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.

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