# Italian third quarter growth accelerates

The comforting news about the Italian economy continues as Italian GDP grows 0.5% in the third quarter pointing to more balanced growth

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0.5% Italian GDP growth

(QoQ%)

As expected

The preliminary estimate of Italian GDP for 3Q17, released by Istat, shows that the Italian economy expanded by 0.5% quarter-on-quarter and 1.8% year-on-year, in line with our above-consensus forecasts. This marks an acceleration in the second quarter when the economy expanded 0.3% QoQ and 1.5% YoY.

As usual at the preliminary stage, Istat did not disclose the detailed breakdown but indicated that both domestic and net exports provided a positive contribution to quarterly growth. Sector-wise, Istat notes that value-addition increased in industry and services while contracting in agriculture.

*So long as external conditions remain relatively favourable, the upcoming elections expected in March 2018, don't seem strong enough to derail the recovery*

Today's release looks consistent with what hard and soft monthly data had been telling us so far. We believe a rebalancing of the demand components of domestic demand might have been at play in the third quarter, with a growing role for machinery investment and confirmed strength in transport equipment investment.

Construction investment might confirm a laggard, instead. In our view, inventories which had been the main driver of quarterly growth in 2Q might have become growth neutral in 3Q. The positive contribution coming from net exports is very good news, as it co-exists with accelerating domestic demand, and in principle bodes well for short-term GDP growth developments.

Looking ahead, the available soft data evidence for 4Q17 points to a continuation of the economic expansion. After today's release, acquired growth for the whole of 2017 stands at 1.5% and coincides with our current GDP growth forecasts for the whole year. We expect slightly softer quarterly growth in 4Q, to the tune of 0.3% QoQ. Anything higher would push the average yearly reading to 1.6%.

So long as external conditions remain relatively favourable, with expansionary monetary policy still in place and external demand in good shape, domestic risk factors, namely the upcoming elections expected in March 2018, don't seem strong enough to derail the recovery.

The picture might change when the campaigns heat up, but so far so good.

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