ufficio parlamentare di bilancio

Summary[*]

The international context remains unstable due to the deterioration of international relations. The effects of protectionism seem to be negligible on prices at the moment, but the imposition of tariffs by the United States coupled with euro's appreciation of around 13 per cent against the dollar since the beginning of the year is clearly eroding the competitiveness of European exporters. Surveys of Italian companies reveal significant export-related obstacles, primarily attributable to tariffs and geopolitical tensions, which are particularly affecting the North-East and the Made in Italy sectors. The European Central Bank and the Federal Reserve are cautious about easing monetary conditions. The development of these conditions will depend mainly on the evolution of inflation.

In Italy, after accelerating in the winter, GDP fell slightly in the second quarter (-0.1 per cent) for the first time in almost three years; production growth remains lower than in the euro area. The volatility of the economic situation in Italy is attributable to foreign trade: the recovery in exports in the first three months of 2025 (2.2 per cent), in anticipation of trade before the new tariffs came into force, was followed by a similar contraction in the spring (-1.9 per cent); according to the latest information, exports fell significantly in August. Consumption remains constrained by high savings rates, while capital accumulation is also supported by credit flows. On the supply side, the service sector is stagnating and industry shows no signs of recovery. Italian inflation (measured by NIC) remained stable at 1.6 per cent in September, confirming that it is lower than in the euro area. On the labour market, employment remained unchanged in the spring months and the growth in contractual hourly wages slowed; real wages remain well below those of 2020.

Household and business confidence remains relatively low, while uncertainty is high. Short-term model estimates by the Parliamentary Budget Office (PBO) indicate that economic activity will be stagnant in the third quarter. The GDP growth forecast for 2025 as a whole remains at around 0.5 per cent, as indicated by the PBO when it endorsed the macroeconomic scenario contained in the 2025 Public Finance Planning Document (DPFP), but the outlook is characterised by significant risks, mainly due to the fragmented international environment.

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[*] *This report was prepared by the Macroeconomic Analysis Service, and coordinated by Monteforte L. with contributions from Caterini G., Fantozzi D., Frale C., Girardi A., Fioramanti M. and Pappalardo C.; It is based on information available as of 23 October 2025.*

The international context

World trade currently appears to be resilient in the face of protectionism

In the Middle East, the prospect of a resolution to the conflicts makes the economic and political scenario less uncertain. The recent peace plan provides for the cessation of bombing, the release of hostages and the withdrawal of Israeli troops from the Gaza Strip; the durability of the agreement will need to be assessed soon, but it is nevertheless a positive sign. However, the conflict in Ukraine is still ongoing and international relations remain tense overall.

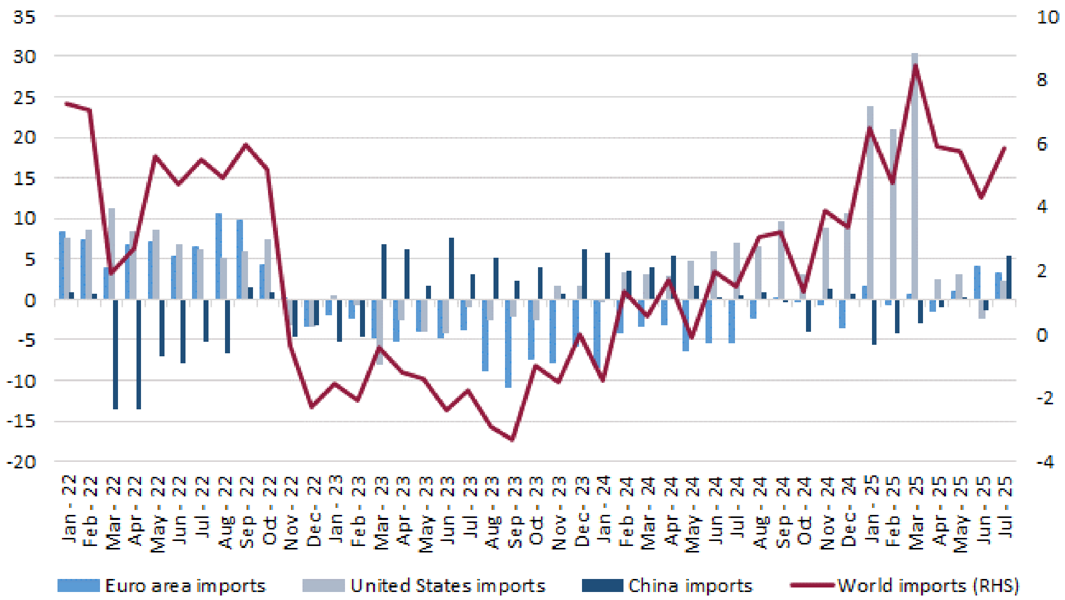
On the trade front, relations between Europe and the United States have stabilised following the agreements reached with the European Commission over the summer. Most European products, including cars and alcoholic beverages, are subject to a 15 per cent duty, although many European *export* sectors are exempt, including those involved in unavailable natural resources (such as cork), aircraft and related components. The US administration has suspended the introduction of tariffs of 100 per cent tariffs on generic drugs and medical devices imported from large pharmaceutical companies. Instead, it is focusing on putting direct pressure on companies to bring production back to the US. Conversely, tariffs on products containing steel and aluminium have been increased from 25 per cent to 50 per cent. Nevertheless, the European Union and the United States have pledged to extend range of products exempt from duties in the future.

Even a partial shift to prices to the United States, the duties would imply a loss of competitiveness for European products, mainly affecting European countries that export to the United States, such as Germany and Italy. Recent information on monthly foreign trade flows in the euro area suggests that exports have slowed sharply since last April. In August, exports decline to the United States and China declined by 22.2 per cent and 11.3 per cent, respectively. Another factor hindering European exports is the appreciation of the euro against the dollar and other major currencies; since the beginning of the year, the euro has strengthened by around 13 per cent against the dollar, making European products more expensive for American consumers. Cumulating tariffs and unfavourable exchange rates, the additional burden for an American importer could reach almost 30 percentage points compared to 2024. However, the shift of both the exchange rate and the tax is slow and currently only partial.

