Summary[*]

The international economic context is characterised by growing uncertainty, resulting from protectionist policies and other geopolitical tensions. The high tariffs announced on April 2 by the United States of America, which led to sudden falls in the prices of financial assets, have been largely reduced in recent days. Even before April 2 growth expectations were deteriorating, as the OECD forecasted a gradual deceleration of global GDP in the coming years. In the final part of 2024, the US economy slowed down and may have weakened further in the first quarter of this year. In the euro area, significant heterogeneity remains, with Germany still contracting and Spain growing rapidly. Global inflation is showing signs of renewed pressure, so the path of monetary easing by major central banks is becoming narrower.

In 2024 the Italian economy grew by 0.7 per cent, in line with the previous year but less than the euro area for the first time since 2021. Last year's change in GDP was supported by domestic demand, in particular consumption, as well as by net external demand, in a context of falling imports. In terms of supply, the weakness of the manufacturing sector was confirmed, while the services and construction sectors were more resilient. In the final part of 2024, the cyclical phase was little more than stagnant, barely better than in the summer period. Household consumption was held back by the loss of purchasing power and capital accumulation recovered, partly due to better credit conditions, but the housing component remained in contraction. Exports recorded their fourth consecutive quarterly decline, but the more pronounced drop in imports favoured an improvement in the balance of payments trade balance.

Employment strengthened in 2024, albeit slowing down towards the end of year, while wages gradually regained purchasing power. After a significant decline 2024, consumer inflation in Italy showed signs of recovery in the first quarter of 2025, mainly due to higher energy prices.

Industrial turnover between the end of last year and the start of 2025 recovered and, according to the Parliamentary Budget Office's (PBO) short-term models, GDP accelerated last quarter, growing by 0,25 percentage points quarter-over-quarter. The risks of the forecasts are downward and intensify in the medium term mainly due to geopolitical tensions.

[*] *Edited by the Macroeconomic analysis department, with coordination by Libero Monteforte and contributions by Giacomo Caterini, Daniela Fantozzi, Marco Fioramanti, Cecilia Frale, Alessandro Girardi and Carmine Pappalardo. Report completed with information available as of April 10th 2025.*

The international context

The world economy and the trade war

The trade war triggered by the United States of America is a source of great concern for all economic agents. On April 2, the US administration announced tariffs at 10 per cent for all trading partner countries and higher for those with a large budget surplus against the US, including the European Union (EU). In response to the new tariffs, the European Commission has outlined some retaliation, while offering an opening for possible negotiations.

In the wake of the huge losses that hit the financial markets, the US Administration decided on April 9 to limit at 10 per cent, for 90 days, the tariffs on the countries that have not yet applied retaliatory trade measures, then confirming only those levied on China. For the other countries, tariffs remain on all products at 10 per cent, in addition to those previously decided, that is: for the EU on steel, aluminium and cars (at 25 per cent), for Canada and Mexico on products outside the free trade agreement (USMCA). OECD forecasts, published before April 2, already envisaged a decline in global growth measured by the world GDP, from 3.2 per cent in 2024 to 3.1 in 2025 and 3.0 in 2026. Inflationary pressures were also described by the OECD as persisting in many economies, with service price dynamics remaining high and goods inflation rising.

The new tariff barriers, imposed and announced by the US administration, may increase the volatility of financial markets affecting inflation expectations; in addition, recurring denials of previous measures and announcements contribute to rise uncertainty. There is broad consensus among economists that a trade war can help reduce the trade deficit, albeit at the cost of lost output and higher prices. At the end of March, the Peterson Institute for International Economics (PIIE) published a study anticipating the US Administration's moves against Europe[2] with duties only slightly higher (25 per cent) than those announced on April 2 (20 per cent). The study shows that in the event of the imposition of tariffs and the consequent retaliation, both trading *partners* would experience product losses and price increases, with only marginal reductions in the trade deficit, thus finding themselves in a new equilibrium in which everyone loses. Similarly, a study by the International Monetary Fund (IMF) assesses that in a global trade war[3] the non-cooperative equilibrium (as in the so-called prisoner's dilemma) leads to a net loss for all countries, with less employment and lower labour productivity, with no significant improvements in the trade balance.

The actual impacts of tariffs depend on both the possible retaliation of other countries and the responses of central banks, as well as the expectations of traders and financial

[2] Warwick J. McKibbin and Marcus Noland (2025) 'Modelling a US-EU trade war: Tariffs won't improve US global trade balance', PIIE, 24 March. In the study, the assumptions on tariffs were 25 per cent.

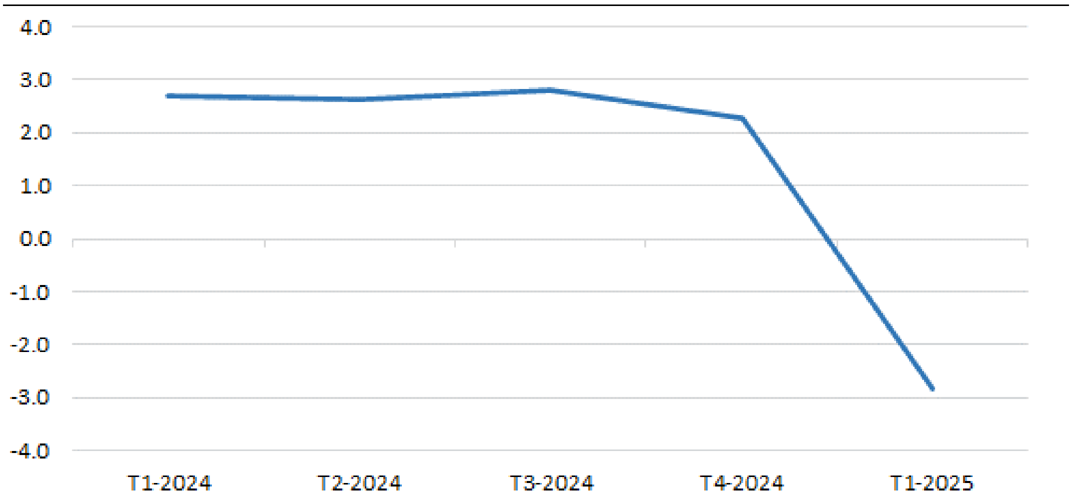
[3] Davide Furceri, Swarnali A. Hannan, Jonathan D. Ostry and Andrew K. Rose (2019) 'Macroeconomic Consequences of Tariffs', IMF working paper WP/19/9.

markets. A recent study on behalf of the European Parliament, *Euro Area Risks Amid US Protectionism*[4], estimates the long-term impact of generalised tariffs at 10 per cent on American imports from Europe and 20 per cent on those from China, resulting in a drop in European exports of 3.4 per cent; the contraction of the euro area's GDP would be approximately 0.3 per cent, to which inflationary effects would be added in the event that the tariffs were reciprocal. Therefore, the authors suggest diversifying trade rather than increasing tariff barriers, as well as supporting innovation to remain competitive and avoiding monetary tightening in response to inflationary pressures from possible higher prices on imported goods.

The US economy will also suffer from a strong protectionist policy in the future. The most recent indicators on the US economic activity have begun to anticipate a sharp weakening. In particular, the updated GDP growth estimate for the first quarter of 2025, produced by the Federal Reserve in Atlanta, foreseen a marked slowdown (Fig. 1). Due to the escalating trade war, leading financial analysts have raised the probability of a recession in the US in the coming quarters.

According to the latest available surveys, global business sentiment is cautious. The global Purchasing Managers' Index (PMI) in March remained in expansionary territory, but with a decrease in the first quarter of 2025 compared to last year (at 51.8 on average, from 52.5 in 2024): index was driven downwards by services, which fell to 52.1 in the same time lapse (from 53.1 on average 2024), while manufacturing reported a slight increase. The indicator on outstanding orders was broadly stable, just below the 2024 average (at 49.1 from 49.3, the 2024 average), a sign of weak demand (Fig. 2).

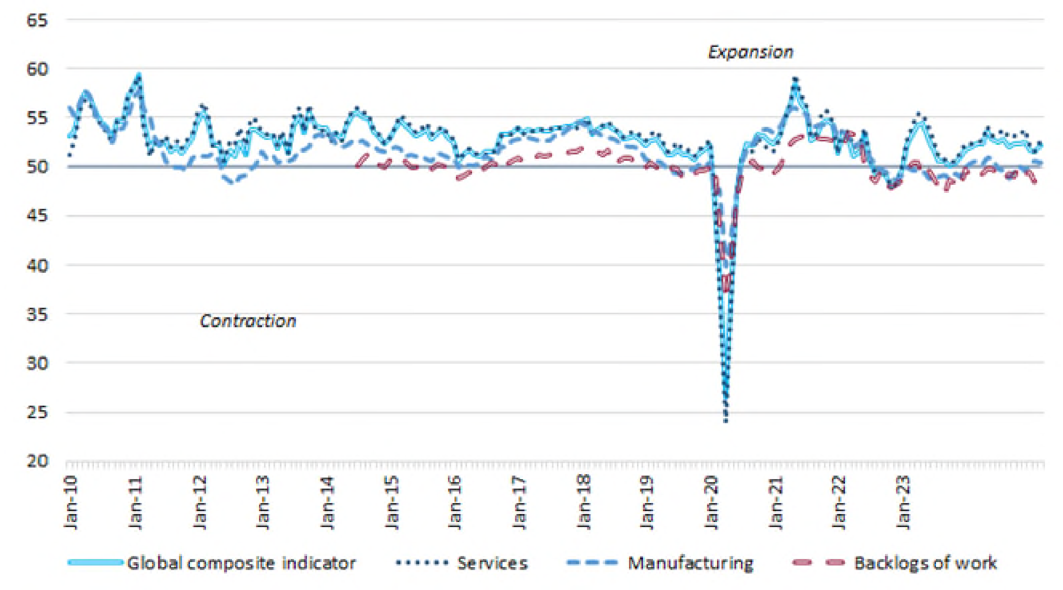
Figure 1 – GDPNow's forecast of US GDP growth in Q1 of 2025 (1)
(annualised quarterly percentage changes)



Source: Federal Reserve Bank of Atlanta.
(1) Estimate updated to 3 April 2025.

