

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.

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 <http://www.ing.com>.