Italian GDP contraction driven by consumption and inventories

Italian GDP contracted by 0.1% quarter-on-quarter in the final quarter of 2022. We now tentatively anticipate flat growth in 1Q23

Consumption was the main driver of Italy's third quarter GDP

Revised data confirms that in the fourth quarter of last year, Italian GDP contracted by 0.1% quarter-on-quarter (from +0.4% in the third quarter of the year) in seasonally adjusted terms. On the year, GDP expanded 1.4% (from +2.5% in 3Q22), confirming the ongoing deceleration.

Private consumption and de-stocking at the heart of the contraction

Today's data add useful information on the demand breakdown. The change in inventories (-1.1% quarterly contribution) and private consumption (-0.9% contribution) acted as a drag, and the positive contribution of gross fixed capital formation (+0.4% contribution) and net exports (+1.4%) did not fully compensate.

We had expected that the combined effect of rising inflation and flat wage growth would have ultimately eaten into real disposable income, resulting in softer consumption. This was indeed the case, notwithstanding compensating measures put in place by the government. We noted that in 3Q22, households' saving ratio had fallen heavily to 7.1% (below the medium-term average), signalling that consumption smoothing had already encouraged households to tap into their savings pool; this was apparently not replicated in the fourth quarter of 2022, when households preferred to adjust consumption.

Investments and net exports counterbalanced

We had also anticipated that investment would have held up on the back of the combined effect of inflowing EU Recovery funds and domestic tax incentives in the construction sector: data show that transport equipment also helped push quarterly growth. The scope of the positive net contribution of net exports, underpinned by a strong increase in exports and an even stronger contraction in imports, came as a surprise.

Improving confidence data point to a flat first quarter

Looking ahead, the impact of the start of a disinflationary process after the November 2022 peak should slowly improve the growth picture. As far as the current quarter is concerned, the only bit of hard evidence available is January labour market data, which confirmed a resilience of employment in the month. Confidence data, whose explanatory power for GDP developments has declined of late, have also improved in manufacturing, which had suffered the negative impact of supply chain disruptions.

We acknowledge that in the second quarter of this year, industry might again become a supply-side growth driver, but we prefer to remain prudent on the scope of growth developments as we believe the ongoing monetary policy tightening has yet to display its full effect on domestic demand. We now tentatively anticipate flat growth in 1Q23 and average GDP growth in 2023 of 0.7%.

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