

Italy's revised GDP data confirms small contraction in second quarter

The 0.1% GDP contraction was driven by the net exports drag, partially offset by inventories and gross fixed capital formation. Consumption was flat, but could improve a bit over the rest of the year should inflation remain under control, as we believe



Small quarterly GDP contraction confirmed in the second quarter

The revised estimate of second quarter Italian national accounts confirms the preliminary estimate of a 0.1% quarterly contraction (it had expanded by 0.3% in the first quarter) and of a 0.4% expansion on the year (from +0.7% in the first).

Net exports acted as a drag, inventories and investments the only positive drivers

As usual, the revision added the detailed demand breakdown, which was omitted at the preliminary estimate stage. The small quarterly contraction was the result of a 0.7% drag from net exports, a 0.4% boost from inventories and a 0.2% increase from investments, while both private

and public consumption growth were neutral.

The contraction in exports tied to the US tariff saga acted as a drag, even more than expected. On the domestic demand front, we had anticipated a positive contribution from gross fixed capital formation and inventories. The latter proved stronger than foreseen. On the private consumption front, the flat reading confirms that lingering uncertainty related both to US tariffs and to a gloomy geopolitical backdrop has increasingly been inducing prudent consumption behaviour, notwithstanding the ongoing catch-up in household purchasing power.

Private consumption is proving softer than expected...

At the start of the year, we indicated that private consumption and private investment would be the main engines of economic growth in 2025, with a similar positive contribution expected. With half-year data in the bag, it now seems likely that, barring any surprises over the last two quarters, the contribution from private consumption will ultimately turn out to be smaller than that of investment. Whether there will be some catch-up in consumption in the second half of the year, which we still deem possible, will depend on developments on the employment and on the inflation fronts. Labour market forward-looking indicators continue to point to a marginal increase/stabilisation of employment through the end of the year and inflation developments remain favourable, continuing to support further gains in real disposable income.

...but could catch up a bit over the second half if inflation remains well behaved

Istat just released its estimate for August inflation. It confirmed our expectation of a small decline in the headline measure to 1.6% (from 1.7% in July), still driven by a deceleration in energy prices. In August, the gap between services and goods inflation widened a bit and core inflation, which excludes energy and fresh food, edged up to 2.1% (from 2% in July). The statistical carryover for 2025 headline inflation is now at 1.7%. This coincides with our average yearly inflation forecast, which implies headline inflation hovering in the 1.5%-1.8% range throughout the rest of the year. In our view, this would be compatible with a small acceleration in consumption over the last part of 2025.

Against this updated backdrop, we confirm our forecast for average 2025 GDP growth at 0.5%, but see downside risks to our 0.8% projection for 2026.

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