

## THE RECOVERY REMAINS STRONG

In Q4 2022, GDP slightly declined on a quarterly basis. Domestic demand and the change in inventories subtracted 0.4 pp and 1.1 pp, respectively from the overall growth, while net exports added almost 1.5 pp. The Q4 GDP contraction mainly reflected the moderate weakening of the services sectors that had experienced a strong rebound in the previous six quarters. Despite its Q4 decline, services value added is 1.7% higher than in Q4 2019, explaining about half of the total recovery of the Italian economy. Overall, the 2023 outlook remains positive, with GDP expected to grow close to 1.0%.

In Q4 2022, the Italian economy recorded a mild contraction. Real GDP fell by 0.1% q/q, after +0.4% in Q3, with the annual growth rate falling below 1.5%. Domestic demand subtracted 0.4 percentage points (pp), as consumption declined by more than 1.5%; households suffered from the increasing inflation, which more than offset the recovery of nominal income, with the employment rate reaching the highest value in the last 20 years. In 2022, households' purchasing power stagnated, and the volume of retail sales declined, while the value of expenditure increased. The composition of private consumption has changed, with the share of services gradually increasing. The propensity to save fell to around 7.0%, with a negative effect on the new flows of financial investment. In Q4, net exports added almost 1.5 percentage points to GDP, as exports rose and imports declined, reflecting the weakening of domestic demand, while change in inventories subtracted 1.1 pp.

### A STILL SOLID RECOVERY

Despite the Q4 contraction, the recovery of the Italian economy remains solid, both from a historical perspective and in comparison, with the other euro area countries. With respect to Q4 2019, real GDP rose by almost 2.0%, more than in France, Germany and Spain, while at the end of 2019 Italy was the only country that had not recovered the 2008 level yet.

The Italian recovery mainly reflects the huge rebound of investment (+20% compared to Q4 2019). Investment on construction strongly increased, with those on dwelling rising by more than 40%, benefiting from significant fiscal incentives to improve the energy efficiency. Besides, capital spending in machinery and ICT equipment rose by 20%. Despite the persisting uncertainty of the global scenario and the less accommodative monetary conditions, the propensity to invest of Italian non-financial corporations remained at historically high levels. Business confidence has improved above the long-term average.

### A DIFFERENT SECTOR COMPOSITION

In Q4, the GDP decline mainly reflected the moderate weakening of activity in the services sectors, which had experienced a strong rebound in the previous six quarters. Despite the Q4 contraction, services value added is 1.7% higher than in Q4 2019, explaining about half of the total recovery of the economy. Value added strongly rose in construction and professional activities, while the financial and insurance sector is still almost 6.0% below Q4 2019. Trade, hotels and restaurants benefited from the recovery of tourism. In 2022, the value of expenditure of non-residents has almost totally recovered the 2019 level, also reflecting higher prices in the services sector, while the number of foreign travellers is still more than 20 million lower.

#### GROWTH & INFLATION

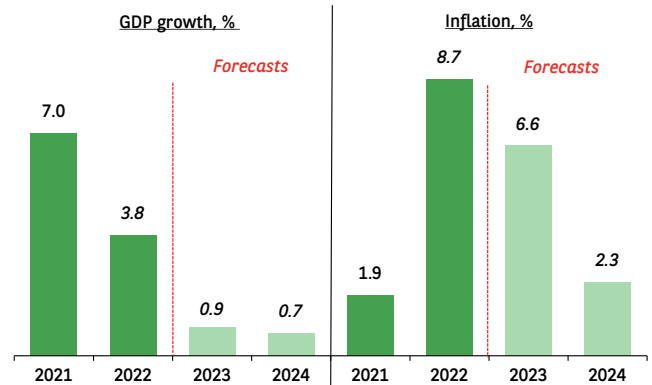


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

In the last two years and a half, the recovery of the Italian economy also reflected the improvement in the manufacturing sector. In Q4, despite the quarterly contraction, manufacturing production was almost 1.5% higher than in Q4 2019. The recovery of industrial activity masks mixed results by sector, with the energy intensive ones suffering from increasing costs. The evolution of production also reflected the increase of exports (+20% in 2022).

### A BETTER OUTLOOK

Even after the Q4 contraction, the carry-over for 2023 is +0.4%. Households' consumption should resume, benefiting from both the further recovery of income and the gradual slowdown of inflation. Lower energy prices and costs of production are expected to ease pressures on firms' economic margins, with positive effects on the propensity to invest. Despite the persisting uncertainty surrounding the global scenario, exports should further increase. Overall, GDP is expected to grow by almost 1.0% in 2023.

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