[4] Bottazzi, L., Favero, C., Ruben FERNANDEZ, F. U. E. R. T., Giavazzi, F., Guerrieri, V., Lorenzoni, G., & Monacelli, T. (2025). Euro Area Risks Amid US Protectionism, Monetary Dialogue Papers, March 2025.

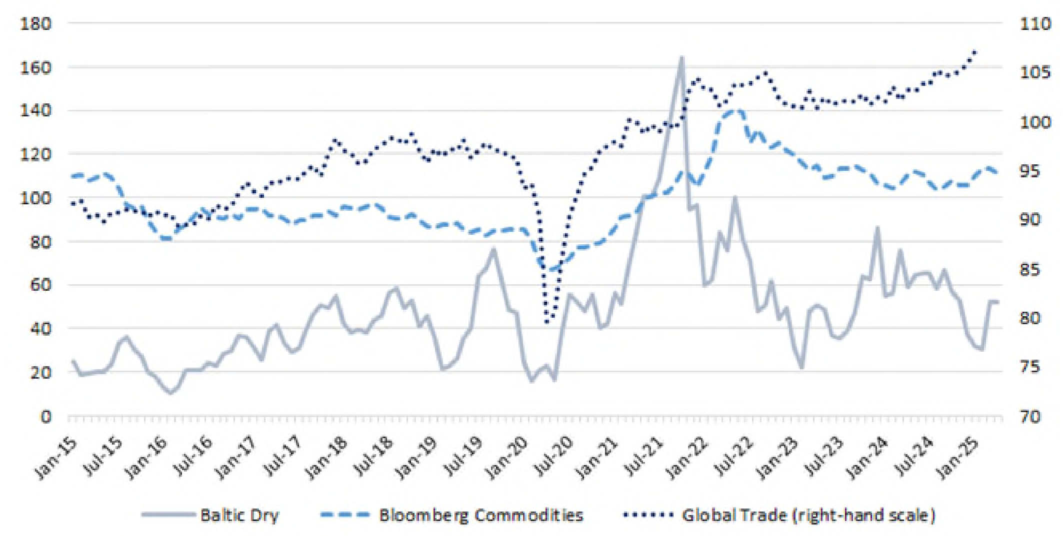
Figure 2 – JP Morgan Global PMI Index



Source: S&P Global.

High-frequency indicators show, on average, a sharp decline in transport costs (as measured by the *Baltic Dry Index*) for non-liquid commodities and foodstuffs in the first four months of 2025 compared to 2024 (from 59.5 to 41.6). The declines reflect weak international demand and expectations of worsening trade due to increasing tensions. The Dutch Central Plan Bureau's data on international trade, which increased in 2024 by 1.8 per cent, indicated a moderate recovery in the last month of 2024, which continued in January 2025 (Fig. 3). The cost of agricultural commodities rose on average in the first four months of 2025 compared to last year (to 112.2, from an average 107.0 in 2024).

Figure 3 – Global activity indices
(index numbers, 2021= 100)



Source: based on CPB, Baltic Exchange and Bloomberg data.

The acceleration of trade and commodity price increases between the end of last year and the beginning of the new one may reflect a temporary increase in demand, before the new duties come into force.

As regards individual countries or areas, the fourth quarter of the year confirmed heterogeneous trends among the largest economies, highlighting a 'transatlantic misalignment', as defined by the IMF. The United States, in the contingency of a mature business cycle, slowed in the final part of 2024 (2.4 per cent, from 3.1 annualised growth in Q4 2024), due to the downturn of investment and exports; overall, GDP rose by 2.8 per cent in 2024, in line with recent IMF forecasts. The PCE consumer price index, which approximates inflation and is closely monitored by the FED, rose by 2.5 per cent in 2024 in line with the previous estimate, showing increasing dynamic in the last two quarters of the year.

The euro area's GDP showed a quarterly increase by 0.2 per cent in the fourth quarter of 2024, despite a further decline in output in Germany (-0.2 per cent) and France (-0.1 per cent). Spain, on the other hand, reported still strong quarterly growth (0.8 per cent), driven by exports of services and public spending. Overall, in the euro area GDP increased by 0.9 per cent in 2024, more than expected; the decline in Germany (-0.2 per cent) was offset by the above-average growth in France and Spain (1.2 per cent and 3.2 per cent, respectively).

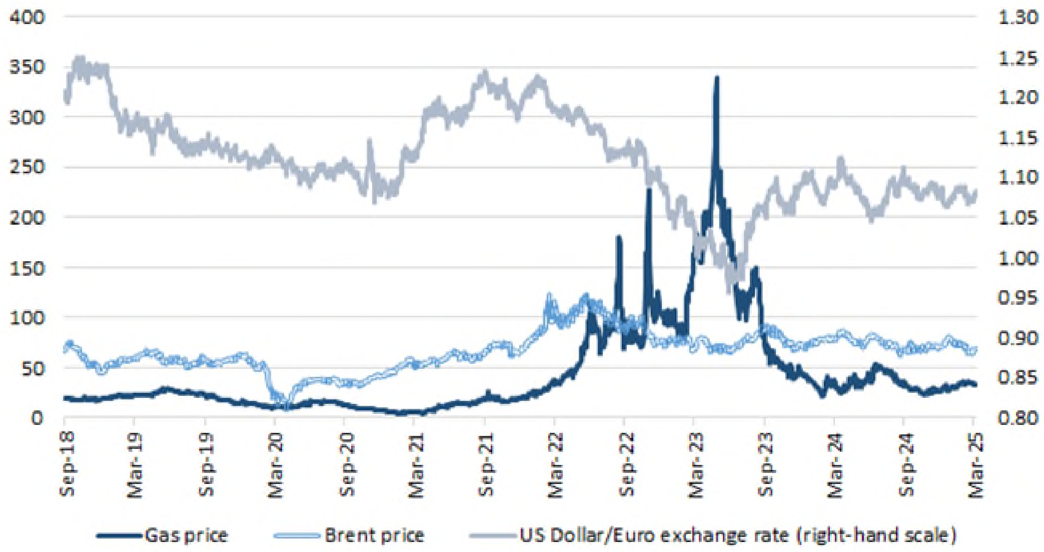
China's GDP grew by 5.4 per cent year-on-year in the fourth quarter, exceeding analysts' estimates of 5.0-5.2 per cent and accelerating from the previous quarter. In 2024, the Chinese economy recorded a GDP growth of 5.0 per cent, one of the lowest in decades, excluding the period of the COVID-19 pandemic, suffering the difficulties in the real estate sector and the stagnating consumption. The figure is in line with the official government target of around 5.0 per cent, but is lower than the 5.2 recorded in 2023.

Increasing volatility in energy commodity markets

The escalation of the trade war changed traders' expectations and increased volatility in the markets, including the commodities ones. Moreover, the recent announcement by the Organisation of the Petroleum Exporting Countries (OPEC) and its allies of a higher-than-expected increase in crude oil production further contributed lowering price expectations.

In 2024, the price of Brent oil was around USD 80.5 per barrel (Fig. 4). During the past months oil prices decreased, incorporating a worsening of the global macroeconomic outlook, as a consequence of high trade tensions. In detail, on average between February and the first days of April, Brent price fell to USD 74.0 per barrel, down from USD 79.3 in January.

Figure 4 − Oil and gas price and exchange rate
(crude oil and gas prices in euros)



Source: S&P Global.

In contrast to crude oil, the price of natural gas on the Dutch market (TTF) since August 2024 started to rise again, exceeding 43 euro per megawatt-hour in the fourth quarter (34.6 on average in 2024). In the first few months of 2025 the price rose further, averaging EUR 48.3 per megawatt-hour, influenced by low temperatures, by the interruption of Russian supplies via Ukraine, and expectations of a trade war between the US and the rest of the world. From mid-February, the price of natural gas started to fall again, to an average of EUR 41.7 per megawatt-hour between March and the first days of April (values as of 3 April 2025).

The exchange rate between the European currency and the dollar fluctuated moderately in the first half of last year, mainly in response to inflation and (asynchronous) monetary policy decisions between the two sides of the Atlantic. The euro had appreciated in August and September, exceeding the 1.10 mark, partly due to worsening growth prospects in the United States. With the new US administration taking office in January, the US currency strengthened in line with the positive market reaction to the announcements of tax cuts, deregulation and infrastructure investments. From the second half of February onwards, however, and particularly after the announcements of new tariffs, fears of an economic slowdown affected the markets. Financial asset prices fell and the dollar weakened sharply against the major currencies, hovering around 1.10 against the euro in recent days.

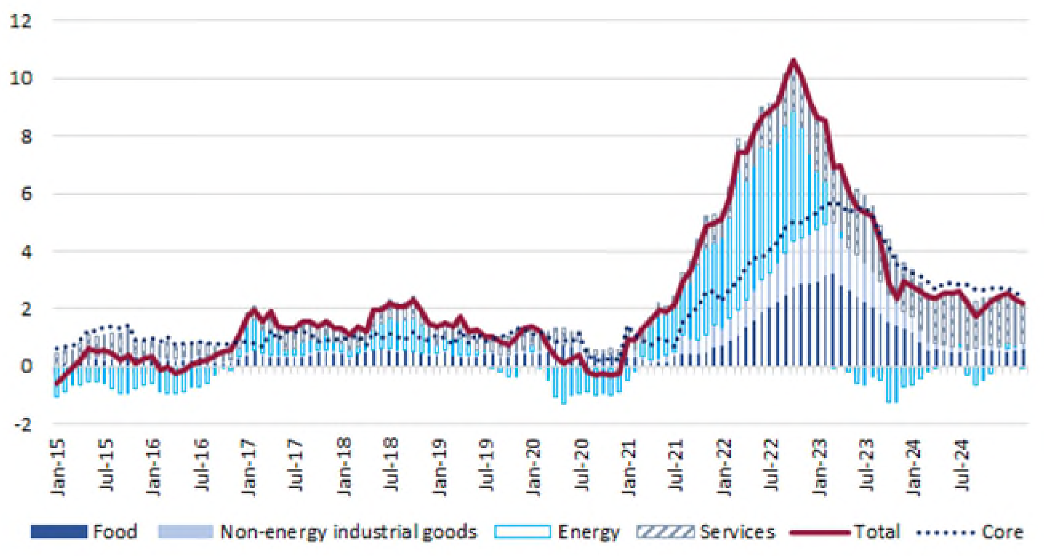
The path of monetary policy easing becomes more uncertain

Inflation in the United States was 2.9 per cent in 2024 and in the first months of this year it remained slightly lower. In March, the yearly change in prices decreased, to 2.4 per cent (from 2.8 per cent in February); even excluding the more volatile components, energy and food, inflation decreased (to 2.8 per cent from 3.1 per cent in February).

