ITALY

EASING GROWTH MOMENTUM

In Q2, real GDP declined by 0.4%, driven by weakening domestic demand. Investment in machinery and equipment fell, reflecting the worsening of firms' economic and financial conditions. Consumption slightly recovered in real terms. Italian households suffer, however, from both higher consumer prices and increasing interest rates. In Q2, there was a contraction across many sectors. Services value added unexpectedly declined, reflecting the slower recovery of tourism. Inflation is slowly falling: in September it grew +5.7% y/y. Contrary to most predictions, in Q2 2023 house prices increased by 2.0% q/q.

AN UNEXPECTED GDP CONTRACTION, DRIVEN BY DOMESTIC DEMAND

The recovery of the Italian economy stuttered in Q2 2023. After a 0.6% increase in Q1, real GDP fell by 0.4%, with the annual growth rate declining from 2.1% to 0.3% and the carryover for 2023 from 0.9% to 0.7%. Despite the Q2 contraction, Italian GDP is 3% higher than in Q4 2019.

In Q2, domestic demand excluding stocks subtracted 0.4% from the overall growth, driven by falling investment, which declined by almost 2%, with a 0.4% negative contribution to the GDP. Spending in construction decreased by more than 3%, mainly due to the phasing out of the extraordinary incentives for building improvement. Investment in machinery and ICT equipment fell by 0.7%, reflecting the worsening of economic and financial conditions of firms, which are still coping with producer prices 20% higher than at the beginning of 2021. Given increasing interest rates and the worsening of the global scenario, bank loans to non-financial corporations declined by more than 7% on an annual basis. Q2 private consumption moderately recovered in real terms, slightly going above pre-crisis levels, while the value of expenditure is almost 15% higher. Italian households benefited from the further improvement of labour market conditions, while suffering from both higher consumer prices and increasing interest rates. In Q2, net exports' contribution was negative (-0.2 percentage point), as exports declined while imports remained unchanged.

In Q2, there was a contraction of activity across many sectors. Manufacturing recorded the fifth decline in the last six quarters, with value added slightly above pre-crisis levels. Industrial activity suffered in sectors with higher production costs, such as chemical, wood, paper, rubber and plastic. Services value added unexpectedly declined, reflecting the slower recovery of tourism. In H1 2023, expenditure of foreign travellers was higher than in the same period of 2019, while the number of travellers was lower by about 4.5 million.

INFLATION ON A (SLOW) DECLINE, HOUSE PRICES ON A (SLOW) UPWARD TREND

In September, HCPI inflation grew 5.7% y/y (vs. +5.5% in August), the second lowest rate since January 2022. Among the main components of spending, food and beverage prices experienced the highest growth: 9% y/y (from 10.1% in August), while, on the opposite side, education and communication services recorded the lowest rate of growth among the HCPI items (+1.5% and -0.3% y/y, respectively). Contrary to most forecasts, in Q2 2023 house prices increased by 2.0% q/q and by +0.7% y/y (after +1.0% y/y in Q1 2023). This trend is attributable both to the prices of new homes, which grew by 0.5% y/y (+5.3% in Q1 2023), and to those of existing ones, which rose by 0.8 % y/y (+0.3% in Q1 2023). The carry-over effect for 2023 house prices is +1.4% (+3.8% for new homes and +0.9% for existing ones).

GROWTH & INFLATION

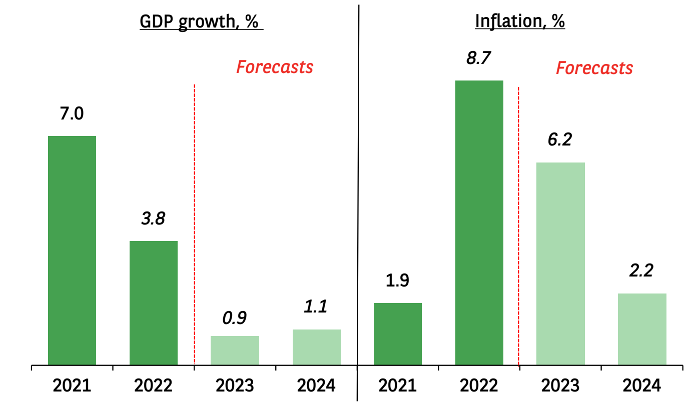

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

House prices growth was quite heterogeneous between the different areas of the country: in the North-West regions, house prices continued to grow (+2.5% y/y in Q2 2023 from +2% in Q1), while in the North-East they slowed down (+1.1% y/y from 1.9% in Q1). Regions in the Center and the South, on the contrary, recorded negative growth: -0.7% and -1.5% respectively on a yearly basis (from +0.1% and -0.7% in the previous quarter). House prices have continued to grow in all cities where the Index is monitored by Istat. In Milan in particular, prices accelerated (+7.1% y/y in Q2) from the previous quarter (+5.8%), while in Rome it slowed (+0.6% from +1.9% in the previous quarter). These trends occur in the context of marked decline in trading volumes that in Q2 decreased by 16.0% on a national basis (-8.3% y/y in Q1).

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