

Italian GDP fell slightly at the end of 2022

Unsurprisingly, domestic demand was the driver of this minor contraction. A short technical recession might ensue now, but a gradual recovery is expected to follow in the second quarter



Italy's GDP was surprisingly strong in the first quarter

Minor contraction driven by domestic demand softness

Italy's seasonally-adjusted GDP posted a minor 0.1% contraction in the fourth quarter (from +0.5% in the third), in line with our forecast, and a 1.7% increase in year-on-year terms.

No detailed demand breakdown was disclosed, but Istat indicated that the GDP contraction was the result of the positive contribution from net exports and the deduction coming from domestic demand (gross of inventories). The supply side angle shows an increase in value added in services and a contraction in both agriculture and industry. Average 2002 GDP growth turned out at 3.9% (6.6% in 2021).

Lacking the detailed demand breakdown, we suspect that softer private consumption resulting from the fading out of the reopening effect was likely the main drag on quarterly growth, while the support coming from net exports was probably the result of a sharp contraction in imports rather than healthy exports.

A short technical recession over the winter likely, but labour market will remain supportive

The small contraction in fourth quarter GDP might mark the start of a very short minor technical recession, which we expect to end in the third quarter. The first quarter of 2023 will likely see the economy still suffering the effects of the inflation wave on private consumption through the disposable income channel. However, as in 2022, a resilient labour market will likely act as an effective shock absorber for households, providing partial compensation. As December employment data showed earlier today, the labour market is still solid, with a monthly employment gain and an increase in unemployment resulting in a stable unemployment rate of 7.8%, thanks to a decline in the pool of inactive workers. Interestingly, January business surveys signalled that hiring intentions are expected to remain in place over the next three months, both in industry and in services. On the investment front, continuous support should come from the European recovery fund effect. We thus anticipate another minor GDP contraction in the first quarter

The recovery which will follow will likely be gradual

All in all, today's small negative reading should not be overemphasised. Whether it will be technical recession or not, what the Italian economy is experiencing is a form of temporary stagnation. The exit speed will likely depend heavily on how fast the inflationary wave will recede. As we believe that the combination of the energy inflation decline and core inflation stubbornness will yield a gradual decline in headline inflation, we expect the recovery to be very gradual as well. The carryover effect of fourth quarter GDP data on 2023 GDP growth is 0.4%. We forecast that the actual number will be slightly better than that at 0.7%.

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 www.ing.com.