Italy GDP growth slows in 2Q18

The demand breakdown shows comforting signs of an investment revival but lingering political uncertainty and softer export demand seem to be limiting the scope for any acceleration of Italian economic growth over the remainder of the year

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The revised estimate of 2Q18 Italian GDP data confirms the pace of growth has been weakening to 0.2% quarter on quarter from 0.3% in 1Q18. The annual measure was down to 1.2% from 1.4% in 1Q18.

The interesting part is the detail of the demand breakdown, which is omitted at the preliminary estimate stage. We now know that domestic demand was the main driver of quarterly growth, driven surprisingly by strong private investments, which contributed 0.5% to quarterly growth on the back of strong machinery and plant and transport equipment components. Inventories contributed another 0.2%, and national consumption added a meager 0.1%. As expected, net exports acted as a drag, subtracting 0.5% from growth, on the back of softening exports and sharply increasing imports.

We confirm our forecast of average 1.1% GDP growth for 2018

Earlier today Istat, the statistics agency released July preliminary employment data, the first batch of hard evidence referring to 3Q18, which showed an unexpected decline in the unemployment rate to 10.4% from 10.8% in June, resulting from a contraction in the labour force rather than from new job creation. Employment contracted 0.1% (or 28K headcounts) and unemployment by a hefty 4% (or 113K headcount), with the outflow beefing up the inactive pool. Employment developments will be crucial for consumption developments over 2H18.

Given the uncertain political and budgetary backdrop, we suspect businesses will remain cautious with fresh new hirings, for the time being, preferring to increase working hours instead. This is likely to cap the chances of a consumption acceleration. For the same reason, prudence might limit the scope for further accelerations in investment policies after the rebound in 2Q18.

All in all, while the demand breakdown shows comforting signs of an investment revival, lingering political uncertainty and softer export demand seem to be limiting the scope for any acceleration of Italian economic growth over 2H18. We confirm our forecast of average 1.1% GDP growth for 2018.

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

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