In March 2025, inflation in the euro area decreased to 2.2 per cent (Fig. 5), from 2.3 per cent in February, after an annual average of 2.4 per cent in 2024. Core inflation stood at 2.4 per cent, almost half a percentage point lower than in 2024 (2.8 per cent). The main countries in the area in March continued to show heterogeneous inflation dynamics: in details, Germany and Spain showed a declining rate of 2.3 per cent and 2.2 per cent respectively; in France, price dynamics fell below 1.0 per cent for the past two months, while Italian price dynamics rose above two per cent (2.1 per cent), last recorded in September 2023.

The European Central Bank (ECB) at its Governing Council on March 6 decided to cut official interest rates further, by 25 points, considering the process reducing inflation be well underway. Core components also suggest that inflation will remain firmly around Governing Council's target of 2.0 per cent in the medium term. The ECB remains cautious about next interest rate cuts, assessing them on a case-by-case basis according to available data and information, also depending on possible financial effects of policy announcements and new trade barrier’s effective introduction. On 19 March, the Fed revised upwards its US inflation forecast for 2025 due to the trade war outlook and therefore decided to leave official interest rates unchanged.

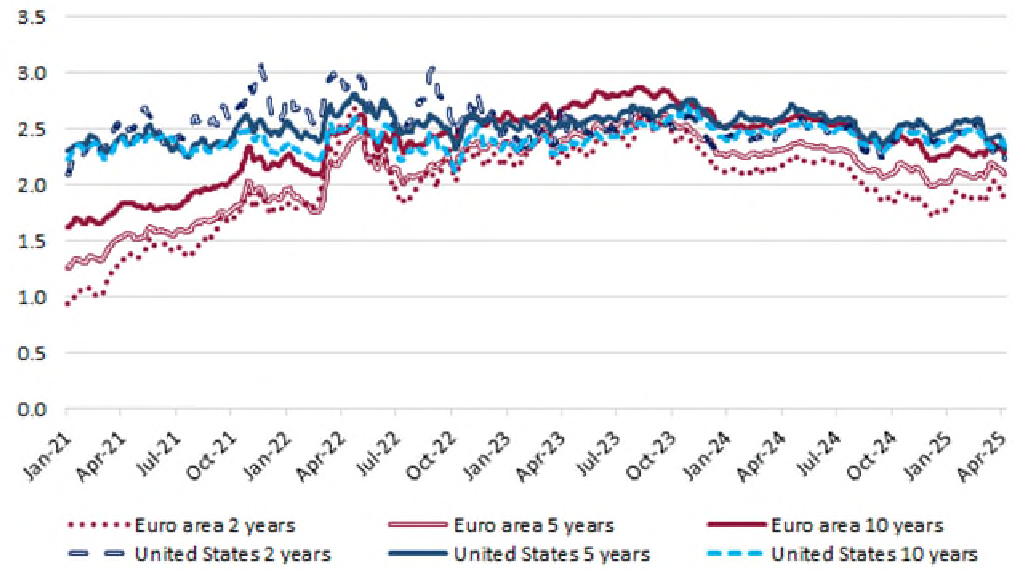
Figure 5 – Euro area inflation (1)
(percentage year-on-year changes and contributions)



Source: based on Eurostat data.
(1) The sum of the contributions may not correspond with the dynamics of the total index, as it is chained and processed at a higher detail.

In the euro inflation expectations have picked up again in early 2025. The US continues to show higher expectations than to Europe for each maturity, at 2, 5 and 10 years; however, in recent weeks, expectations in the US have been lowered, as market participants anticipate the contraction of trade, of growth and a recovery in inflation (Fig. 6).

Figure 6 − Implied inflation expectations in inflation-linked swaps in the euro area and the US
(percentage points)



Source: LSEG.

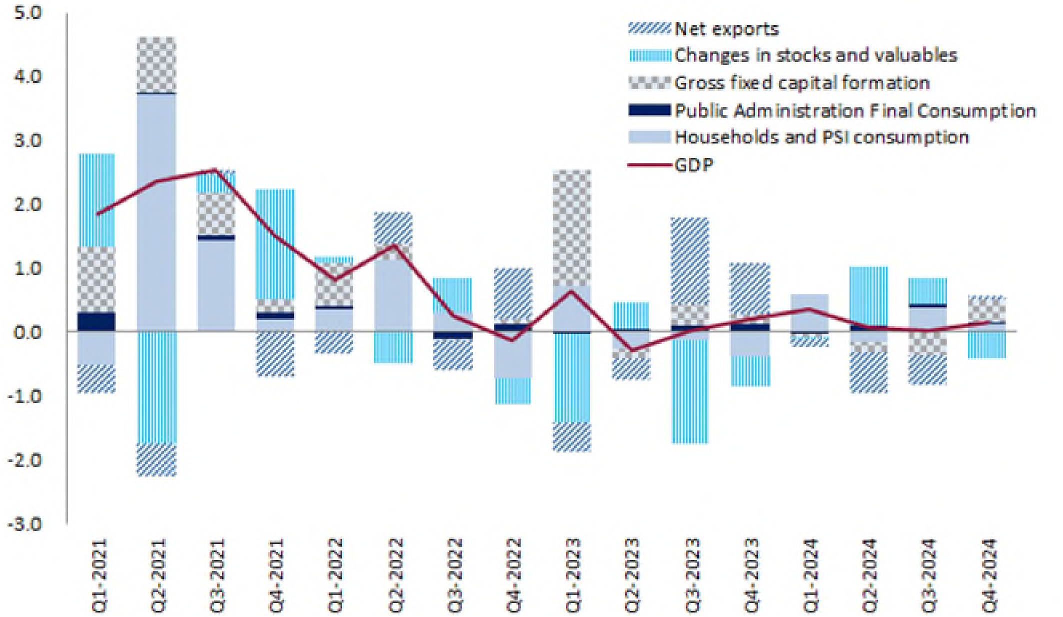
The Italian economy

In 2024, the Italian economy grew slightly less than the euro area

After the strong recovery following the pandemic, in the last two years Italy's GDP has returned to growth at moderate rates, similar to those observed after the sovereign debt crisis. The year 2024 was characterised by a modest growth for Italy (0.7 per cent, as in 2023) as well as for the main European economies but Spain (3.2 per cent). Italian GDP growth exceeded that of Germany, but was below the European average for the first time since 2021. The population remained almost stable last year as the negative natural change of population (the difference between births and deaths) was largely offset by the foreign migration balance. As a result, the per capita dynamics of nominal and real GDP, at 3.0 per cent and 0.8 per cent respectively, deviated only marginally from the absolute dynamics. In 2022 and 2023, GDP increased in the Mezzogiorno at a higher rate than in the Centre-North, but the gap would narrow in 2024, based on the most recent forecasts by SVIMEZ and Ref.Ricerche.

Both domestic demand net of change in inventories (0.5 percentage points, largely due to consumption) and net foreign demand (0.4 points) contributed to the growth of the Italian economy in 2024, due to the contraction in imports; the contribution of changes in inventories was negative by one-tenth of a point. On the supply side agriculture, construction and services recorded sustained growth, while manufacturing suffered its second consecutive annual decline (-0.7 per cent).

Figure 7 – GDP change and contributions of demand components
(quarter-over-quarter percentage changes and contributions in percentage points)



Source: Istat.

In the first three quarters of last year, the largest contributions to GDP growth (Fig. 7) came from consumption (particularly in the first and third quarters) and the change in inventories, while net exports and gross capital formation contributed negatively. In the final part of 2024, GDP barely increased (0.1 per cent quarter-over-quarter); gross fixed capital formation recovered (1.6 per cent, after a decline by the same magnitude suffered during summer) and consumption held (0.2 per cent), while foreign trade declined in both inflows and outflows (by four and two-tenths of a percentage point, respectively). On the supply side, value added in the last quarter of 2024 shrank in services (-0.1 per cent) and agriculture (-0.7 per cent), while it strengthened (by about one per cent) in construction and manufacturing.

