

## Italian GDP still in expansion mode in 3Q22

We suspect that a combination of post-Covid re-opening and tourism effects was at play, possibly with the support of investments. We still expect a short recession to start in 4Q22



A good recovery in domestic and international tourism helped boost Italy's second-quarter GDP

### Italian economy decelerating, but well clear of contraction in 3Q22

The flash estimate just released by Istat shows that Italy managed to avoid contraction in 3Q22. We had expected a positive reading, but the 0.5% QoQ gain (was 1.1% QoQ in 2Q) is clearly a positive surprise. The 2.6% YoY gain (was 4.7% in 2Q22) marks a clear deceleration, which looks set to continue over the next few quarters.

As usual at the preliminary estimate stage, no detailed demand breakdown was released but the indication is that domestic demand (gross of inventories) provided a positive contribution to quarterly growth, while net exports acted as a drag. On the supply side, value added contracted over the quarter in agriculture and industry and increased in services.

## The tail effects of re-opening and positive tourism numbers likely the main drivers

Today's release confirms our belief that the re-opening effect and a very positive tourism season were still powerful growth drivers in the third quarter of 2022. We suspect that detailed demand data will eventually show positive contributions from both consumption and, possibly, investments, the latter helped by the support of European recovery funds and generous domestic tax investments in the construction domain.

## A contraction in 4Q22 still looks hard to avoid

Looking forward, we remain convinced that a GDP contraction is hard to avoid in 4Q22, opening a short-lived recession which looks set to end by 2Q23. Confidence data headed further south in October, including in the tourism sector. Households are gloomier as disposable incomes are increasingly eroded by accelerating inflation and with a backdrop of slowly growing wages. The new government will likely prioritize a new wave of compensatory measures, but these will mostly refinance expiring ones and so limit damage rather than inducing a turnaround.

Statistical carryover for 2022 GDP growth is now at 3.6%. Taking into account the 0.5% contraction that we are currently penciling in for 4Q22, we would end up with average GDP growth of 3.5% in 2022. Keeping our previous profile for 2023 unaltered, we now look for average GDP growth of 0.2% in 2023.

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