ITALY: A MORE UNCERTAIN SCENARIO

During the summer, the Italian economy continued to show a strong resilience against increasing uncertainty. In Q3 2022, real GDP rose by 0.5% q/q, benefiting from the recovery of services, while both manufacturing and construction suffered. Domestic demand more than offset the negative contribution of net exports. A wind of growth continues to blow on the Italian real estate market. In Q2 2022, residential sales recorded a +8.6% y/y growth, while house prices in the same quarter grew by 5.2% y/y. Although the carry-over for 2022 is 3.9%, the outlook for the Italian economy has become more uncertain. Households suffer from high inflation, with purchasing power declining, while firms have to cope with increasing costs of production.

A STILL POSITIVE EVOLUTION

During the summer, the Italian economy continued to show a strong resilience against increasing uncertainty. In Q3 2022, real GDP rose by 0.5% q/q, with the annual growth rate around 2.5%. Domestic demand added 1.6 percentage points to the overall GDP increase. Private consumption rose by 2.5%, as households benefited from the further easing of social restrictions. Despite less favourable financing conditions, investment increased by 0.8%. The contribution of net exports was negative (-1.3 percentage point), as imports rose more than exports (respectively, +4.2% and +0.1%).

The sector composition of economic growth strongly changed. Construction, which was the main driver of the GDP increase in the previous two years, significantly decelerated, also reflecting a shortage of workers, with value added declining by 2.0%. Rising costs of production and the worsening of the global scenario negatively impacted the manufacturing sector, which has recorded a 0.2% decline.

In Q3, the recovery of the Italian economy reflected the favourable evolution of services. Value added increased by 0.9%, more than offsetting the decline in the other sectors, benefiting from both the rebound of tourism and the change in the composition of household consumption.

Despite the carry-over for 2022 at 3.9%, the outlook for the Italian economy is extremely uncertain. The annual growth rate of the consumer prices index went above 12% y/y, negatively affecting household purchasing power. The volume of retail sales declined, while the value of expenditure continued to increase, with the propensity to save falling slightly above 9.0%. Given the persistent uncertainty of the overall scenario, the risk of a postponement of investment decisions has further increased.

THE REAL ESTATE MARKET KEEPS GROWING

In the first half of 2022, the Italian real estate market continued to grow at a faster than expected rate. This positive trend can be seen both in terms of rising prices and transactions.

Between April and June 2022, house prices recorded an increase of +2.3% q/q and +5.2% y/y. It was the twelfth consecutive quarter of growth in a row. However, despite the rise recorded in the last three years, in June 2022 house prices in Italy were still 8.3% lower than in 2010 (the first year since these data were collected).

House price growth in the second quarter of 2022 was widespread in the country; however, none of Italy's geographical areas has rebounded to the 2010 levels yet, with the important exception of Milan, where prices in June 2022 were 17.4% higher than 12 years earlier. Rome, on the other hand, is still lagging behind. In the capital, town house prices were about 23% lower in June 2022 than in 2010.

GROWTH & INFLATION

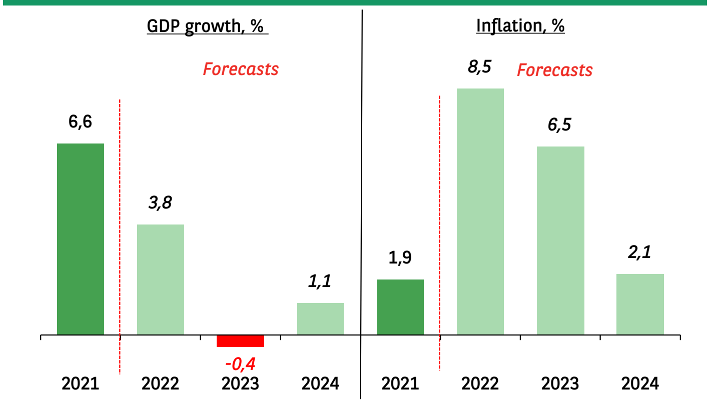

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

The good performance of the Italian real estate market is mirrored by the trend of house transactions. In the first and second quarter of 2022, transactions grew by 12% and 8.6% y/y, respectively. The increase involved all of the geographical areas.

In Italy, the residential market is still dominated by private individuals, who cover approximately 96% of the demand. In the first half of 2022, 50.2% of the sales made by individuals were financed by a mortgage. This share is only slightly above that of the previous quarters.

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