There are also signs of protectionism in Europe. On 7 October, the European Commission proposed to increase duties on steel imports at 50 per centas a safeguard measure for the industry, which is in competition with low-cost steel products from the Chinese market. Expected to take effect in mid-2026, the proposal provides for the share of steel to be halved and duties to be doubled (from 25 to 50 per cent). Under the new scheme, steel imports up to certain quantities will be free of tax, while the imports exceeding the thresholds will be taxed at 50 per cent, compared to the current rate of 25 per cent.

Many overseas importers brought forward their purchases of goods from abroad in the winter in anticipation of tariffs being applied to individual countries by the US administration. An Analysis country-specific data from the Central Plan Bureau (CPB) emerges that, while global imports grew by 5.9 per cent in the first seven months of the year compared to the same period of the previous year, US imports increased by around 11 per cent. By contrast, euro area imports increased moderately (1.2 per cent) and those of China decreased (-1.4 per cent; Fig. 1)., Ss new data on goods flows become available in the second half of the year, a slowdown is likely to be observed, in line with the tightening of customs duties. Forms of *trade* diversion are also expected, with the launch of new trade agreements, particularly among Asian countries that have been subject to high tariffs. For example, China has seen growth in exports since the beginning of the year, demonstrating a redirection of foreign sales towards 'friendly' countries, primarily in the eastern region. Furthermore, last September, it inaugurated a new Arctic shipping route for transporting goods to Europe in order to bypass the Red Sea and the Suez Canal. As the composition of Chinese exports to the United States and to our continent is similar, there is the possibility of exporting goods to the euro area at lower prices than those charged in countries that impose tariffs. According to the Institute for International Policy Studies (ISPI), China is the country most likely to redirect trade in an attempt to compensate for losses in the American market by exporting to Europe; the other countries are India and the ASEAN (Association of Southeast Asian Nations) members, who are the main candidates for future trade agreements with the EU.

Figure 1 – World imports broken down by region: the euro area, the United States and China
(percentage changes)



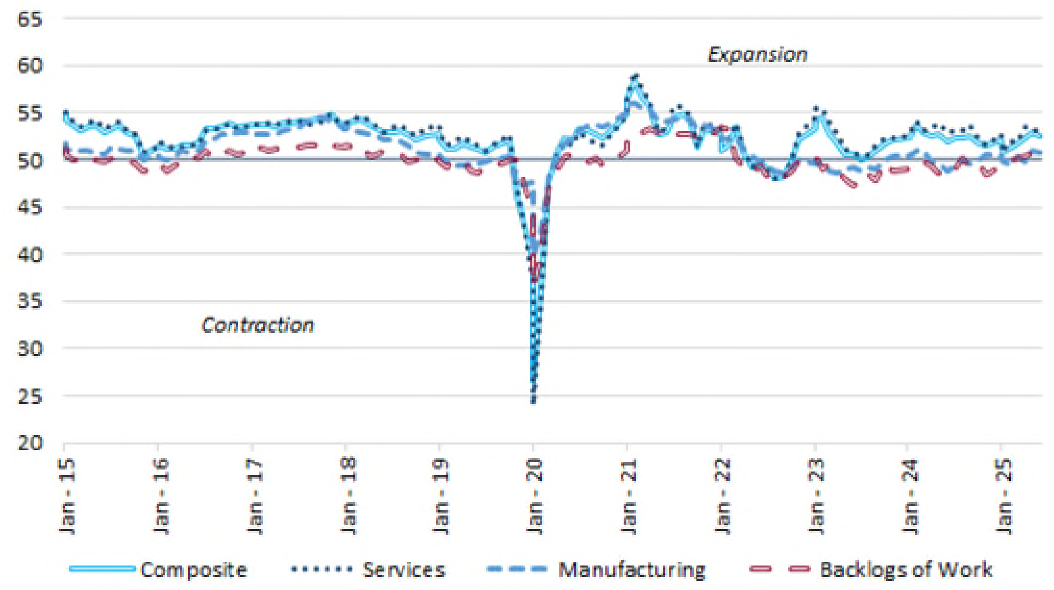
Source: calculations based on CPB data.

The short-term global outlook is moderately optimistic, consistent with an overall expansionary cycle. Although the global PMI purchasing managers' index, which anticipates trends in international demand, it has been in expansionary territory for about three months, recorded a marginal decline in September compared to the previous month (falling from to 52.9 from 52.4), referring to all major components (Fig. 2).

Among the high-frequency indicators, the cost of transporting non-liquid raw materials and foodstuffs decreased in October (to 69.9 from 76.9 compared with the first quarter), as measured by the Baltic Dry Index. As this variable normally reflects international demand, the decline could foreshadow a weakening of world trade in the second half of the year. In line with these expectations, the cost of raw materials has remained moderate, although it increased slightly in September and October, incorporating the tariff agreements reached in early August. The latest international trade data from the Dutch Central Plan Bureau shows a recovery in July; however, the trend in recent months has been erratic overall (see Fig. 3), as well as announcements on tariffs.

