

Italian GDP data disappoints as resilience begins to fade

The lack of a detailed demand breakdown means that an obvious explanation for Italy's flat GDP release isn't quite clear. We suspect it was a combination of factors involving investments, but possibly also consumption and inventories



Weaker-than-expected domestic demand components may be to blame for today's disappointing data in Italy

The preliminary estimate of Italian GDP for the third quarter (released by Istat) is a disappointing one. GDP was flat on the quarter (from 0.2% in the second) and up 0.4% (from 0.9% on the year) against a consensus of a 0.2% quarterly growth. The succinct press release by Istat adds that the flat quarter was the result of a positive contribution of domestic demand (gross of inventories) and of a negative contribution of net exports. From the supply side, there was an expansion of value added in services, a contraction in agriculture and a marked contraction in industry.

Given the lack of a detailed demand breakdown, it is hard to properly rationalise the negative surprise. We suspect that it was the result of a combination of factors affecting consumption, investment and inventories. On the consumption front, fundamentals had been positive over the quarter, as the combination of still-growing employment, decent wage dynamics and decelerating inflation had been improving households' purchasing power. Admittedly, confidence surveys had been signalling some prudence in consumption intentions for durables, confirmed by poor car

registration data – but consumers remained relatively unconcerned about future unemployment. We cannot rule out that consumer prudence has extended to the domestic component of tourism expenditure.

A more likely culprit might be weaker-than-expected investments, where until the second quarter we had noted a surprising resilience in the dwellings component, irrespective of the expiration of the superbonus incentive. We had anticipated that such resilience would fade away in the third quarter, but the process might have been even sharper than we expected. It may also have been combined with weakness in other components such as machinery, given the declining capacity utilisation and the delay in the introduction of a tax incentive. The drag from the investment component might therefore have been more marked than we had anticipated.

Last but not least, the inventory component is hard to pinpoint given its partly residual nature. The relevant subcomponents of manufacturing business surveys had not been signalling a sharp decline, however.

All in all, today's preliminary estimate is clearly disappointing and leaves a statistical carry over for full-year GDP growth of only 0.4%. Even a rebound in the fourth quarter, which we are still pencilling in, would likely leave average Italian GDP growth for 2024 in the 0.5-0.6% area, well below the 1% forecast recently reiterated by the Italian government in its medium-term structural plan submitted to the EU commission under the new fiscal governance.

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>.