Revised Italian GDP data shows positive fourth quarter growth

The release of updated estimates for Italy's GDP reveals that the fourth quarter of 2024 experienced slow growth, contrary to the initial report of no growth. While the data isn't spectacular, it is somewhat comforting

Growth in the fourth quarter was marginally positive, not flat

The publication of revised estimates for Italian GDP shows that the fourth quarter of 2024 was not a flat one, as originally reported, but a slow growth one.

According to Istat, GDP was up 0.14% on the quarter (from 0.0% in 3Q24) and 0.6% in the year (from 0.6%), in line with our original forecast.

Gross fixed capital formation was the main driver, with inventory change a drag

The interesting part of the release is the detailed demand breakdown, which was not disclosed at the preliminary estimate stage. We now know that the main growth driver was gross fixed capital formation (which added 0.4% to quarterly growth), helped by household consumption, public consumption and net exports, which added 0.1% respectively. The change of inventories, on the other hand, subtracted 0.4% from quarterly growth.

Although a slowdown in private consumption was expected after a strong third quarter, the main surprise came from the investment sector, particularly with the solid rebound in the machinery and equipment component. We had expected more subdued activity, given soft demand conditions and declining capacity utilisation. The construction component broadly confirmed our expectations, juxtaposing further weakness in the dwelling component due to the evaporation of the superbonus effect to strength in the structural component, likely propelled by the implementation of investment projects funded by the EU recovery and resilience facility.

Available evidence for the first quarter points to another possible positive reading

Looking ahead, we believe that the pattern seen in the fourth quarter could be confirmed over the first quarter of 2025. In January, a favourable combination of employment growth (+2.2% on the year), solid wage growth (+3.8% on the year) and subdued inflation (at 1.5% on the year) should have ensured further gains in real disposable income, supporting consumption.

On the investment front, the construction subcomponents should confirm diverging trends, while the machinery component might find fresh support by the simplification of requirements for accessing Transition 5.0 incentives introduced by the turn of the year.

Additionally, we don't rule out that Italian exports might temporarily benefit from frontloading imports from the US in anticipation of possible tariffs. All this looks consistent with our call for another small positive reading (0.2% on the quarter) for GDP growth in the first quarter.

We maintain our average growth forecast for 2025 at 0.7%, with possible downside risks

For now, we maintain our forecast for average Italian GDP growth at 0.7% in 2025, but we are well aware that developments in international trade and the geopolitical environment might soon add downside risks to our forecast.

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