

Italian GDP marginally contracts in the second quarter

The reversal of the frontloading effect on exports played a key role here, and domestic demand was clearly too weak to compensate



Italy's GDP shrank in the second quarter

The preliminary release of Italian GDP data for the second quarter of 2025, which omits the detailed demand breakdown, indicated a quarterly decline of 0.1% (compared to a 0.3% increase in the first quarter), which was weaker than expected. On an annual basis, GDP rose by 0.4%, adjusted for seasonal and calendar effects.

According to the press release, domestic demand gross of inventories provided a positive push to quarterly growth, while net exports acted as a drag. From the supply side, value added contracted in both agriculture and industry and was stable in services.

We had expected a slowdown in the second quarter after the relatively strong first quarter, but this turned out to be more substantial than anticipated. Coming out of this economic soft patch will be difficult in a highly uncertain economic and geopolitical environment.

Preliminary data confirms that, at least over the first half of 2025, GDP growth was impacted by US tariffs. If in the first quarter the US import frontloading had propelled Italian exports, its reversal in the second quarter had inevitable negative consequences. Monthly trade data available so far for

the quarter fully confirms this and is consistent with a quarterly drag of 0.3% for net exports, according to our estimate. If this is correct, domestic demand was not strong enough to compensate.

We are relatively confident that private consumption contributed modestly due to a favourable mix of resilient employment, slowing yet decent wage growth and inflation below 2%.

We are more uncertain about the contributions of investments and inventories. The contribution of investment to growth remains difficult to assess, as different components are pulling in opposing directions. We suspect that the construction component may have supported growth, with infrastructure activity – likely driven by EU recovery fund spending – potentially offsetting the drag from residential construction, which has been affected by the phase-out of the superbonus tax incentive. The impact of the machinery component is also very uncertain, as the potential boost from ECB monetary easing contrasts with the drag caused by limited visibility on the resolution of the tariff saga.

On the inventories front, the inversion in de-cumulation might have been less marked than expected, confirming the delay in the start of a re-stocking cycle.

All in all, preliminary GDP confirms that kickstarting the economy will be a complicated task while uncertainty remains. Drawing on available confidence indicators and assuming that reduced uncertainty following the US-EU trade agreement will support domestic demand, we cautiously anticipate a return to marginally positive quarterly GDP growth in the third quarter, with tourism potentially providing an additional lift. Still, risks to our current 0.6% forecast for average GDP growth in 2025 are now slightly tilted to the downside.

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