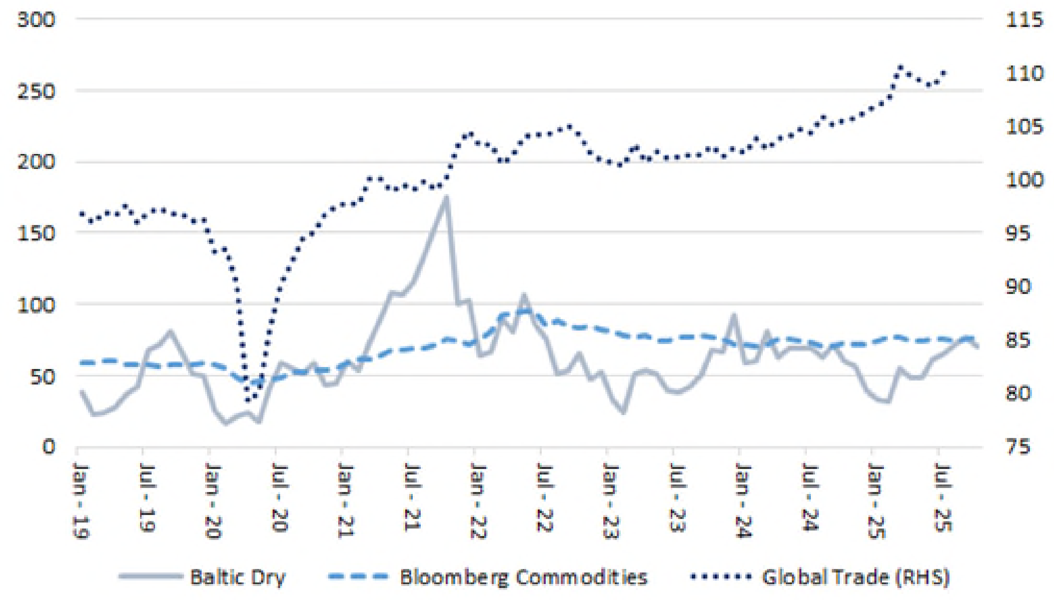
In the United States, GDP grew more than expected in the spring (3.8 per cent annualised) after a temporary decline in the first quarter of 2025 (-0.6 per cent in annualised terms). The new US trade policy has increased macroeconomic volatility. In the second quarter, the sharp reduction in imports, coupled with a slight decline in exports, contributed positively to growth by almost five percentage points. This reduction was possible because companies had had built up large stockpiles in previous months, which were quickly depleted, thereby having a negative impact on GDP growth of almost 3.5 percentage points.

Figure 2 – JP Morgan Global PMI Index



Source: S&P Global.

Figure 3 – Global activity indices
(index numbers, 2010 = 100)



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

Growth remained buoyant in China in the spring, reaching 5.2 per cent year-on-year and being driven mainly by the services sector. However, in the third quarter, GDP slowed to 4.8 per cent, which was in line with analysts' expectations. The prolonged real estate crisis has undermined consumer confidence affecting investment. However, trade tensions also contributed to the slowdown, but overall, exports increased by around seven percentage points in the first nine months of the year, and average GDP growth was 5.2 per cent, which is in line with the government's annual target of 5.0 per cent.

In the euro area the significant slowdown in GDP growth in the second quarter (a quarter-on-quarter increase of just 0.1 per cent) was largely due to factors similar to those in the United States. The substantial positive impact of inventories was offset by negative contributions from net exports and investment.

International Monetary Fund forecasts

In October, the International Monetary Fund (IMF) slightly improved its expectations for the current year for the major economies, compared to its July report (Table 1). These improvements took into account the anticipated effects of the new tariffs imposed by the US administration and the gradual adjustment of the major economies. However, the IMF has released these new projections with some *caveats,* given the high level of uncertainty and fluidity that have characterised its forecasts since the spring.

Table 1 – IMF forecasts

	WEO October 2025			Differences vs WEO July 2025	
	2024	2025	2026	2025	2026
World output	3.3	3.2	3.1	0.2	0.0
Advanced economies	*1.8*	*1.6*	*1.6*	*0.1*	*0.0*
United States	*2.8*	*2.0*	*2.1*	0.1	0.1
Euro area	*0.9*	*1.2*	*1.1*	*0.2*	*-0.1*
Emerging economies	*4.3*	*4.2*	*4.0*	0.1	0.0
China	*5.0*	*4.8*	*4.2*	*0.0*	*0.0*
World trade	3.5	3.6	2.3	1.0	0.4

Source: IMF, *World Economic Outlook*, October 2025.

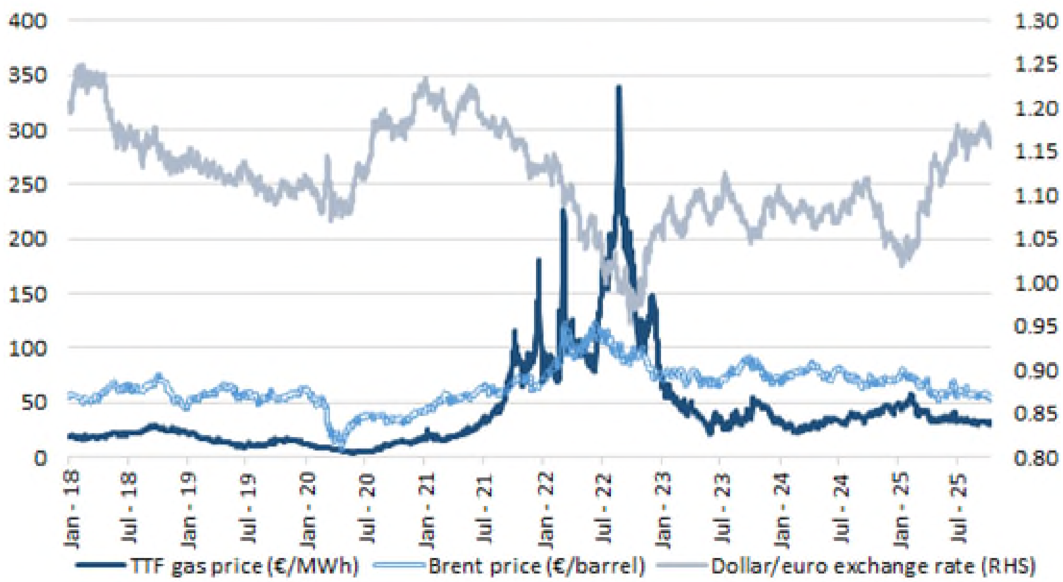
Global output is expected to grow by around three percentage points in both 2025 and 2026, which is slightly higher than the July forecast for 2025 alone. US GDP growth is expected to be around two percentage points in both years, which is slightly higher than in July's forecast. The GDP forecast for the euro area, which confirms growth rates of around one percentage point, has been revised upwards by two-tenths of a percentage point for the current year, while a marginal downward revision has been made for 2026. Among emerging countries, expectations for China remain unchanged. Global trade is expected to follow a similar pattern seen in 2024 this year and to slow significantly in 2026. However, estimates have been revised upwards compared to those in the July's outlook.

