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

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.

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