

## Italian GDP growth surprisingly strong in first quarter

This is a very strong reading, but will be hard to replicate, at least in the short run. Still, we now believe that 2023 Italian GDP growth will average slightly above 1%



Italy's GDP was surprisingly strong in the first quarter

According to the preliminary estimate by Istat, the Italian economy expanded by a hefty 0.5% quarter-on-quarter in the first quarter of 2024 (+1.8% year-on-year), clearly beating expectations.

As usual, the preliminary estimate gives only a very general picture, omitting the detailed demand breakdown. Istat tells us that both domestic demand (gross of inventories) and net exports provided a positive contribution to quarterly GDP growth and that, from the supply side, both industry and services posted positive growth whilst agriculture was stable.

We had expected the Italian economy would avoid a recession, but the scope of the expansion is definitely surprising. To be sure, confidence indicators had painted an improving picture, and particularly the PMIs, but these have lost some explanatory power of late. Hard data such as industrial production, instead, had come in on the soft side over the quarter, questioning the possibility of a positive contribution from industry. Industrial turnover data for February, also released earlier today, paint instead a brighter picture for industry. The reported 0.8% month-on-month gain in manufacturing looks clearly more consistent with the GDP release. Having said that,

we remain convinced that over 1Q23 the main growth driver has been services, propelled by solid tourism flows.

On the demand front, we suspect that the normalisation in supply chains might have had a bigger role than anticipated, providing an extra boost through the export channel. Also, after providing a markedly negative contribution in 4Q22, a sharp decline in inventory de-cumulation might also have become a temporarily powerful growth driver. We deem less likely a positive surprise coming from private consumption. Over the quarter, households were still hit by high (if slowing) price pressures, only very partially compensated for by slow contractual wage growth (at 2.2% in March) and the saving ratio had already fallen in 4Q22 to an unusually low level of 5%, with very limited scope for further declines.

All in all, today's release is doubtless a positive surprise, which is unlikely to be repeated in the next few quarters. With the impact of past rate hikes yet to fully filter through the economy (and with more rate hikes to come) we suspect that the pace of the Italian economic expansion will slow down over the next quarters. Having said that, with the statistical carryover for Italian 2023 GDP growth at 0.8% after today's release, we will likely revise our forecast above the 1% threshold.

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