

## A decent start to 2025 Italian GDP growth, which might prove temporary

The 0.3% GDP quarterly gain in the first quarter should not be extrapolated to the second, when growth looks set to decelerate as the direct and indirect effects of US tariffs kick in



### Domestic demand drove quarterly growth in the first quarter

The preliminary estimate for first quarter Italian GDP points to a decent start for 2025. According to Istat, GDP growth came in at 0.3% quarter-on-quarter from an upwardly revised 0.2% in the fourth quarter of 2024. This is slightly better than consensus and our own expectations.

As usual at the preliminary estimate stage, Istat did not disclose the detailed demand breakdown. What we know is that quarterly growth resulted from a positive contribution of domestic demand (gross of inventories) and a negative contribution of net exports. The supply side angle shows that both agriculture and industry posted gains in value added, while services were flat.

Based on available high-frequency evidence, we believe that, within the domestic demand domain, private consumption and inventories might have contributed positively to quarterly growth, but we do not rule out that construction investments might also have been a driver as a result of accelerating infrastructure investment as part of the recovery plan. The negative contribution of net exports might have, in part, reflected the lack of a substantial front-loaded pull

from US importers in anticipation of tariffs.

## A deceleration looms in the second, as tariff effects kick in

Looking ahead, after the US tariff shock and still lacking a solution to geopolitical uncertainty, it would be scarcely prudent to extrapolate a continuation of the cyclical rebound over the second quarter. The batch of confidence data for April pointed to deteriorating spirits both among businesses and consumers, supporting our call for a deceleration in the second quarter. Having said that, a resilient labour market and decent wage growth (hourly wages were up 4% on the year in March) should, in principle, confirm private consumption as a potential growth driver for 2025. The extent to which this will materialise also depends on future inflation developments.

## April inflation uptick might be temporary thanks to strong euro and energy prices

Today Istat released its preliminary inflation estimate, which marks a slight acceleration in headline inflation to 2% (from 1.9% in March), mainly driven by regulated energy goods, transport services and food prices, which outbalanced the price deceleration in non-regulated energy goods and tobacco. Core inflation inched up to 2.1% (from 1.7% in March), reflecting a widening gap between services and goods inflation. While worth monitoring, this move is unlikely to mark a new trend as it reflects seasonal factors related to the Easter holidays occurring in April.

In our view, the combined effect of a stronger euro and a deceleration in regulated energy prices should bring about a slight deceleration in headline inflation over the coming months. If this is confirmed, barring a sharp deterioration in employment, the gradual catch-up in household purchasing power should continue, keeping private consumption a growth driver throughout the year.

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