Prices of Energy commodity fall

With the exception of the days of Operation Midnight Hammer in June, when the United States bombed Iranian nuclear sites in June, oil and natural gas prices have been on a downward trend since the beginning of the year (see Fig. 4), albeit with pronounced volatility. In recent weeks, the price of oil has fallen further, despite the recent announcement by OPEC+ (Saudi Arabia, Russia, Iraq, the United Arab Emirates, Kuwait, Kazakhstan, Algeria and Oman) recent announcement of an increase in oil production from November that is lower than many analysts had expected. Overall, the price of Brent crude has fallen by around 14 percentage points since the start of the year.

Despite the onset of colder months, the price of natural gas on the Dutch market (TTF) continues to fall, reaching around €32 per megawatt-hour in early October. Since the beginning of the year, the price of methane has fallen by around 34 per cent; prices being kept down by both the mild winter and the further diversification of supplies. However, price volatility could increase in the coming months, as the eating season has just begun and average EU stocks are currently at around 82 per cent, compared to over 95 per cent in the same period in the previous two years.

Figure 4 – Oil and gas prices and exchange rates



Source: S&P Global.

Since the beginning of 2025, the euro has appreciated against the dollar, particularly in the third quarter. Overall, the euro has appreciated by 13 per cent against the dollar and other currencies since the beginning of the year, making goods exported outside the euro area less competitive.

Despite the fragility of the international environment, stock markets show an upward trend strengthening since last summer, supported by expectations of high corporate profits, particularly in the artificial Intelligence technology sector, as well as by the prospect of further interest rate cuts by central banks. Globally, volatility indices remain relatively low, and in Europe, bond yield spreads continue to narrow.

Inflation in the euro area is close to the central bank's target

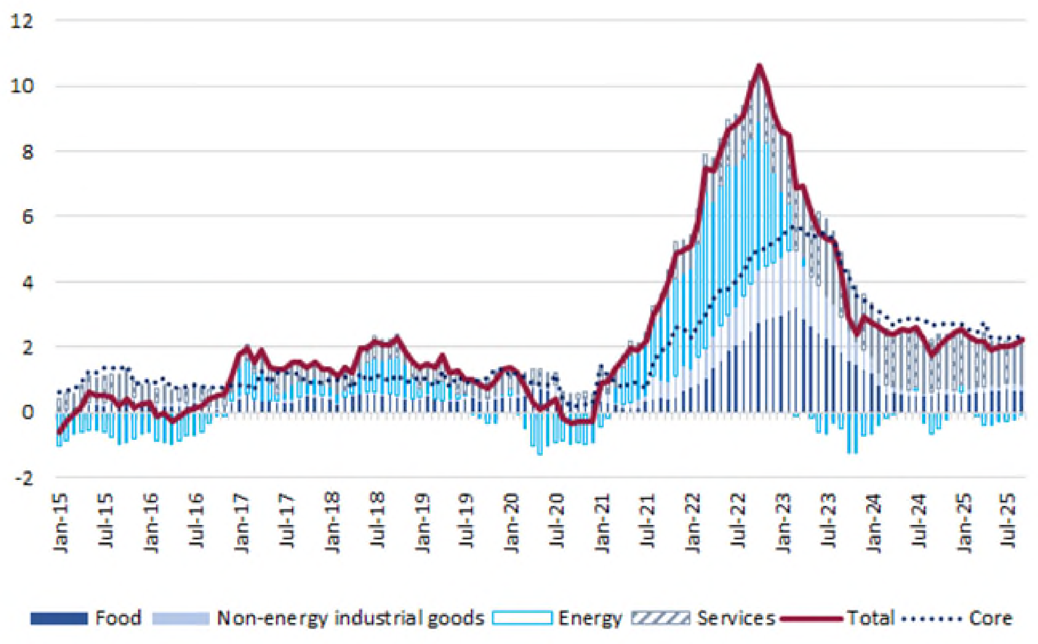
For the time being, the effects of the trade war on prices appear to be limited, but they could become significant in the future. In the United States, tariffs do not yet seem to have been passed on to final prices. Although inflation remains subdued, and has not returned to pre-pandemic levels, and the trade war has already pushed up the prices of some products. In August, headline inflation stood at 2.9 per cent and, while excluding the most volatile components, i.e. energy and food, it was slightly higher at 3.1 per cent. Initially, companies used the high stocks they had built up before the customs duties actually came into force. Importers temporarily accepted a reduction in their margins, but in the longer term they could shift the costs of the new tariffs on to consumers.

In the euro area, the upstream price formation process shows a decline in import prices of around 4.9 per cent from February to August, cumulatively around 4.9 per cent, largely due to the energy component, while the impact on consumer prices is not yet evident. In September, harmonised index of consumer prices (HICP) inflation rose to 2.2 per cent, up from 2.0 per cent in the previous month. Looking at the main components, food and services prices rose by around 3 per cent. Core inflation (excluding food, energy, alcohol and tobacco) remained slightly higher (at 2.4 per cent) than headline inflation, which incorporates the reduction in energy prices (see Fig. 5).

Price dynamics in Germany and Spain are on the rise exceeding the euro area average of 2.4 and 3.0 per cent, respectively, in September, mainly driven by rising service prices, particularly those for transport.

Following the rise in inflation in the eurozone, the European Central Bank (ECB) decided in September to keep its key interest rates unchanged for the second consecutive month. Although inflation is close to the medium-term target of 2 per cent, but the core component remains higher, and the ECB is focusing on ensuring that inflation stabilises sustainably. Further monetary policy easing is possible, but will depend on how prices evolve. By contrast, last month the Federal Reserve intervened last month to safeguard the US labour market, cutting rates by a quarter of a point to stem the slowdown in hiring.

