Italian GDP growth confirmed as flat in the third quarter

There were no big surprises from the disclosure of the demand breakdown in Italy's GDP. Consumption was confirmed as the main driver and net exports the main drag, with investments broadly a hindrance for the infrastructure component

Consumption was the main driver of Italy's third quarter GDP

Italian GDP growth confirmed as flat in the third quarter

The revision of preliminary national accounts data for the third quarter of 2024 confirmed that Italian economic growth was flat on the quarter (after 0.2% in the second), positioning Italy as the growth laggard in the eurozone. On the year, GDP was up 0.4% (from 0.6% in the second quarter). The supply side angle indicated a 1.2% decrease in value added in industry and a 0.2% increase in services, with agriculture flat.

Private consumption the main driver, net exports the main drag

The interesting part of the release, though, is the detailed breakdown of demand components, which was only briefly outlined at the preliminary estimate stage. As expected, private consumption was the main growth driver, contributing a solid 0.8% to quarterly growth, helped by inventories, which added another 0.2%. Gross fixed capital formation subtracted 0.3% but the main drag came from net exports, at 0.7%, which was the result of a 0.9% quarterly contraction in exports and a 1.2% increase in imports.

Infrastructure investments the single driver within the GFCF domain

Digging into the gross fixed capital formation breakdown, we see confirmation of our expected pattern. Within the construction domain, the dwellings component contracted, very likely due to the phasing out of the generous Superbonus tax incentive. Meanwhile, the non-residential/infrastructure component expanded healthily, likely propelled by the accelerated implementation of the investment part of the EU-funded recovery and resilience plan. There were no surprises in the machinery sector, as the marked contraction looks fully consistent with the ongoing recession in manufacturing and the accompanying decrease in capacity utilisation. Similarly, the transport equipment sector also showed a marked decline.

The current pattern could be confirmed in the fourth quarter

Looking ahead, the pattern displayed in today's release will likely be confirmed over the last quarter of 2024. Private consumption looks set to remain a growth driver, helped by the combination of a resilient labour market, contained inflation and decent wage growth. In particular, October employment data, also released earlier today, signalled another expansion in employment, a decline in unemployment, and a decline in the unemployment rate to 5.8%, admittedly helped by an increase in the pool of inactive workers. Even though employment might take a breather over the coming months, an inversion of the trend seems unlikely right now.

Our current 0.5% forecast for average GDP growth in 2024 seems a safe bet

More uncertain is the balance of the gross fixed capital formation aggregate. Here the decisive factor will be the extent to which the infrastructure component will accelerate as we approach the deadline for the implementation of the recovery plan. Unfortunately, visibility on progress is very limited, but very recent anecdotal indications seem to signal an improvement. Together with consumption, this is the component which brings us to forecast slow positive GDP growth in the fourth quarter of 2024. With the statistical carryover for GDP growth in 2024 at 0.5%, our current forecast of 0.5% average growth seems a safe bet, with marginal upside risks should the fourth quarter surprise to the upside.

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