Italian GDP growth confirmed as demand breakdown adds upside risks for 2024

The demand breakdown shows that inventory changes heavily dragged on domestic demand in Italy in the first quarter. Normalisation on this front would add upside risks to our projected growth profile

The revised release of Italian GDP data for the first quarter of 2024, which now includes the demand breakdown, helps shed some light on growth developments for the rest of 2024.

Demand breakdown reveals that inventories acted heavily as a drag

The 0.3% quarterly GDP gain was the result of a 0.7% contribution of net exports (due to weak imports, rather than strong exports) and of a negative 0.4% contribution from domestic demand gross of inventories.

When the preliminary data was released, we had suspected that inventories might have played a big role; today's data shows that this indeed was the case. Inventory changes subtracted 0.7% from quarterly growth, more than compensating for the 0.2% push from private consumption and the 0.1% from private investment.

Private consumption pattern seems to be changing

After the sharp 0.8% growth drag from private consumption in the fourth quarter of 2023, a decent rebound was in the cards given the positive developments in disposable incomes. Here, a re-composition in the consumption pattern seems to be in the making, out of services and into non-durable goods.

Tail effect of tax incentives was indeed at work in the first quarter

The investment front also offers an interesting angle, namely evidence of a tail effect in the dwelling component (a 0.1% quarterly contribution) as constructions were sped up in correspondence with the expiration of generous tax incentives (the so-called superbonus). A modest positive contribution of other buildings and structures, likely induced by the spending of recovery fund money, looked reasonable and indeed materialised (0.1% contribution). The 0.1% drag of machinery investment which completes the picture is not surprising, given the poor performance of industrial production and the concurrent decline in capacity utilisation over the first quarter.

Growth looks set to continue, with upside risks linked to the inventory cycle

Looking ahead, also on the back of available qualitative data evidence for April and May, we expect the ongoing GDP growth to continue in the second quarter, possibly at a slightly softer pace – we are now pencilling in a 0.2% GDP gain on the quarter, but we see upward risks. In the second quarter, the drag of the dwelling construction component as the end of the "superbonus" will be increasingly biting.

But private consumption should continue expanding, still supported by a very resilient labour market (unemployment in April at 6.9%, the lowest level since the third quarter of 2008) and subdued inflation (stuck at 0.8% in May). Upside risks rest on the possible normalisation of the inventory cycle which, by itself, would remove part of the strong drag seen in today's data.

Disinflationary process, still firmly in place in May, should continue to support throughout the year

The disinflationary process, confirmed by today's preliminary May CPI release, should continue supporting the gradual recovery. Inflation was stable at 0.8% in May, as the deceleration in transport and lodging services and non-fresh food fully compensated for the diminishing disinflationary impact of energy goods.

Core inflation continued its gradual fall, reaching 2% (from 2.1% in April) and pushing the statistical carryover for 2024 to 1.8%. As we expect the favourable base effect of energy goods to fade out only gradually over the summer and revert more markedly only at the end of the year, the ongoing gradual recovery in real disposable income looks set to last – and could potentially support consumption throughout the rest of the year.

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