

## Surprising growth in Italian GDP in the second quarter

The strong reading likely built on a stronger-than-expected re-opening effect, more visible in tourism activity and inventory accumulation



Italian tourism is helping to boost GDP

### Domestic demand boosted 2Q GDP

According to preliminary estimates by the Italian statistical office, seasonally-adjusted Italian GDP expanded at a healthy 1.0% quarter-on-quarter in 2Q22 (+0.1% in 1Q22), clearly beating expectations. As usual with the preliminary estimate, Istat did not provide a detailed demand breakdown but indicated that the main driver of quarterly growth was domestic demand, while net exports acted as a drag. According to Istat, value added increased in both industry and services and fell in agriculture.

### Tourism and inventory accumulation possibly at the heart of the upside surprise

The extent of the rebound in 2Q22 comes as a surprise, as the impact of the war in Ukraine should have been reflected in the data. We had expected an acceleration of GDP growth driven by investments linked to very favourable tax incentives for construction activities and to inflowing NextGenEU funding, and we suspect this will be confirmed by final data. We sense that the positive

surprise is due to the remaining components of domestic demand: private consumption and inventory accumulation. On consumption, the negative impact of inflation on disposable income was possibly smoothed by an unfolding re-opening effect, more visible in tourism-related activities. Indeed, improving international tourism account balances had provided tentative evidence in this regard. We had anticipated a negative contribution from inventories, but we suspect this did not materialise, perhaps due to relatively resilient industrial activity.

## Expect a strong deceleration in 3Q

Looking forward, we don't believe that the growth rate seen in 2Q22 can be repeated in 3Q22. Confidence indicators headed south in July, with exceptions only in the construction and retail sectors. The impact of inflation on disposable income will compound, with uncertainty originating from the government crisis possibly adding some prudence in consumption and investment behaviour. We still think it likely that the strong performance of tourism and construction will drive the Italian economy to post a small quarterly gain in 3Q22, but see risks to this call concentrated in the swing inventory component.

## Risks to our 2.9% GDP forecast for 2022 now lie to the upside

Today's surprisingly good GDP release brings about a 3.4% statistical carryover effect for 2022. Barring severe Russian gas supply disruptions at the start of the cold season, risks to our 2.9% average 2022 GDP growth forecast lie now to the upside.

### Author

#### Paolo Pizzoli

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

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