In the final stretch of 2024, consumption was held back by declining purchasing power

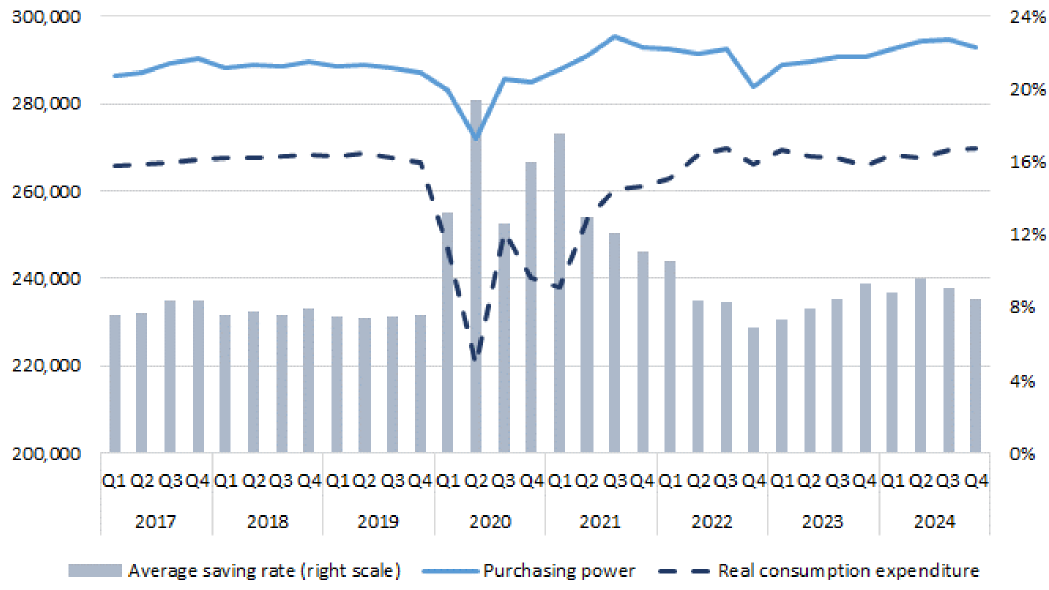
In 2024 household consumption grew by four-tenths of a point year-on-year, similarly to 2023 (0.3 per cent), but with uneven quarterly trends. After the strong quarterly growth observed in the winter (of one per cent), household spending came to a standstill in the spring (-0.3 per cent), recovering moderately in the second half of the year.

During 2024, households regained purchasing power, due to lower inflation and higher income, but at the same time the saving rate increased. In the final quarter of last year, however, household purchasing power shrank by 0.6 per cent compared to the previous quarter; disposable income barely declined (-0.1 per cent) and inflation further eroded consumer households' resources. Lower consumer disposable income was partially offset by a lower propensity to save, which fell to 8.5 per cent (from 9.1 per cent in the summer quarter, Fig. 8).

The latest data describe a very cautious figure for household spending. According to our manipulations, the seasonally adjusted consumer spending indicator (in volume) of Confcommercio would be negative by three-tenths of a percentage point last quarter. Analogous insights come from the retail sales recorded by Istat, which in the three months between December 2024 and February 2025 decreased in volume by three tenths of a percentage point compared to the previous period.

The index of consumer confidence in 2024 remained quite stable, about three points lower than the average value of the five-year period before the pandemic; in March there was a sharp decline, spread across all components, but in the first quarter as a whole the index still exceeded last year's average.

Figure 8 – Household purchasing power, consumption and saving rate
(EUR million, chain-linked volumes year 2020 and percentage shares)



Source: Istat.

Capital accumulation slows down after strong post-pandemic development

After the sustained dynamics of fixed capital formation in the post-pandemic period, investment slowed down in 2024 (0.5 per cent), although it remained at historically high levels. In 2024, accumulation mainly affected construction (2.0 per cent), while investment in capital goods declined (-1.8 per cent machineries and -6.3 per cent transport equipment). The accumulation of products of intellectual property, which contribute to technological innovation, was marked (2.6 per cent) and accounted for 3.3 per cent of GDP[5].

In the final part of 2024, investment recovered from the drop suffered in the summer period, driven by the expansion of non-residential construction and machineries. The investment rate (the ratio of gross fixed capital formation to the value added of non-financial corporations) remained at a relatively high level, around 22.0 per cent, during 2024; the profit share of non-financial corporations, measured as gross operating surplus over value added gradually contracted to 42.4 per cent in the autumn. The *mark-up* also shrank last year, in all sectors with the exception of agriculture.

In the first quarter of this year, according to Bank of Italy's survey on inflation and growth expectations, opinions on the general economic situation worsened in all sectors. The conditions for investing appear adverse, but companies continue to foresee, as in

[5] Over the last decade, the accumulation of intellectual property products has grown cumulatively by about one third, largely in the post-pandemic period, whereas between 2000 and 2014, the dynamics had been extremely subdued.

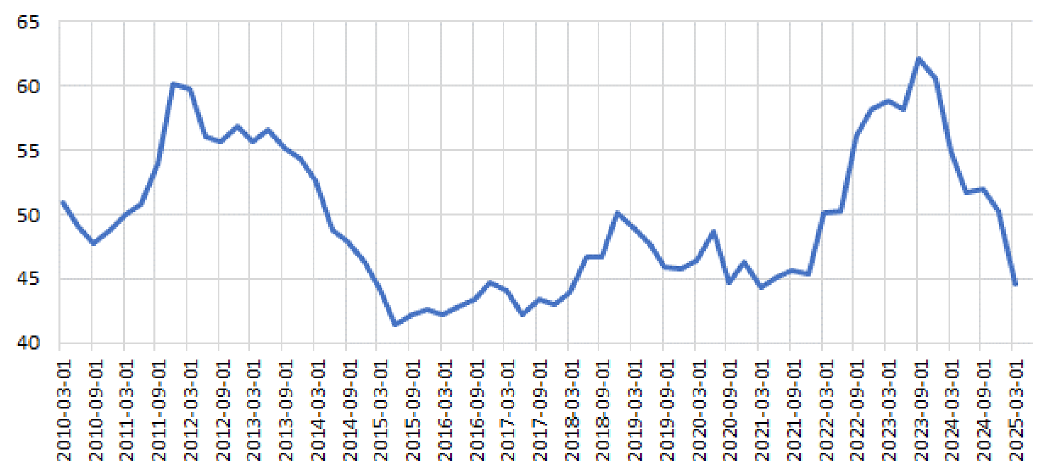
previous editions, an expansion of investments in the current year compared to 2024, especially in services. In the latest Istat surveys, expectations on liquidity worsened slightly, while balance of judgments on access to credit, although negative, improved strongly in 2024 and in the first quarter of this year. These trends are consistent with the PBO's indicator on difficulties in accessing credit, which also forecasts improvements in the first few months of this year (Fig. 9).

According to Istat's survey on production capacity, the degree of capacity utilisation in the fourth quarter of last year remained broadly stable at around 75.0 per cent, at levels lower than in 2019 (the last pre-pandemic year). The share of manufacturing companies experiencing production bottlenecks also remained broadly stable, albeit amid growing concerns about demand, especially in the textile, metal and machinery and transport equipment manufacturing sectors.

In the real estate market, agents interviewed between January and February for the economic survey on the housing market conducted by the Bank of Italy reported fewer difficulties in accessing credit and faster sales. The survey results are echoed in the yearly changes of bank mortgage loans issued to households, which have been growing since December, after a 2024 downturn; at the same time, the contraction in loans to businesses is less marked.

On the bank asset side, the incidence of non-performing loans remained broadly stable last year, at moderate levels; the decline in bank deposits slowed down during 2024 and bank deposits of residents returned to growth in the second half of the year, while the bond component slowed slightly with respect to the previous year, coinciding with the decline in yields.

Figure 9 – UPB indicator on difficulties in accessing credit (1)
(diffusion index; threshold between restrictive and expansive conditions= 50)



Source: based on Istat data.
(1) For methodological details, please refer to October 2023 Quarterly Report by PBO.

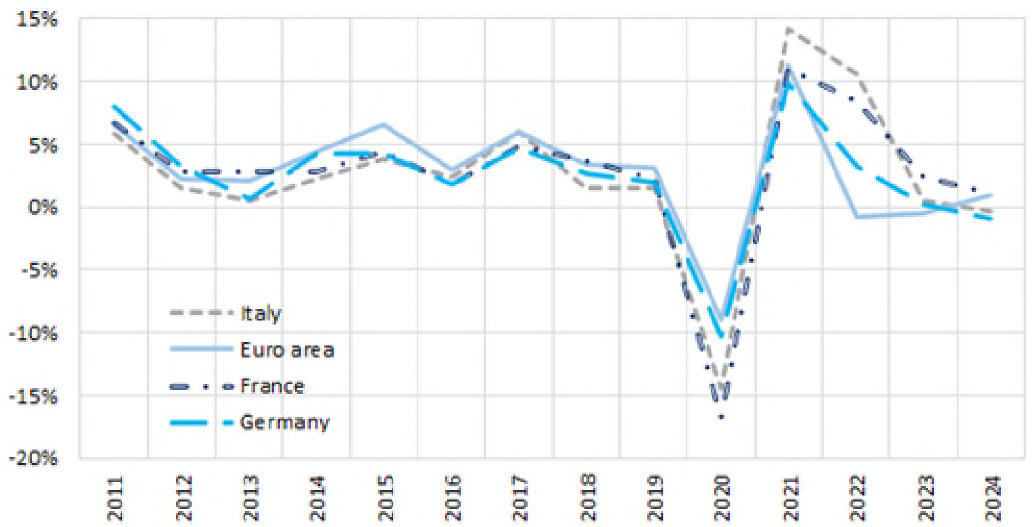
Italy's trade is expected to be weak

The strengthening of world trade in 2024 was not reflected in Italy's exports in volume terms, which recorded unfavourable dynamics in all quarters of last year. The expansion of the services component (3.2 per cent), favoured in large part by the considerable inflow of foreign tourists, was more than offset by the decline in the goods component (-1.1 per cent). In autumn, the quarterly reduction in Italian exports (-0.2 per cent) was approximately in line with the euro area (-0.1 per cent) and relatively more favourable compared to Germany (-2.2 per cent); on the other hand, France and, especially, Spain recorded positive growth compared to the previous period (0.4 and 3.0 per cent, respectively) (Fig. 10).

Compared to pre-crisis values, Italian exports in volume in the latter part of 2024 remained above those of the main eurozone partners, with the exception of Spain.

With regard to outlet markets, monthly foreign trade surveys indicate that exports of goods (deflated by average unit values) to the European Union in 2024 fell more sharply than to non-EU markets. With reference to the main groupings by type of goods, dynamics favourable trends were recorded for foreign sales of consumer goods and intermediate products, while declines were recorded for capital goods, in particular for transport equipment and energy. Compared to Q4 2024, the most recent information on trade in value terms indicates that, exports recovered less strongly than imports in January-February. According to our calculations, Italian exports to the United States of America between the end of last year and the beginning of 2025 grew at a slightly faster pace than the average for other destinations.

