

## Italian GDP growth confirmed at 0.3% in the first quarter

Domestic demand, excluding inventories, was the primary driver of growth, with notable contributions from machinery and construction. Expect a deceleration in the second quarter against a very uncertain backdrop



Milan, Italy

The second estimate of first-quarter GDP data, just released by Istat, confirmed that GDP growth was 0.3% in the first quarter (0.7% on the year) and provided a detailed breakdown of demand components.

On the supply side, Istat confirmed that value-added increased substantially in manufacturing and agriculture, while contracting marginally in services. The statistical carryover for 2025 GDP growth is 0.5%.

### Gross fixed capital formation the main growth driver

The main driver of quarterly growth was domestic demand net of inventories, headed by gross fixed capital formation (+0.3% contribution), and helped by private consumption (+0.1% contribution). Interestingly, inventory change was the main drag, with a 0.3% negative

contribution.

While private consumption growth was in line with our forecasts, gross fixed capital formation turned out stronger than expected, with all subcomponents posting positive growth. We highlight the improvement in the machinery component, in correspondence with the first positive value-added generation after several consecutive contractions.

It's also worth mentioning the gain in both sub-components in the investment domain. Beyond confirming the ongoing push on the infrastructural component of the spending of recovery funds, it also shows strong resilience in the residential component, irrespective of the end of the superbonus tax incentive.

Net exports, initially reported as a drag at the preliminary estimate stage, added 0.1% to quarterly growth, on an export drive, likely related to the acceleration of exports to the US in March in anticipation of the expected introduction of new tariffs in April.

## A growth deceleration looks very likely in the second quarter

Like most of the big eurozone countries, Italy had a relatively strong start to 2025, marginally helped by exports with the US frontloading of imports in anticipation of tariffs. We believe a deceleration will be inevitable as the combined direct effect of higher tariffs and the indirect impact on confidence will eat into exports and, possibly, industrial investments.

The latest developments in the tariff saga, unfortunately, are not helping to alleviate uncertainty. A new judicial factor is now added to a complicated backdrop, where visibility on the state of negotiations between the US and the EU was already scarce. On a more positive note, the latest batch of confidence data points to a clear improvement among both consumers and service sector providers: a good omen for domestic demand.

All in all, against a very uncertain backdrop, we continue to believe that a slowdown in quarterly GDP growth will materialise in the second quarter and confirm our base case forecast of average Italian GDP growth at 0.6% in 2025.

### Author

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

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