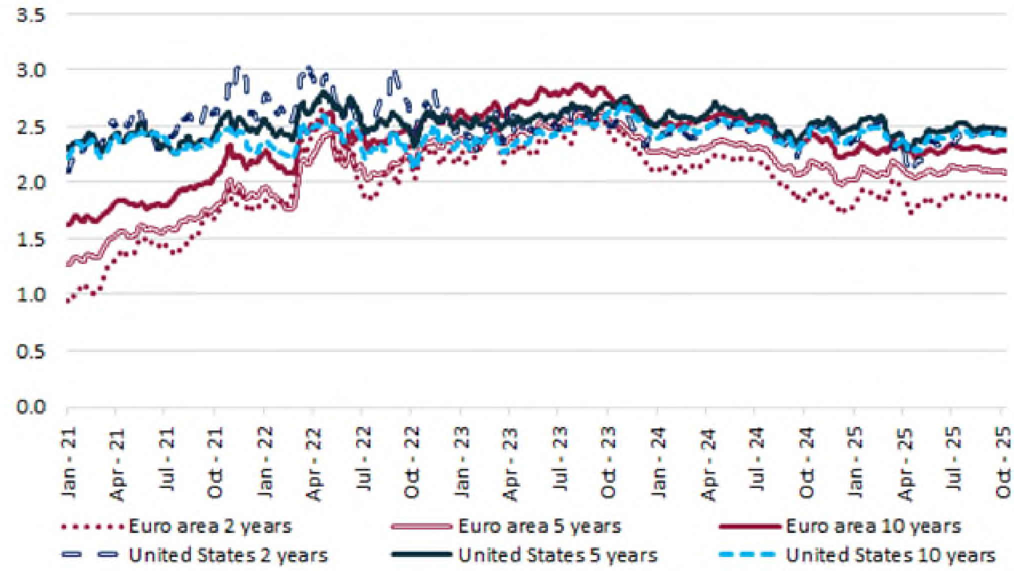
Figure 5 – Consumer inflation in the euro area (1)
(percentage changes and contributions)



Source: calculations based on Eurostat data.
(1) The sum of the contributions may not correspond to the total index, as it is chain-linked with fixed basis and calculated at a higher level of detail.

In the euro area, market participants' inflation expectations remain around 2.0 per cent, which is the ECB's target. There has been a slight increase in expectations for long-term rates. In the United States, these expectations are slightly higher, reaching just below 2.5 per cent at different maturities. The United States is therefore still characterised by higher inflation expectations than Europe for all maturities, particularly over a ten-year horizon (see Fig. 6); US bond yields are being driven by restrictive trade policies and uncertainty over fiscal consolidation, and the weakness of the dollar. However, the trade war launched by the US Administration does not seem to have had a significant impact on price expectations so far.

Figure 6 – Inflation expectations implied by inflation-linked swaps in the euro area and the United States
(percentage points)



Source: LSEG.

The Italian economy

GDP growth remains lower than in the euro area

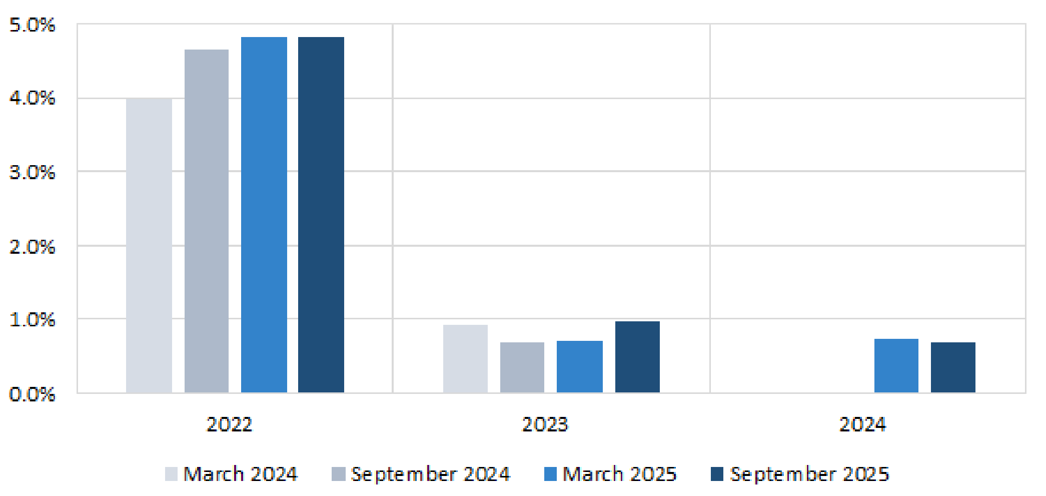
On 22 September, the new annual national accounts were published, revised to incorporate information available after the March release; nominal GDP was revised upwards by 7.4 billion for 2024 and 11.2 billion for 2023. As far as GDP in volume terms (chain-linked values) is concerned, the latest Istat publication corrected the change for 2023 to 1.0 per cent (from 0.7 per cent), similar to that initially released in March 2024 (Fig. 7); GDP growth in 2024 was confirmed at 0.7 per cent.

The quarterly accounts released by Istat on 3 October, after the Public Finance Policy Document, confirm the recent economic quarterly and yearly dynamics estimated in the previous edition. After the winter acceleration (0.3 per cent) in the second quarter GDP declined quarterly by one-tenth of a percentage point, as had not happened since the end of 2022. The change for 2025 is half a percentage point.

The spring slowdown also affected Germany (-0.3 per cent), while Spain and France accelerated on a quarterly basis (0.8 and 0.3 per cent respectively). Compared to the euro area average, Italy's GDP growth in the second quarter was slightly lower for the fourth consecutive period.

