

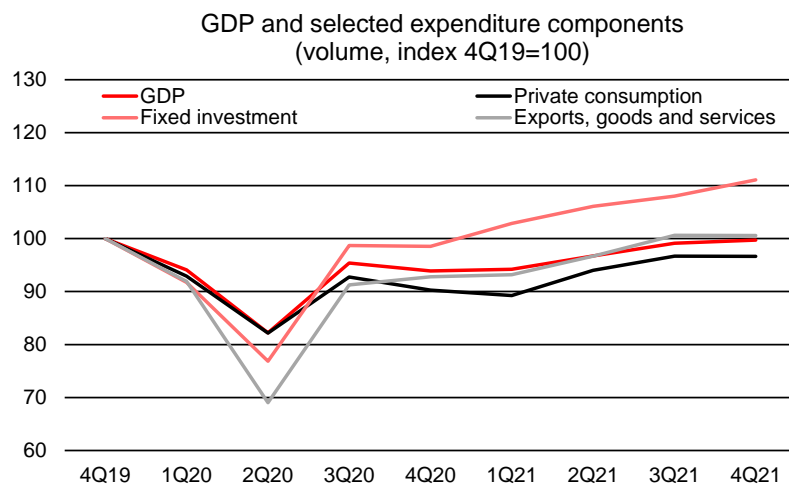
Italy's real GDP two years after the onset of the COVID-19 pandemic

- Today, the estimate of Italy's real GDP growth for 4Q21 was confirmed at 0.6% qoq, as reported at the end of January. In 4Q21, real GDP almost recovered to its pre-crisis level (at 4Q19).
- Private consumption has been particularly affected by the COVID-19 crisis, due to the significant impact of restrictions on household domestic expenditure on services. While a recovery in household spending on services should continue this year amid encouraging news regarding the pandemic, private-consumption growth is now likely to moderate due to a spike in inflation induced by surging prices for energy and food.
- The breakdown of the value added by sector is encouraging because, while a loss of activity (compared to 4Q19 figures) still characterizes some service sectors, the value added for industry returned well above its pre-crisis level in 4Q21 (+5%).
- The Ukraine-Russia crisis is expected to affect activity across sectors, with firms having now to manage increased production costs and a deterioration in demand. However, we currently do not expect the economic recovery to be derailed (we published our revised forecasts in our Macro & Markets Weekly, 4 March 2022).
- As a final note, a strong increase in the value of imports has affected the GDP deflator dynamic. It was up by 0.9% yoy in 2021, while CPI inflation stood at 1.9%. The GDP deflator is likely to continue to grow less than CPI inflation, also this year.

In greater detail:

Despite posting a good recovery this year, private consumption still stands 3.3% below its pre-crisis level, as opposed to -0.3% for GDP. On the other hand, fixed investment rose 11% above its pre-crisis level, driven by a rebound in investment in construction and machinery and equipment.

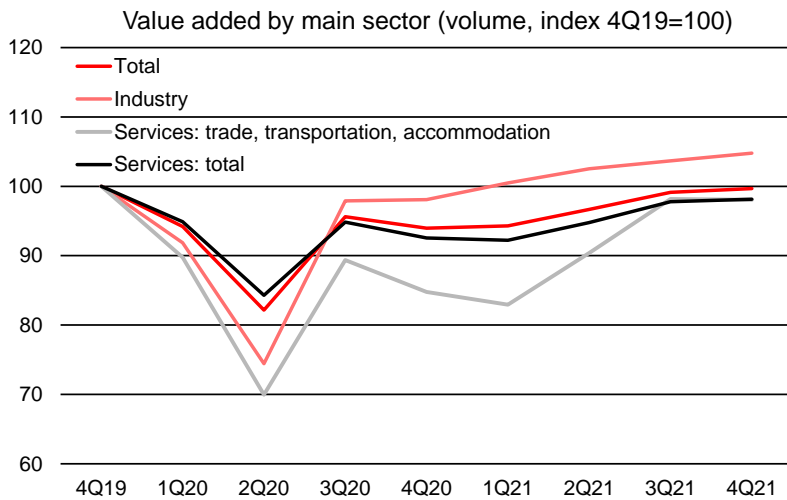
CHART 1: RECOVERY IN PRIVATE CONSUMPTION IS LAGGING



Source: Istat, UniCredit Research

In 4Q21, services activity was still 2% below its pre-crisis level. Activity in industry excluding construction was 2% above where it was in 4Q19, while construction activity was up by an impressive 19%. Given public support, recovery in construction is likely to remain more reasonably shielded from the Ukraine-Russia crisis.

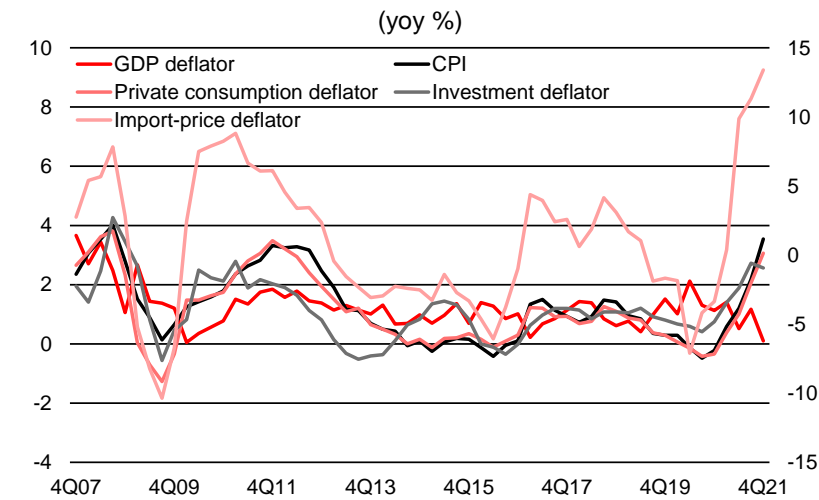
CHART 2: SERVICES STABILIZED IN 4Q21 MAINLY DUE TO A RISE IN INFECTIONS



Source: Istat, UniCredit Research

A strong correlation between annual growth in the private-consumption deflator and CPI inflation was expected, while the surge in the import-price deflator dragged down the increase in the GDP deflator.

CHART 3: GDP DEFLATOR AND CPI DYNAMIC: NOT A PERFECT MATCH



Source: Istat, UniCredit Research

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