

ITALY

11

STRONG GDP AND PRICES GROWTH

Following a mild contraction in the last three months of 2022, Italian GDP rose by 0.6% in Q1 2023. The carryover for 2023 is +0.9%. In Q1, domestic demand excluding inventories added 0.7 percentage points to growth, while the contribution of both net exports and inventories was negative. Investment rose by almost 1%, reflecting the improvement of economic and financial conditions for Italian firms. Italian households benefited from the strong recovery of nominal income, but still suffered from the purchasing power loss due to inflation. This latter remains among the highest in the euro zone, at 8% y/y in May (harmonised measure).

SOLID RECOVERY IN Q1 2023

Following a mild contraction in the last three months of 2022, Italian GDP rose by 0.6% q/q and 1.9% y/y in Q1 2023. GDP is 2.5% higher than in Q4 2019, more than in other main Euro area countries. The growth carryover for 2023 is +0.9%.

In Q1, domestic demand excluding inventories added 0.7% to growth. Consumption rose by 0.5% q/q, partly recovering the large fall recorded in Q4 2022 (-1.7%). Italian households benefited from the increase of nominal income, but still suffered from the decline of their purchasing power. Labour market conditions have further improved. The number of employed persons is above 23.4 million, with the employment rate at 61%, the highest in the last twenty years. Despite the recent fall in inflation, the consumer prices index is still 15% above the level of the beginning of 2021. In Q1 2023, households' consumption in volume was slightly lower than in Q4 2019, while nominal expenditures were more than 10% higher. Investment's contribution to quarterly GDP growth was positive (+0.2 percentage points), reflecting the strengthening of economic and financial conditions for Italian firms. Investments in buildings and other structures (excluding dwellings) rose by 1.5% q/q and those in means of transports by almost 7% q/q. In Q1 2023, real exports declined more than imports (respectively -1.4% and -1%). Net exports contribution was therefore negative (-0.1 ppt, after +1.5 pp in the previous quarter).

In Q1, value added in the manufacturing sector declined by 0.1%, the third consecutive contraction. Trends in industrial activity remain mixed, with energy intensive sectors, such as chemicals, metals, wood and paper products, suffering from higher production costs. After the moderate decline recorded in Q4 2022, value added of services rose by nearly 1%, mainly reflecting the strong rebound in both real estate activities and in professional and administrative activities, while value added for the construction sector increased by 1.5%.

STUBBORN INFLATION

The inflation rate in Italy remains among the highest in the euro zone, at 8% y/y in May (harmonised measure), largely due to the increases observed between January and February.

Inflation is a relatively new phenomenon for a large part of the Italian population. In Italy, as in the rest of the Euro area, such high and persistent price increases have not occurred since the mid-1980s.

Today, the number of Italian residents over 40 years old (i.e. born before the 1980s) is about 35.4 million, out of a total population of nearly 59 million. Those born after the 1980s (over 23 million people) had never experienced until 2021 what inflation meant in their daily lives. It took a little while for such a large segment of the population to fully

GROWTH & INFLATION

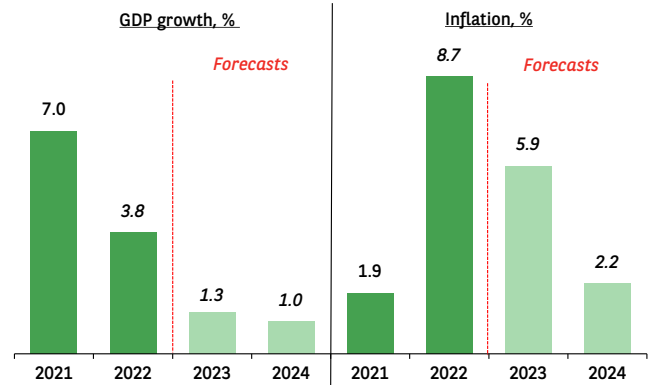


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

understand the actual effects of persistent price rises on their lifestyle and their spending, saving and investment decisions. Moreover, the portion of the population to whom inflation was basically unknown is even higher if we consider that only 17.2 million persons who were economically active during the 1970s and 1980s are still alive. In other terms, less than one third of the population living in Italy today actually experienced inflation in the past.

In Italy, inflation has mainly affected households in the lower income classes. In a recent study, ISTAT estimated at around 5 pp the differential of inflation between households in the lowest and highest income classes, also pointing out that the gap widened as inflation increased.

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