Figure 10 – Total exports of euro area and the major economies
(percentage changes)



Source: based on Eurostat data.

Qualitative surveys carried out in recent months have indicated a slight strengthening of trade with the rest of the world in the short term. In January-March, judgments on foreign orders improved on average compared to the fourth quarter of last year; the PMI indices on foreign orders also continued the recovery phase that began in the second half of 2023, although at levels that are not yet expansive. The positive assessments on foreign orders last quarter may reflect anticipation of trade, before the duties imposed by the US Administration take effect.

In 2024 the change in imports in volume was negative (-1.5 per cent) and affected purchases from abroad of all types of goods, with the exception of consumer goods. In the latter part of last year, imports fell by 0.4 per cent compared to the average of the summer months, so that the relatively more favourable dynamics of exports resulted in a positive contribution of net foreign demand to GDP growth (0.1 percentage points).

In terms of foreign trade in value, in 2024 exports fell by 0.3 per cent year-on-year, continuing the slowdown already observed since 2023, against an average drop in imports of 3.2 per cent.

These dynamics led to an improvement in the trade balance to almost EUR 55 billion (from EUR 34 billion in 2023), reflecting an energy deficit of about EUR 49.5 billion (from EUR 65 billion in the previous year) and a surplus in non-energy trade of about EUR 104.5 billion (from EUR 99 billion in 2023).

With reference to the terms of trade with foreign countries, there was an improvement in the average of last year due to a slight increase in the deflator of exports of goods and services (0.1 per cent) and a decline in that of imports (-1.8 per cent), continuing the trend observed in 2023.

Manufacturing is weak and sector dynamics are fragmented

The picture of supply indicators currently available appears mixed. Services are stable, while industrial activity is weak and construction shows diverging trends between residential and non-residential buildings.

Industrial production, which had been declining for the whole of last year and most of 2023, contracted furtherly by 0.5 per cent in the fourth quarter of 2024; in January of this year there was a rebound (2.5 per cent), followed by a monthly decline of 0.9 per cent in February. The carry-over change for the first quarter of 2025 is positive (0.4 per cent), so the first quarterly recovery of industrial production in two years is in sight. In contrast to industrial production, the index of industry turnover in volume closed last year with a modest recovery (0.4 per cent quarter-over-quarter in the autumn, consolidated by the monthly acceleration in January), even more marked for added value (0.8 per cent).[6] The Istat index of manufacturing business confidence showed a moderate increase between January and March compared to the average of the previous quarter. However, over the same period the manufacturing PMI remained in restrictive territory, as it has been for almost two years, falling further in March (to 46.6 from 47.4); weak demand, which induced companies to optimise inventories' management, and rising raw material prices, which were shifted top-down to customers, played a role. The available surveys are still unaffected by the tariff barriers recently envisaged by the US Administration; the announcement of new duties was expected, but the extent and spread of the measures were highly uncertain.

Construction output experienced negative quarterly changes throughout most of 2024, to recover just in the autumn quarter (1.6 per cent); this dynamic was strengthened in January (5.9 per cent on a monthly basis). The assessments of construction companies appear favourable: the Istat confidence index strengthened in Q1 2025 especially for the building component, while it weakened for civil engineering works. The construction PMI index gained new momentum in March (from 48.2 to 52.4), placing it in expansionary territory. The improvement was fuelled by new orders, and there was also a recovery in the residential construction and civil engineering components, which had been weaker than non-residential ones in recent months.

In the tertiary sector, value added increased by 0.6 per cent in 2024, slowing down compared to 2023; in the final part of last year it weakened (-0.1 per cent quarter-over-quarter) in almost all sectors, except for real estate and professional activities. Surveys seem to point to a resilience of services activity in the short term: the Istat market services confidence index in the average of the January-March quarter partly recovered the contraction that occurred at the end of last year. Similarly, the industry PMI weakened slightly in March after its strong growth in February, but remains in expansionary territory. Turnover in services accelerated in January in all sectors except accommodation and catering.

As for the birth rate of enterprises, according to Movimprese data in 2024 the balance between registrations and terminations was positive, amounting to more than 36,000 units, albeit down compared to 2023 by about fifteen percentage points. Business demography remains weak[7], recording both registrations and terminations with a slightly upward trend that was essentially absent in the pre-pandemic decade. From a sectoral point of view, the number of enterprises in agriculture, trade and manufacturing declined;

[6] The divergence between turnover and value added in manufacturing on the one hand and industrial production on the other can be ascribed to economic and cyclical as well as methodological factors. The growth in turnover in volume and value added can reflect, in the presence of a drop in production: 1) the gradual fulfilment of past orders through the use of inventories; 2) the increase in sales of products with a low incidence of intermediate inputs and high production efficiency.

[7] The phenomenon of so-called 'empty cradles', i.e. municipalities with zero registrations, is also consolidating in business demography.

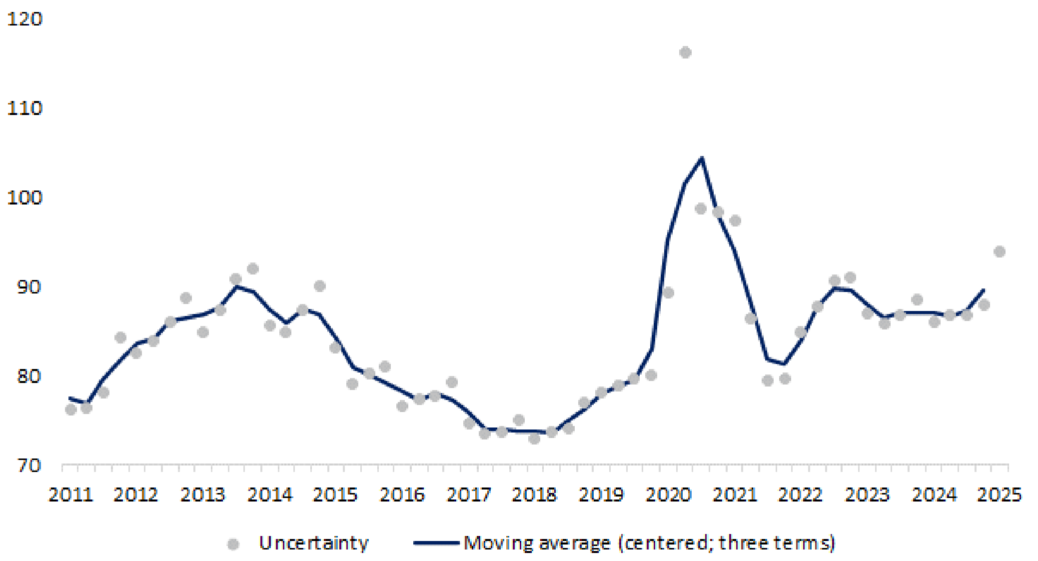
on the other hand, the number of enterprises in construction, real estate, professional activities and those related to tourism and catering increased.

Tourism is supported by international flows: according to provisional data on the tourism balance reported by the Bank Italy, the surplus reached EUR 21.0 billion in 2024, namely the 1.0 per cent of GDP.

With regard to the productive sectors as a whole, the index of business confidence, obtained as a combination of sectoral climates, was slightly up last quarter, approaching the average of 2024, after a fall in the autumn.

Household and business uncertainty, as measured by PBO indicator, increased sharply over the winter months (Fig. 11), mainly driven by the business component.

Figure 11 – PBO uncertainty index
(index number, 1993 T1=100)



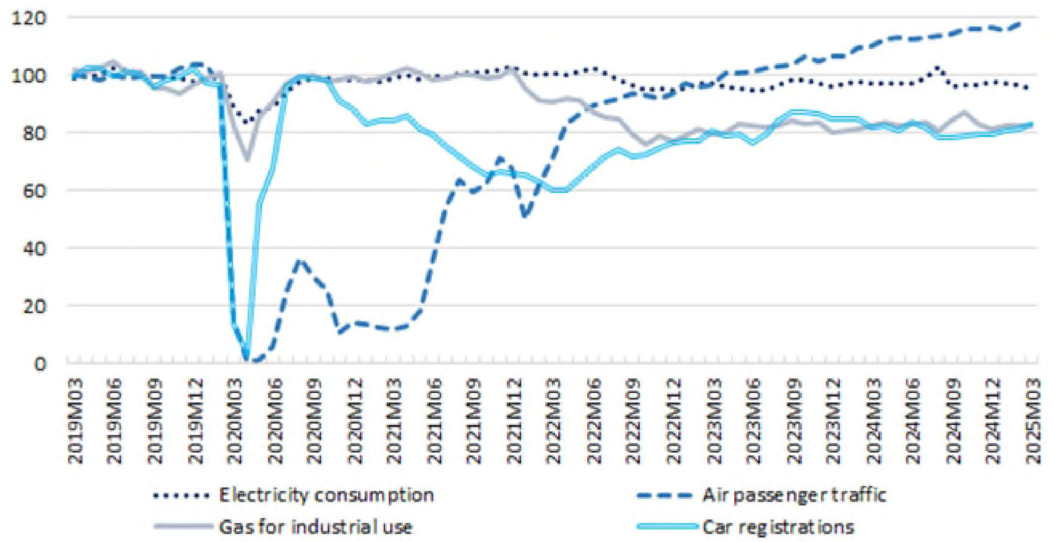
Source: based on Istat data.

Recent sectoral indicators

The timeliest monthly quantitative variables point to a slight acceleration in economic activity in the short term, although in some cases the pre-COVID levels of indicators have not yet recovered (Fig. 12). The variables related to transports are on the rise, new cars registrations have resumed a modest upward path and the increase of number of passengers by air remains marked; indicators on energy utilization, on the other hand, is weak: industrial gas consumption has stabilised and electricity demand has fallen slightly.