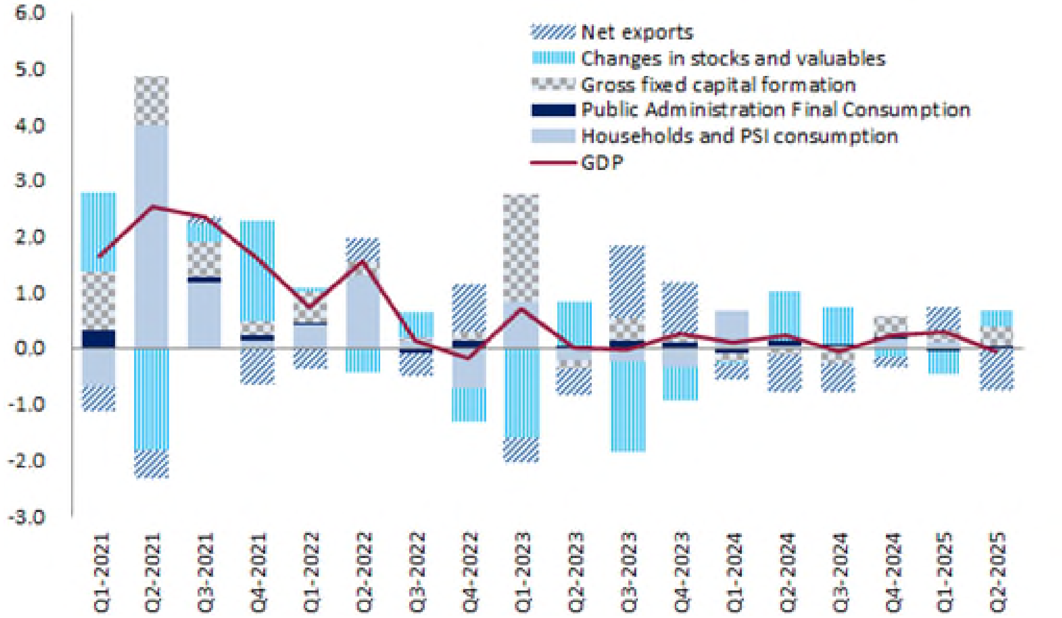
In Italy, consumption growth stalled in the spring, while gross fixed capital formation strengthened, driven mainly by capital goods. Imports increased moderately (0.4 per cent), while exports (-1.9 per cent) largely offset the temporary recovery observed in the early months of the year, which had been driven by sales to the United States before the new tariffs came into force; overall, net exports in the spring returned to contribute negatively to GDP growth (Fig. 8), as was the case last year.

Figure 7 – Estimates of GDP growth in volume in the latest Istat publications *(percentage changes)*



Source: Istat.

Figure 8 – Change in GDP and contributions of demand components to GDP
(quarterly percentage changes and contributions in percentage points)



Source: Istat.

On the supply side, the weakening of value added in the spring can be attributed to both services (-0.1 per cent) and manufacturing (-0.7 per cent), while construction accelerated to 1.5 per cent.

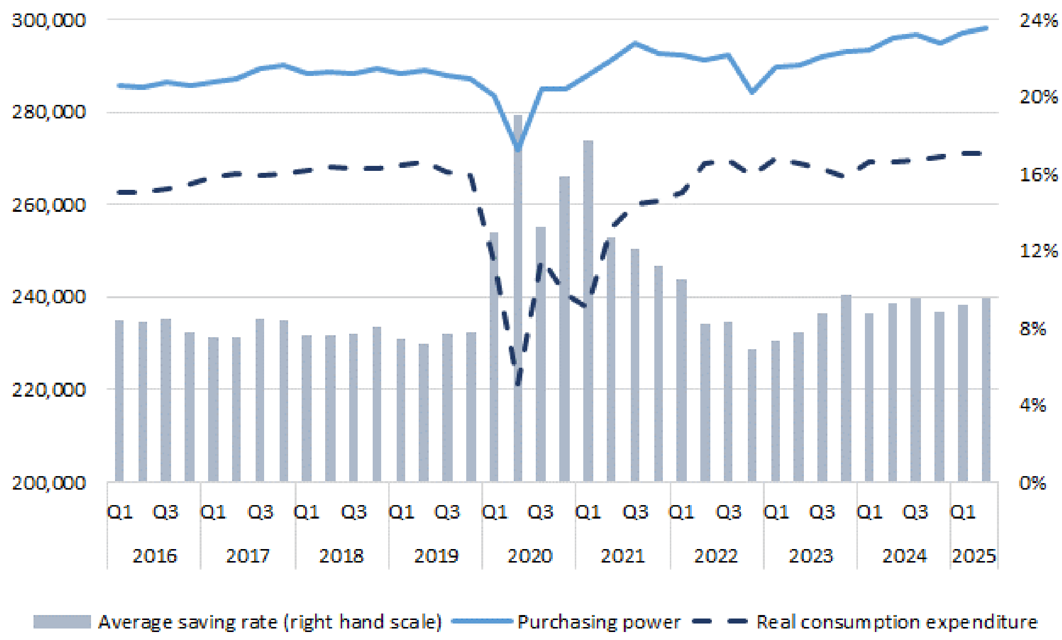
Consumption stagnates and propensity to save increases

Household spending in real terms remained unchanged in the second quarter, held back by the decline in semi-durable goods (-0.6 per cent) and the stagnation in services; purchases of durable goods recovered modestly after contracting by almost two percentage points in the winter.

Household purchasing patterns remain cautious: in the spring, growth in disposable income, both in nominal and real terms (0.8 and 0.3 percentage points respectively), outpaced consumption growth, resulting in a strengthening of the propensity to save (to 9.5 per cent; fig. 9), which was already historically high.

Household spending does not appear to have strengthened during the summer. Based on elaborations by the PBO, the quarterly dynamic of the seasonally adjusted consumption indicator (in volume) of Confcommercio was flat during summer, with a slight increase in services offset by a decline in goods. Substantially similar indications come from retail sales in volume, whose carry-over in August for the third quarter is slightly negative.

Figure 9 – Household purchasing power, consumption and savings
(millions of euro, chain-linked values and percentages)



Source: Istat.

In the third quarter, the household confidence index improved moderately, up 1.5 points compared to the spring, when there was a sharp decline.

Capital accumulation continues unabated, supported by credit

Based on quarterly data released by Istat in October, gross fixed investment accelerated by 1.6 per cent in the second quarter, recording its third positive dynamic in a row. Growth was widespread across all components: the accumulation of plant and machinery strengthened (1.9 per cent, from -0.8 per cent in winter) and investment in non-residential construction (1.8 per cent) confirmed the expansionary path of the last eight quarters; investment in housing (up 1.6 per cent) showed signs of recovery in the first half of this year, following the contraction observed in 2024.

