

THE RECOVERY KEEPS GOING

In Q1 2024, the Italian economy slightly accelerated. Real GDP rose by 0.3%, with a mixed evolution by sector. Valued added of construction rose, while that of manufacturing declined, suffering from the slowdown of exports. Services increased moderately, benefitting from the recovery of tourism. Domestic demand contributed positively to the overall growth and households profited from the improvement of labour market conditions. Economic and financial conditions of firms further improved. In Italy, in the first five months of 2024, on average, the consumer price index increased by less than 1% y/y per month.

Q1 GROWTH: MIXED EVOLUTION BY SECTOR, MORE WIDESPREAD RECOVERY BY GDP COMPONENTS

At the beginning of the year, the Italian economy slightly accelerated. In Q1 24, real GDP rose by 0.3% q/q. Net exports contribution was positive (+0.7 pp), as imports declined while exports rose (albeit at a slower pace than in Q3 and Q4 23). Change in inventories subtracted 0.7 percentage points from the overall growth. Up to now, the carry-over for 2024 reaches +0.6%. So far, the recovery of the Italian economy has exceeded expectations. GDP is 4.6% higher than in Q4 19, more than in the other main Euro area economies.

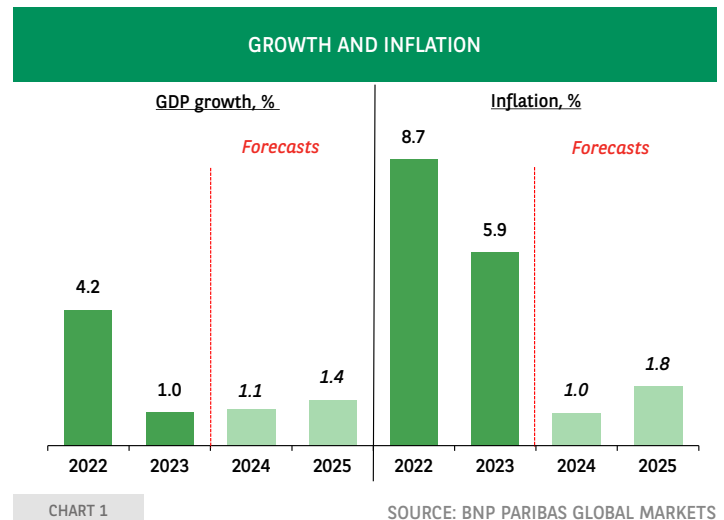
In Q1 24, the economic recovery was mixed by sector. Value added of construction rose by almost 3%, also reflecting the effect of public incentives to improve the energy efficiency of buildings. Services grew moderately (+0.3%), benefitting from the further recovery of tourism, with expenditures of foreign travellers well above the 2019 level. Value added of manufacturing slightly declined, suffering from the slower growth of exports and the contraction of production mainly in sectors with still high productive costs.

Consumption rose by 0.3%, partly recovering the 1.4% decline in Q4 23. Households benefitted from the recovery of income, although still suffering from consumer prices that are about 20 percentage points higher than at the beginning of 2021, even though inflation is below 2%. Labour market conditions further improved. The employment rate rose above 62%, the highest value in the last twenty years, and the number of employed persons is more than 700,000 higher than in the pre-Covid-19 crisis period.

In Q1 24, investment in construction rose further, both for dwellings and other buildings and structures, while those in machinery and equipment declined, although remaining 17% higher than in Q4 19. Economic and financial conditions of firms have further improved. In spite of higher productive costs, firms' profitability has slightly recovered. Leverage of non-financial corporations (i.e. the ratio between financial debts and the sum of financial debts and market values of shares and other equity) fell to 34%, 15 percentage points below the 2011 value, with a more balanced composition of debts (in particular a lower share of bank loans). Besides, deposits of firms amount to more than EUR 500 billion, about 40% of financial debts (a measure of their liquidity margins).

INFLATION KEEPS DECLINING, HOUSE PRICES STILL GROWING

In Italy, the consumer price index for the whole nation (NIC) has been increasing by less than 2% from October 2023. In the first five months of 2024, on average, the consumer price index rose by less than 1% y/y per month. In May, inflation increased by 0.2% on a monthly basis and by 0.8% y/y (same as in April 2024). The stabilization of the inflation rate is mainly due to the easing of tensions on the



prices of processed food goods (+1.8% y/y from +2.5% in April) and of some types of services (transport and housing-related) along with the persistent deflationary pressures coming from the energy sector (notwithstanding their recent weakening). Core inflation continues to decline as well (+2.0% y/y from +2.1% in April).

As far as housing prices are concerned, they increased by 1.3% in 2023 (the fourth increase in a row): the prices of new houses and existing ones rose, respectively, by 5.6% and 0.4%. The carry-over effect for 2024 is +1.7% (+9.8% for the new houses and zero for the existing ones). Positive growth rates in house prices are widespread among the three cities where they are collected: in Milan, house prices in 2023 grew by 5.4% (eighth yearly increase in a row), in Turin by 2.6%, in Rome by 0.8%. On the transaction side, Italy's housing market remains depressed however: following the decline recorded in 2023 (when volumes went down by about 10% on a national basis), in Q1 2024 house transactions fell by 7.6% y/y.

Monitoring the housing market trends in Italy is crucial, due to the weight of houses in Italian households' wealth. According to Bank of Italy's estimates, on average, houses account for 47.6% of households' net wealth, reaching 75.1% for the poorest households, in the lowest percentile of wealth.

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