

Domestic demand drove Italy's GDP in the first quarter

A surprisingly strong positive contribution from private consumption was the main highlight, which will be hard to confirm in the second quarter. Still, the disclosed breakdown of demand adds upside risks to our current forecast of 1.1% average GDP growth in 2023



According to Istat's revised estimate, Italian GDP expanded by 0.6% quarter-on-quarter (was -0.1% in 4Q22) in the first quarter of 2023 and by 1.9% year-on-year (1.5% in 4Q22), improving on an already surprisingly strong preliminary estimate. On the supply side, Istat confirmed that value-added increased on the quarter in both services and industry, and was stable in agriculture.

More importantly, the revised estimate includes the detailed demand breakdown which sheds some light on the drivers of the strong 0.6% GDP expansion. Private consumption was the main driver (0.3% contribution) to quarterly growth, followed by government spending and gross fixed investments (0.2% contribution each); inventory changes subtracted 0.1% and net exports another 0.1%. When framed within a still highly inflationary backdrop, the strong contribution from private consumption comes as a surprise; we suspect that resilient employment continued to help households weather the inflation shock and that at the same time, households continued to tap savings, keeping the savings ratio at very stretched low levels. The positive contributions of investments and government spending are not surprising, given the propulsive effect of generous tax incentives in the construction sector and on a continued fiscal push in the quarter. On the

inventory front, we had expected a deceleration in the pace of de-stocking to provide some push for the quarter, but this did not materialise, leaving upside potential for the next quarter.

The statistical carryover for the full year after the first quarter data is now 0.9%, a number which can be improved upon, based on our projected profile.

Looking forward, we do not believe that the results of the first quarter will be repeated in the second. Confidence indicators have continued to send mixed signals in April and May, with a deterioration in manufacturing and resilience in services. On the demand front, consumption might suffer from still-elevated inflation, while the de-stocking adjustment effect might partially unfold. We are currently pencilling in a 0.1% QoQ gain in Italian GDP in the second quarter. The demand breakdown disclosed today by Istat adds upside risks to our current forecast of average 1.1% GDP growth in 2023.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.