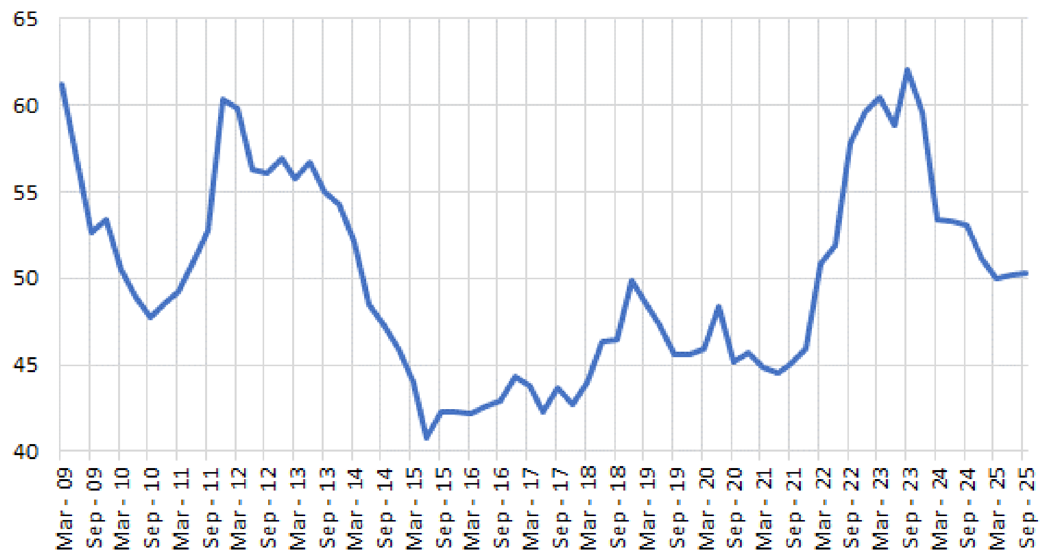
The investment rate of non-financial corporations (ratio of gross fixed capital formation to value added) remained stable at 22.7 per cent in the first half of 2025, half a point above last year's average; the profit share (measured as gross operating surplus over value added of non-financial corporations) increased to 43.2 per cent, and the mark-up for the economy as a whole remained broadly stable across all sectors.

As for the outlook for accumulation, according to the Bank of Italy's August-September survey on inflation and growth expectations, investment spending will expand this year compared with 2024, more in services and construction than in manufacturing.

The PBO indicator[2] on credit market tensions, based on the imbalance between supply and demand, remained broadly stable during spring and summer, after the improvement observed in 2024 (Fig. 10). The real estate market shows no signs of slowing down: agents surveyed between June and July in the Bank of Italy's housing market survey report average selling times and discounts on initial prices close to historic lows; moreover, in the spring, difficulties in accessing credit for house purchases decreased for the seventh consecutive quarter.

These signs are supported by the trend in loans to households, which rose to 2 per cent in July; nevertheless, loans to non-financial corporations have also been growing again on a yearly basis since the spring. The monetary easing undertaken by the ECB appears to be feeding through to the cost of credit for businesses, which has been falling since the summer. As a result, demand for credit increased in the second quarter and the bond component remained robust in the summer. On the funding side, intermediaries incurred lower costs between May and August due to falling deposit rates.

Figure 10 – PBO's index on credit conditions for businesses (1)
(diffusion index; threshold between restrictive and expansionary conditions = 50)



Source: calculations based on Istat data.
(1) For methodological details, see the PBO's October 2023 Economic Note.

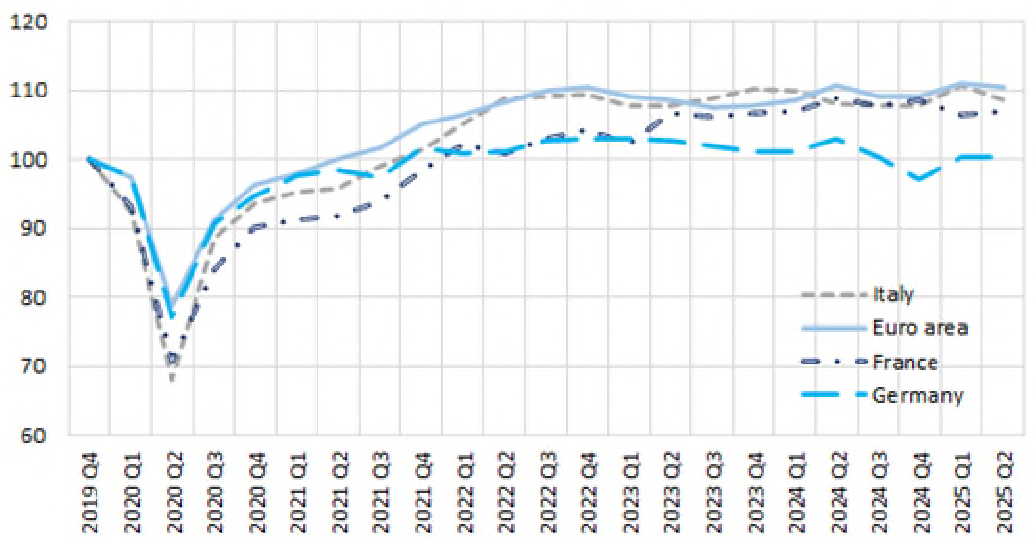
[2] The PBO indicator of credit market tensions is estimated using qualitative information, which also takes into account the assessments expressed in the Istat survey on manufacturing business confidence. When the value of the index rises, credit market tensions are estimated to be increasing.

