

Italian GDP growth confirmed at 0.2% in second quarter

The breakdown is not surprising, with a bigger role for inventory adjustment and a small push from consumption and investment. We see small room for a substantial acceleration in the short term and confirm our call that average GDP growth will settle at 0.9% in 2024



The Italian service sector was the only bright spot in the latest confidence data

GDP growth confirmed at 0.2% QoQ in the second quarter

The revised GDP data release confirms that the Italian economy continued expanding in the second quarter, albeit at a slightly softer pace than in the first. According to Istat, Italian GDP was up 0.2% on the quarter (from +0.3% in the first) and by 0.9% on the year (from 0.7% in the first). The supply side angle confirms that value added contracted both in agriculture and industry while expanding in services.

Inventory adjustment the main driver, helped by private consumption and investment

More interestingly, the revised estimate provides the complete demand breakdown. We now know that both private consumption and investment contributed 0.1% to quarterly GDP growth and that the bulk of the push came from inventory adjustments (0.4% contribution). The main drag to

growth came from net exports (-0.3% contribution), and public expenditure subtracted another 0.1% from GDP growth.

Such a breakdown broadly fits our expectations. We had anticipated that the markedly negative contribution of inventory adjustments seen in the first quarter might see a partial reversal in the second; still, this should be interpreted as an adjustment from an excess rather than as the start of the inventory cycle.

The modest contribution of private consumption was also expected given the ongoing recovery in real disposable income. The consumption breakdown seems to confirm our view of decent growth in services and, in the goods domain, of a partial switch out of non-durables into durables, possibly helped since June by temporary incentives for scrapping old cars.

On the investment front, the contraction in the residential component is not surprising, given the expiry of the superbonus incentive, and could definitely have been worse, in our view. The improvement in the non-residential component suggests that the investment part of the EU-funded national recovery plan is being spent. The relative dynamics of the aforementioned components will remain crucial in setting the pace for aggregate investments over the next quarters.

Little room for sharp acceleration in GDP growth in the short run

Looking ahead, after today's release the statistical carryover for GDP growth for the whole of 2024 is 0.6%. We believe this can be improved upon, as growth looks set to remain positive, if unspectacular, in both the third and the fourth quarters. However, the uneven nature of the Italian growth pattern will likely prevent any substantial acceleration, at least in the short run. In the third quarter, growth will remain very much a services story, with the tourism component as a driver, with some caveats. While the balance of payments data seems to confirm a very good performance in the international component of tourism demand, anecdotal evidence (data for July is not yet available) is much less clear on the domestic component. The setback in August consumer confidence also suggests some prudence. The actual implementation of the investment part of the recovery plan will thus remain crucial in setting the pace of growth.

Our base case remains that the Italian economy will expand by 0.9% in 2024.

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 www.ing.com.