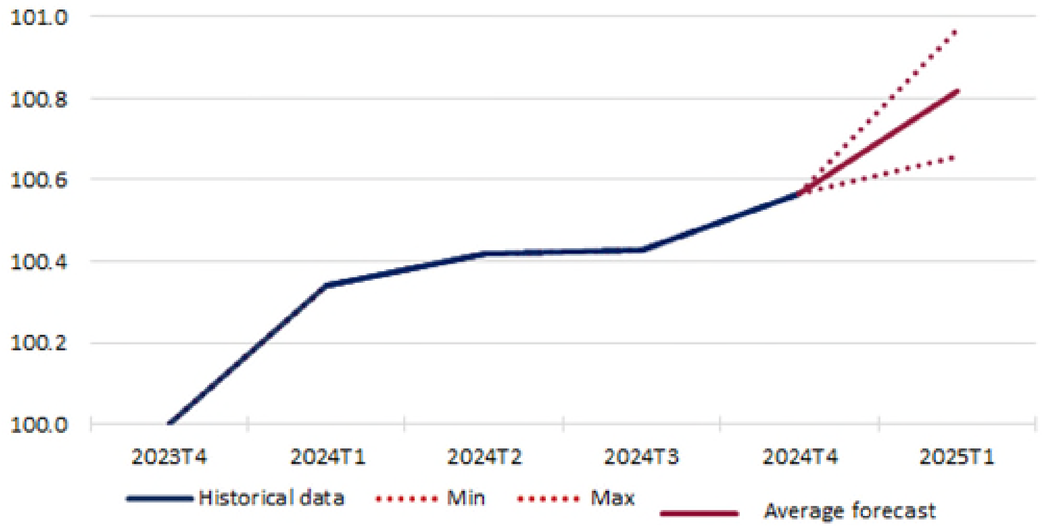
The PBO estimates that GDP growth in the first quarter of this year was higher than in the previous two quarters, albeit at a moderate 0.25 per cent. Manufacturing, after a long period of decline, is expected to have resumed growth, while in services the evidence from the early data is mixed, but overall a recovery is expected after the downturn observed at the end of 2024; in construction, on the other hand, the magnitude of the counter-shock related to the exhaustion of state incentives will be relevant, so the forecast is particularly uncertain, although short-term models are currently optimistic. Overall, therefore, a slightly positive change in GDP is expected (Fig. 13).

Figure 12 – Timely indicators of economic activity
(index number; 2019=100)



Source: based on ANFIA, Assaeroporti, Terna and SNAM data.

Figure 13 – Short-term GDP forecast (1)
(index number 2023T4=100)



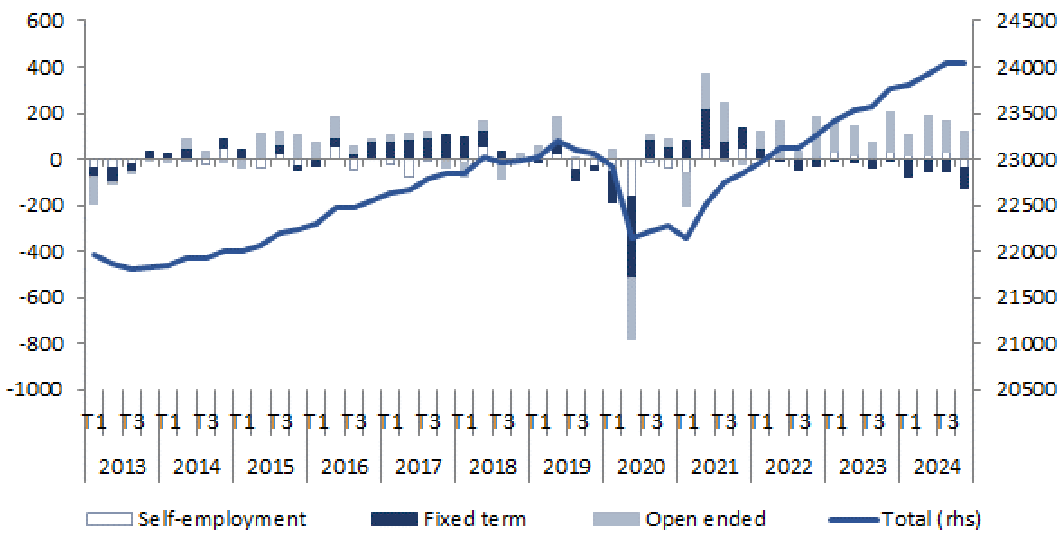
(1) GDP forecasts are obtained with the PBO's short-term models (for more details see 'Gli strumenti di previsione macroeconomica dell'UPB').

The labour market stabilises and real wages recover

Employment continued to strengthen in 2024, albeit at a slower pace than in the previous year and easing in the final quarter. The change in the number of persons employed shrank on average for the year (to 1.6 per cent from 1.9 per cent in 2023), as did the change in labour input (from 2.4 to 2.2 per cent), while the dynamics of GDP remained unchanged (0.7 per cent in both years). The slowdown in hours worked intensified towards the end of the year, despite the dynamism in construction and agriculture; in per capita terms, hours worked decelerated in all sectors in the fourth quarter, signalling the continuation of possible labour hoarding phenomena. In construction, labour demand frictions manifested themselves in a permanently high vacancy rate throughout 2024, at around 3 per cent at the end of the year. Hourly productivity in the total economy shrank last year, although with less intensity in the final period.

The number of employed persons, which had grown vividly in the middle part of last year, stabilised at the end of 2024 (according to the Quarterly Labour Force Survey): in the fourth quarter the increase in the number of permanently employed persons continued, while the number of self-employed and fixed-term workers decreased, the latter considerably (86,000 units) (Fig. 14); female employment and employment in the youngest age group decreased (16,000 in the 15-24 age group). According to preliminary indications, however, the number of employees is likely to recover at the beginning of 2025, particularly in the extreme tails of the active population (15-24 and over 50 years), associated with a decrease in unemployed and inactive persons compared to the end of 2024.

Figure 14 – Employee and self-employment
(absolute quarterly changes and levels in thousands)



Source: Istat.

According to the administrative data from the INPS Observatory on the labour market, relating to the non-agricultural private sector, in 2024 job creation (including transformations and net of terminations) mainly concerned services, especially those related to tourism and professional activities, but overall, it slowed down. New hirings decreased (-1.8 per cent), especially with reference to apprenticeship and permanent contracts. The use of wage subsidies in 2024 raised again (20.0 per cent more than in the previous year), after two years of reductions. The preponderant share of authorised hours involved the Wage Guarantee Fund (the Cassa Integrazione Guadagni, CIG) in manufacturing and reached an average 91 per cent of the total economy in 2024; the use of supplementary wage schemes in the trade sector also increased in parallel.

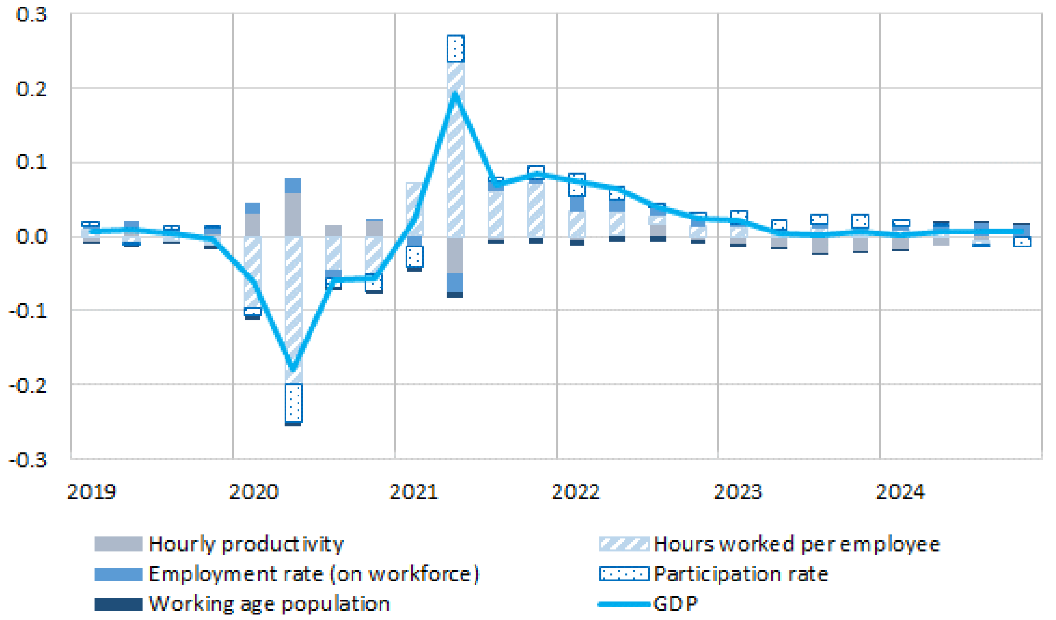
The participation rate (15-64 years) showed a slight downward trend throughout 2024, reversing the trend of the previous year, but still remaining at historically high levels (66.5 per cent in Q4). At the same time, the unemployment rate continued to fall to its lowest level for more than 15 years (6.3 per cent in the fourth quarter), also affected by a composition effects, as population ageing and pension system reforms shift employment to the older age groups, which generally have lower unemployment rates. According to preliminary indications, the unemployment rate fell further, to 6.0 per cent in February.

In 2024, there was a substantial drop in the number of jobseekers compared to the previous year (274,000 fewer), which was also associated with an increase in the number of inactive persons (23,000), with greater evidence among women and in the younger age group (15-34). Individuals renounce to seek for a job mainly because of their studies, although, compared to 2023, there is a slight increase in the share of those who mention family reasons or who are waiting for the outcome of previous applications.

