

Italian GDP growth accelerates in the first quarter

Domestic demand acted as a drag while net exports drove growth. As temporary factors might have helped in the first quarter, we cannot rule out a slight softening of growth in the second. Still, Italy seems to have survived the restrictive monetary policy of the European Central Bank relatively well



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According to Istat's preliminary estimate, the Italian economy expanded 0.3% on the quarter (0.6% on the year), doing better than consensus. The surprisingly strong 0.2% quarterly gain originally reported for the last quarter of 2023 was revised down to 0.1%. In the succinct press release, Istat added that quarterly growth was the result of a positive contribution from net exports and a negative contribution from domestic demand (gross of inventories). From the supply side, agriculture, industry and services all posted positive gains in value added.

The information set disclosed by the release is too limited to draw firm conclusions, particularly in the demand domain. We had anticipated some softness in both consumption and investment, but we might have underestimated the inventory drag and the net export drive, led presumably by

weak imports rather than strong exports. On the supply side front, we are a bit puzzled by the gain in industrial value added, given the poor industrial production readings in January and February.

All in all, today's preliminary estimate confirms that the Italian economy has survived relatively well the inevitable soft patch induced by a restrictive monetary policy stance from the ECB. However, we suspect that the first quarter's positive surprise might in part reflect a tail effect of the superbonus tax incentive which has been fuelling the dwellings component of construction investment over the last few years. As we expect this effect to wane in the second quarter, and with households still driving up their savings ratio back to pre-Covid averages, we would not be surprised to see the quarterly growth rate softening slightly in the second quarter, barring a sudden acceleration in investments originated by the inflow of recovery funds. We are currently expecting average Italian GDP growth of 0.7% in 2024, with a slight upside risk.

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