisingly, private consumption was, by far, the main growth driver, with a 2.8% contribution to quarterly growth, followed at a distance by gross fixed capital formation (0.5% contribution) and net exports (0.3% contribution). Inventory destocking subtracted 0.8% from quarterly growth and public consumption another 0.2%.

The paramount role of consumption fits well with developments in the labour market in the quarter, when hours worked increased by 3.9% and jobs rose by 1.9%, and with the availability of accumulated liquid savings by households.

## A continuation along the same pattern likely in 3Q21

Looking ahead, we foresee a continuation of the economic rebound over the rest of 2021, if at a decelerating pace. Consumers, still helped by labour protection schemes, have kept their spirits high, as confirmed by consumer confidence surveys until August, and might have continued tapping their abnormally high pool of savings. Indications coming from the tourism sector suggest that, at least for seaside and mountain destinations (less so for historical cities), the season has been positive, driven by domestic travellers. In the short run, consumption looks set to remain the main driver but, over time, the inflow of funds coming from the Recovery and Resilience European facility will boost somewhat gross fixed capital formation, which might at least temporarily become the main growth driver in the ongoing recovery.

## Supply-side constraints could bite more over 4Q21

Recent developments in business confidence indicators have sent some warning signals, though, mainly related to possible supply-side constraints. These should not be underestimated, in particular for those manufacturing sectors making deep use of semiconductors as an input. However, the same confidence reports suggest that producers had in many cases accumulated some stocks to address the issue, and that order books had been filling healthily until the end of August. We thus believe that the existing supply constraints will have a limited impact on 3Q21 GDP growth, but could be felt more from 4Q21.

## Average 2121 GDP growth forecasts now revised up to 5.7%

On the back of the strong growth performance seen in 2Q21, we have revised up our forecast for Italy's average 2021 GDP growth to 5.7%. This implies a deceleration in 3Q21 and in 4Q21 and, crucially, the assumption that no nationwide lockdowns will be imposed over the rest of the year.

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