Breaking down the yearly change of GDP in terms of the contributions of the main labour market variables (including labour productivity and demographics), it can be seen that economic growth in 2024 was mainly driven by the employment rate, while the contribution of the participation rate became negative in the second half of the year (Fig. 15). The working age population grew slightly since the spring (based on the Quarterly Labour Force Survey) and the contribution to productivity growth became positive again at the end of 2024 after almost two years; the contribution of hours worked per employee, however, remained negative.

Contractual wages last year were supported (3.0 per cent), especially in industry, by a still partial negotiation process as at the end of the year about half of the workers (50.8 per cent) were awaiting renewal. The dynamics of hourly wages accelerated slightly in early 2025 (3.8 per cent year-on-year in January), mainly due to the contribution of the private sector.

Figure 15 – Real GDP growth and labour market
(year-on-year percentage changes; contributions to growth)



Source: elaboration on Istat data.

For total economy, growth of contractual wages continued to remain higher than consumer prices, by about two percentage points, thus indicating a recovery in workers' purchasing power; this trend was overall higher than that of the reference index for collective bargaining in 2024 (1.9 per cent according to the HICP net of imported energy). Change in actual hourly wages gradually increased during 2024, reaching 3.2 per cent in the fourth quarter.

The loss of real wages due to the price increases of the past years gradually decreased during 2024 but remains large compared to 2021. The Unit Labour Cost (ULC) in 2024 grew by 4.4 per cent, almost one percentage point more than in the previous year; at the end of the year, hourly labour costs slowed down on a yearly basis and productivity was almost stable.

Inflation in March returned to 2.0 per cent

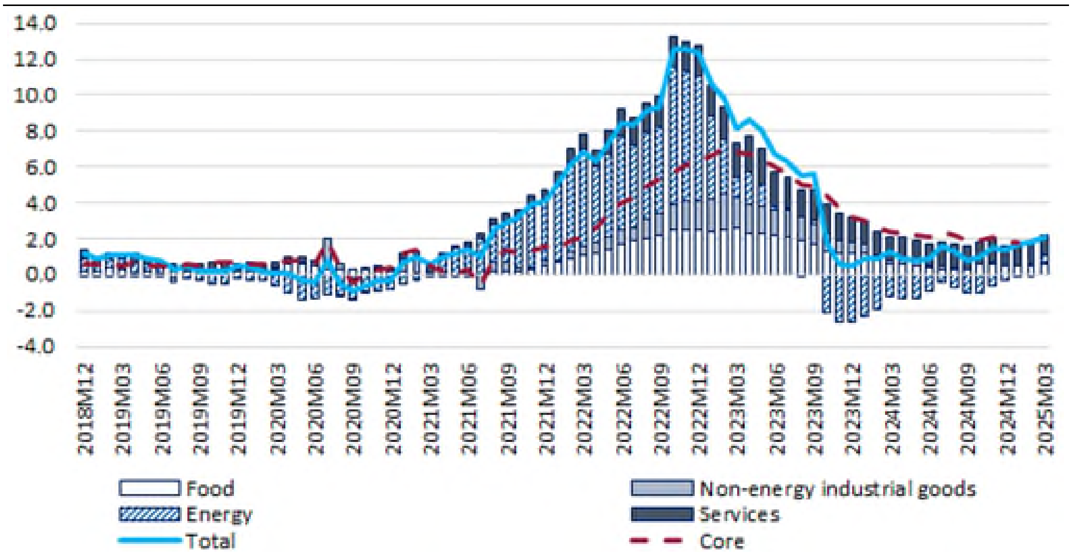
Inflation in Italy fell to 1.0 per cent (NIC) in 2024, well below the value recorded in 2023 (5.7 per cent), due to deflation in energy goods but also to the slowdown in food prices. However, a gradual pick-up in inflation was observed in the first quarter of 2025, to 1.7 per cent from 1.2 per cent in the final quarter of 2024. The acceleration in prices is mainly due to the increase in energy goods inflation, which has turned positive since February, as well as the price increases in the food sector; in services, price dynamics remained stable, although above the overall average.

According to preliminary data, inflation as measured by the NIC index rose in March to 2.0 per cent (from 1.6 per cent in February) and to 2.1 in the harmonised measure, values not recorded since the autumn of 2023. The increase was affected by the recovery of the more volatile price components: the change in prices of non-regulated energy goods became positive again (1.3 per cent from -1.9 per cent, being the overall impact emphasised by the recent increase in the weight of these items in the basket) and the change in prices of unprocessed food also strengthened (3.3 per cent from 2.9 per cent). Inflation also rose slightly for goods of primary use (classified as "Grocery and unprocessed food"), reaching 2.1 per cent (from 1.7 per cent in December) (Fig. 16). By contrast, the core component remained unchanged, just below the ECB target, at 1.7 per cent in the national measure and 1.9 per cent in the harmonised one.

In the average of 2024 the growth of Italy's harmonised consumer price index (1.1 per cent, from 5.9 in 2023) was significantly lower than that of the euro area (2.4 per cent); however, throughout the year the differential narrowed due to the gradual reabsorption of the negative contribution of energy items (Fig. 17). In the first quarter of 2025 the differential with the euro area narrowed to 0.5 percentage points, largely influenced by the March figure that almost closed the gap with the European value.

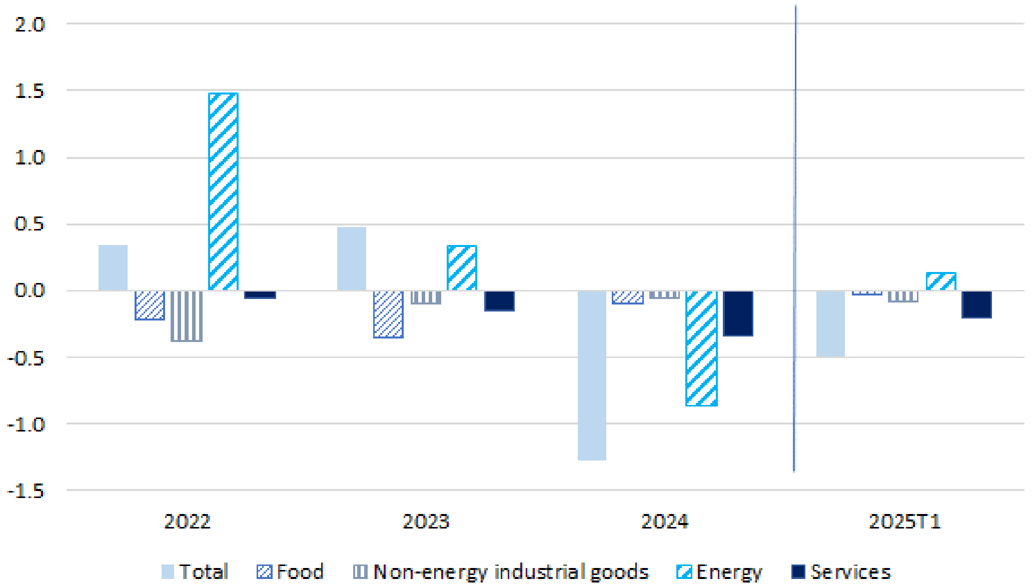
The spread between the different items of inflation remains limited: at the beginning of 2025, around 60 per cent of the goods and services in the basket showed changes below two per cent, despite the rise in the index at the beginning of the year, mostly due to extreme increases on a limited number of items.

Figure 16 – Consumer inflation in Italy (1)
(year-on-year percentage changes and contributions)



Source: based on Eurostat data on Harmonised Index of Consumer Prices (HICP).
(1) The graph shows the contributions to growth of the sectoral components of the overall consumer price index, in addition to the change in the core component. The sum of the contributions may not correspond with the dynamics of the total index, as it is chained and processed at a higher detail.

Figure 17 – Inflation differentials of Italy versus euro area (1)
(differences in percentage points)



Source: based on Eurostat data.
(1) Differences in harmonised inflation between Italy and euro area.

The deflationary pushes from abroad and upstream of the production process came at an end in the course of 2024 and in the final part of the year new tensions in the energy market activated prices upstream of the distribution chain. At the beginning of 2025 these pressures became more evident, both in import prices (1.4 per cent year-on-year change in January) and in producer prices in industry (at 6.2 per cent in February), due to the contribution of electricity and gas on the domestic market. In construction, there were also signals of an acceleration in producer prices, albeit to a modest extent and attributable to labour. In services, output price grew by 3.7 per cent in 2024, accelerating in the final two quarters of the year, with peaks of 5.0 per cent for transport and storage and information and communication services.

In 2024 inflation expectations of consumers and businesses were low; however, at the beginning of 2025 the share of businesses surveyed by Istat considering a possible recovery in prices rose (to 14.0 per cent in the first quarter, from 9.6 in the previous quarter). A non-negligible share of consumers (43.5 in Q1 2025 compared to 36.9 in the previous quarter) is also beginning to foresee an acceleration of prices in the next 12 months. Purchasing managers surveyed for the PMI Index reported that selling prices rose for the first time in seven months in March, reflecting an attempt to preserve margins.

Box – Reallocation shocks in the labour market and productivity in the manufacturing sector

The dynamics of labour reallocation represent a crucial element for understanding the evolution of productivity and unemployment in economies characterised by high sectoral heterogeneity, such as the Italian one. The reallocation of workers between sectors and firms affects not only the growth of the economy, favouring a better utilisation of resources and an increase in overall productivity, but also the persistence of unemployment, since the transition between jobs can be hindered by market frictions and skill mismatches, slowing down the absorption of the labour force.

Recently the PBO (2024) pointed out that after the pandemic employment growth was also supported by labour hoarding mechanisms, i.e. the companies' attitude to keep workers on the payroll despite reduced demand.[8] Although this strategy may have positive effects on employment stability in the short term, it may delay the necessary reallocation of human capital to higher productivity sectors. Moreover, recent studies show how reallocation shocks can have non-linear implications on growth, as their impact on the matching process between workers and firms depends on the efficiency of such reallocation.[9] In the presence of market frictions and adjustment costs, the relocation of workers does not immediately guarantee better matching, but if the process is managed effectively, it tends to result in more efficient job placement in the medium term.

