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.

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