

A SLOWER AND MORE UNCERTAIN RECOVERY

In 2023, the recovery of the Italian economy slowed in a somewhat bumpy way. On the one hand, after supporting the first part of the recovery, fixed investment declined. But on the other hand, consumption surprised on the upside (+1.5% with respect to Q4 2022). Italian households benefited from both a significant improvement of labour market conditions and deceleration of inflation. Consumer confidence recovered, supporting private expenditures. In Q4 2023, inflation marked a decisive slowdown: the declining trend is mainly due to the deceleration of energy prices (up +1.2% on average in 2023 compared to +50.9% in 2022).

DECLINING INVESTMENT, REBOUNDED CONSUMPTION

In 2023, the recovery of the Italian economy slowed in a somewhat bumpy way. Real GDP rose by 0.6% q/q in Q1, declined by 0.4% q/q in Q2 and then slightly increased in Q3 (+0.1% q/q). Although the annual growth rate fell to 0.1%, GDP is still almost 3.5% higher than in Q4 2019, more than in other Eurozone countries.

In the first three quarters of 2023, net exports' contribution was negative, as exports declined more than imports. From January to October, the value of Italian sales abroad, which had increased by about 20% both in 2021 and in 2022, rose by only 1% annually, reflecting the slowdown of global trade and the disappointing evolution of the German economy.

After supporting the first part of the recovery, fixed investment declined. Spending on construction was affected by the phasing out of the building improvement incentives introduced during the Covid-19 crisis, while spending on machinery and equipment declined as a consequence of the deterioration of firms' profitability. Italian non-financial corporations suffered from rising interest rates, higher producer prices and labour costs, with the gross profit share falling to 42.5% in Q3 2023.

During the summer months, consumption surprised conversely on the upside, rising by about 1.5% with respect to Q4 2022. Italian households benefited from both a significant improvement of labour market conditions and deceleration of inflation (see below). In Q3, the employment rate rose to 61.5%, the highest level in the last twenty years. The number of employed people increased by 535,000 compared to Q4 2019, due to the growth in permanent employees, which more than offset the decline in both temporary employees and the self-employed. Households' gross disposable income rose to €331 billion, with purchasing power increasing by almost 4% in the last three quarters. Consumer confidence recovered, going well above long-term average, supporting private expenditures too.

INFLATION MARKS A DECISIVE SLOWDOWN

In the last quarter of 2023, inflation showed a decisive slowdown in Italy. After the +1.7% and +0.7% y/y recorded, respectively, in October and November, preliminary estimates in December showed inflation measured on the national basket (NIC) growing by only 0.6% y/y (it was +11.6% in December 2022). On average, consumer prices in Italy grew by 5.7% in 2023, from 8.1% in 2022. The declining trend is mainly due to the marked deceleration of energy prices (up +1.2% on average in 2023 compared to +50.9% in 2022). On the contrary, food prices accelerated further, rising +9.8% (from +8.8% in 2022), mostly due to the increase recorded in the first half of the year. In 2023, core inflation was 5.1% (from +3.8% in 2022).

In Q3 2023, house prices stagnated on a quarterly basis, although they grew on a yearly basis (+1.8% y/y from 0.7% in Q2 2023 according to Istat data).

GROWTH & INFLATION

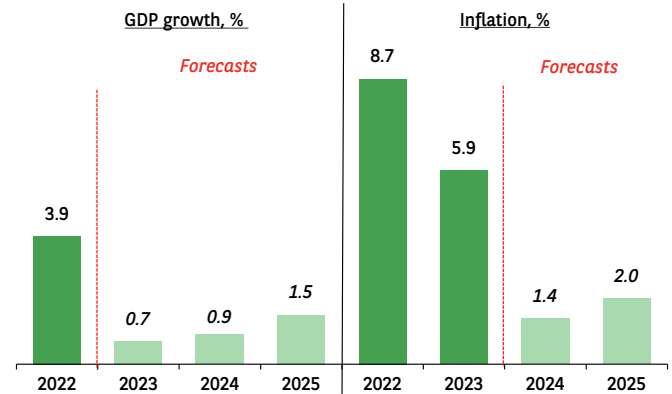


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

This trend is due to the strong increase of new house prices (+8% y/y from +0.6% in Q2 2023), which however barely account for 18% of the housing stock in Italy. The price of existing housing only grew by 0.5% y/y (+0.7% in Q2 2023). The carryover effect for 2023 is +1.3% (+4.7% for the new houses and +0.6% for existing). According to Bank of Italy's estimates, in Q3 2023, real housing prices have been negative for the seventh quarter in a row (-3.6% y/y). The slowdown in headline inflation recorded since September, however, has turned the quarterly change of real prices into the positive range (+1.5%) for the first time since mid-2022. On the transaction side, Italy's housing market remains depressed: in Q3 2023, volumes declined by 9.8% y/y on a national basis.

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