The labour reallocation index used in this report follows the methodology proposed by Chodorow-Reich and Wieland (2020), but is constructed from Istat survey data on the number of hours worked in manufacturing enterprises.[10]. The use of hours, rather than the number of employees, allows for a more accurate capture of changes in the intensity of labour input, mitigating distortions related to contractual flexibility and working time reduction schemes. Formally, the reallocation index (IRt) is defined as:

$$IR_t = \frac{1}{2}\sum\nolimits_{i=1}^{I} s_{it}\left|\frac{(1+g_{it})}{(1+g_t)} - 1\right|$$

where andgi g represent respectively the sectoral and aggregate balance of the number of hours worked (share of respondents reporting an increase net of those reporting a decrease) and si indicates the share of employees of the i-th sector in the total economy. Relatively high values of the indicator signal strong variability across sectors, while values close to zero signal no heterogeneity in sectoral balances compared to the aggregate figure. The indicator was constructed considering 13 ATECO subsections related to the manufacturing sector.

As shown in Figure B1, the reallocation index shows a clear cyclicality, with significant peaks during recessions and subsequent adjustments during recoveries. The first peak, during the global financial crisis of 2008-09, suggests an intense reallocation of labour within the manufacturing sector. In the subsequent period, the indicator peaked relatively, at the sovereign debt crisis of 2013-14, and then remained low until the outbreak of the pandemic in 2020. The upward trend observed in the most recent two-year period appears to be due to a structural adjustment process aimed at realigning the workforce towards expanding production to accommodate the structural changes in supply and demand following the pandemic.

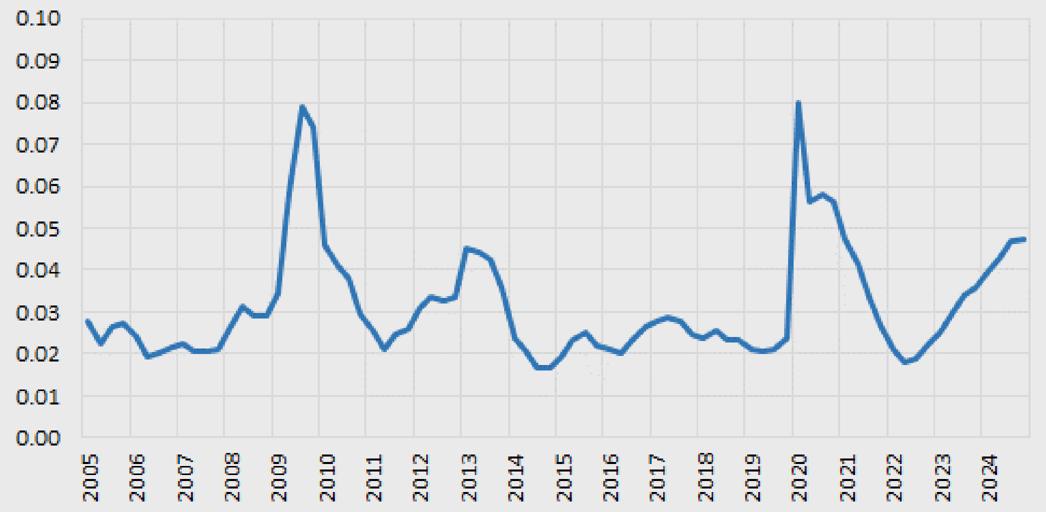
---

[8] Please refer to the UPB's April 2024 Quarterly Report.

[9] See, for example, García-Cabo, J., Lipińska, A., & Navarro, G. (2023). *Sectoral shocks, reallocation, and la bor market policies*. European Economic Review, 156, 104494.

[10] Chodorow-Reich, G. & Wieland, J. (2020). Secular Labor Reallocation and Business Cycles. American Economic Journal: Macroeconomics, 12(1), 1-39.

Figure B1 – Reallocation index



Source: based on Istat data.

In order to investigate the dynamic relationships between reallocation and labour market mismatch in the manufacturing sector, a VAR model was estimated, including in addition to IRt hourly productivity and vacancies, estimated on quarterly data over the period 2005-2024. The impulse-response functions shown in Figure B2 highlight how a shock to the reallocation index (i.e. an increase in the reallocation of hours worked across sectors) may initially be associated with inefficiencies and mismatches in the labour market, but over time it is associated with better utilisation of human capital and efficiency gains.

Specifically, as a result of reallocations, hourly productivity initially contracts, due to adjustment costs and inefficiencies in matching workers and firms; the intensification of reallocation of hours worked across sectors leads to a significant share of the labour force being in transition or temporarily inactive, resulting in a short-term loss aggregate efficiency. After a few quarters, however, workers are absorbed by sectors characterised by higher hourly productivity, allowing aggregate productivity to recover and to reach a higher value.

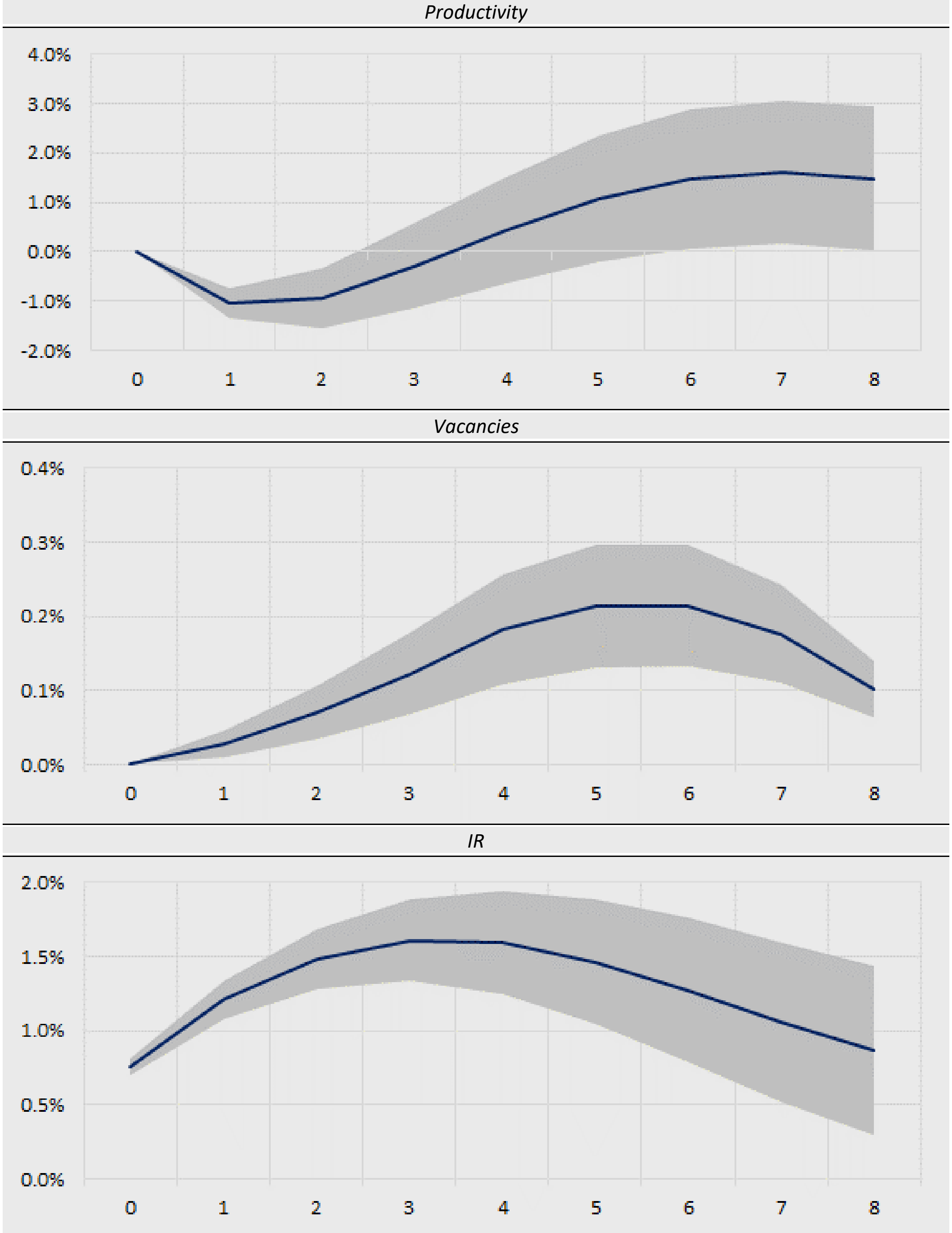
At the same time, the response of vacancies to labour reallocations reveals a similar pattern. Initially, there is an increase in vacancies, reflecting the growing demand for labour in expanding sectors, while in shrinking sectors there are separations that are not immediately compensated by a reabsorption of the labour force. This effect, consistent with the theory of search and matching frictions, indicates a phase of temporary misalignment in the labour market, which gradually resolves as the matching process converges, reducing vacancy levels and establishing a new balance between labour supply and demand.[11]

The improvement in aggregate hourly productivity may not be fully reflected in favourable wage dynamics. In the presence of persistent inefficiencies in the reallocation of the labour force, it is actually possible that both productivity changes and the variation of wages are dampened, contributing to the persistence of the structural gap between the two measures in Italy.[12]

[11] On this subject see, among others, Foroni, C., Furlanetto, F., & Lepetit, A. (2018). *Labor supply factors and economic fluctuations*. International Economic Review, 59(3), 1495-1520; Consolo, A. & Abbritti, M. (2024). *Labor market segmentation, mismatch, and macroeconomic dynamics*. European Economic Review, 170, 104873.

[12] For an examination of the dynamics between wages, productivity and misalignments between labour supply and demand in Italy, see the ILO report released at the end of March and available at: https://www.ilo.org/sites/default/files/2025-03/rapporto_mondiale_sui_salari_2024_nota_italia_3.pdf.

Figure B2 – Impulse response functions on the reallocation index (1)



(1) Grey areas indicate 95 per confidence intervals.