Exports affected by trade tensions

In the second quarter of this year, Italian exports of goods and services contracted (-1.9 per cent in volume), continuing the weakness that characterised last year and was only temporarily interrupted in the first three months of 2025. Despite strong tourist flows, exports of services declined slightly compared with the previous quarter (-0.6 per cent), while foreign sales of goods fell more sharply (-2.2 per cent), especially regarding capital and consumer goods. Based on the latest foreign trade data for August, the change in the value of exports compared with the second quarter is negative for markets outside the euro area – particularly the United States (-1.5 per cent) – compared with an increase for European Union markets (around two percentage points). Despite the setback in the spring, Italian exports remain higher than those of its main trading partners (Fig. 11). The current account surplus, adjusted for seasonal effects, increased in the second quarter compared with the previous period, reaching 1.6 per cent of GDP (from 1.0 per cent in the previous quarter), also benefiting from the improvement in the capital income balance.

Based on the latest foreign trade data for August, the change in the value of exports with respect to the second quarter is negative for markets outside the euro area, compared with an increase for European Union markets (of more than two percentage points); the negative trend in sales outside the EU is mainly affected by the sharp contraction in flows to the United States (by more than ten percentage points). Istat's qualitative surveys on foreign orders and the corresponding PMI index seem to indicate a phase of weakness in foreign trade for the third quarter of the year as well.

Figure 11 – Export volumes of the euro area and its three largest economies
(index numbers, 2019Q4=100)



Source: Eurostat.

Imports rose slightly in the second quarter (0.4 per cent compared with the previous period), reflecting the strengthening of their leading variables, in particular gross fixed capital formation. The positive trend in import volumes, together with the decline in exports, resulted in a negative contribution from net foreign demand to GDP growth (-0.7 percentage points).

Industry shows no signs of recovery, while the service sector stagnates

After slight growth in the first quarter and substantial stagnation thereafter, industrial production came to an abrupt halt in August (-2.4 per cent). The information gleaned from businesses' turnover still pointed to a stable picture, but this refers to July. Economic surveys indicate substantial stagnation: the manufacturing confidence index rose for the third consecutive quarter but remains close to last year's average. Signs of weakness are also emerging from the manufacturing PMI, which, after temporarily exceeding the 50-point threshold separating expansion from contraction in August for the first time in over a year and a half, fell to 49.0 in September.

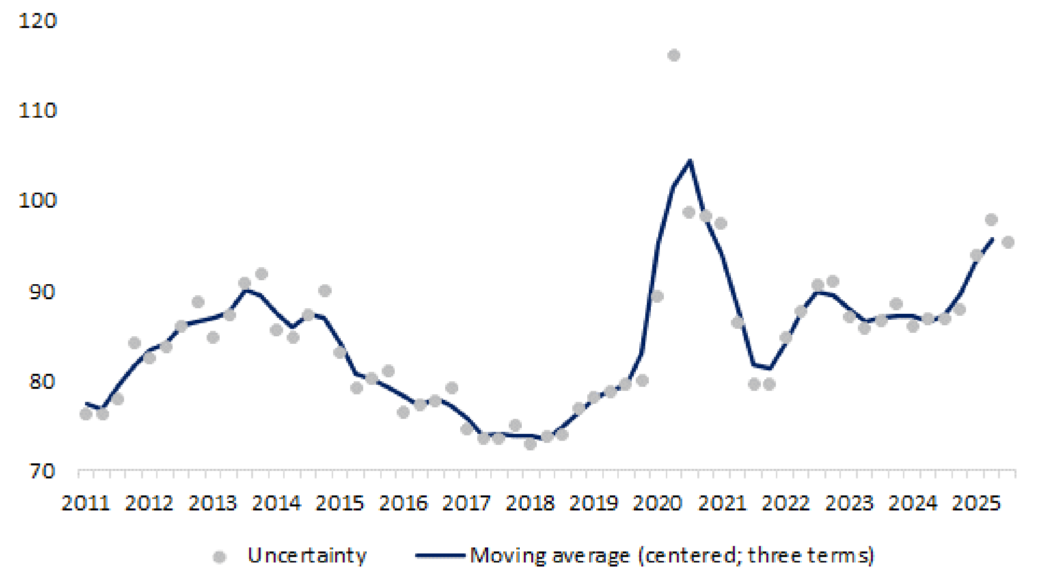
After the cyclical increase in July, the seasonally adjusted construction output index recorded a sharp decline (-1.6 per cent) in August; the change in the third quarter compared to the April-June average was negative (-0.6 per cent). Construction companies appear to be cautious in their assessments: in the third quarter of 2025, the confidence index recorded by Istat showed a decline, reflecting decreases in the components relating to buildings, civil engineering works and specialised construction works. The sector appears to be more resilient according to the PMI index, which stood slightly above the expansion threshold (50.2) in the third quarter.

The value added of services showed very weak growth for the fourth consecutive quarter, settling in spring at a level almost identical to that of the same period in 2024. In the third quarter, the sector's confidence index rose slightly compared with the spring average, driven by components relating to assessments and expectations regarding orders, which more than offset the decline in assessments of business trends. In September, the PMI index for the service sector remained well into expansionary territory, supported above all by positive assessments of new customer acquisition and favourable expectations.

With regard to business demography, according to Movimprese data, in the second quarter of the year the balance between registrations and closures was positive by approximately 33,000 units, more than offsetting the negative balance recorded in the first three months of 2025. This balance, resulting from over 80,000 registrations and approximately 47,000 closures, indicates that the demographic trend is holding steady despite the uncertainty of the global geopolitical and economic context. In terms of legal form, limited companies showed the largest positive balance, equal to almost 20,000 units. At the regional level, Central Italy – and Latium in particular – recorded the strongest growth. From a sectoral perspective, the highest net increase was seen in the sectors with the largest added value, personal and business services, and construction.

The composite business confidence index, calculated as the weighted average of sectoral climates, rose by about one point in the third quarter compared with the previous period, supported by increases in confidence in all sectors except construction. According to the measure developed by the PBO, uncertainty among households and businesses declined slightly compared with the April-June average, reflecting a decline in both the business and household components. However, the index points to very high uncertainty in historical terms, with values close to historical highs, excluding the pandemic phase (Fig. 12).

Figure 12 – PBO's uncertainty index
(index number, 1993 Q1=100)

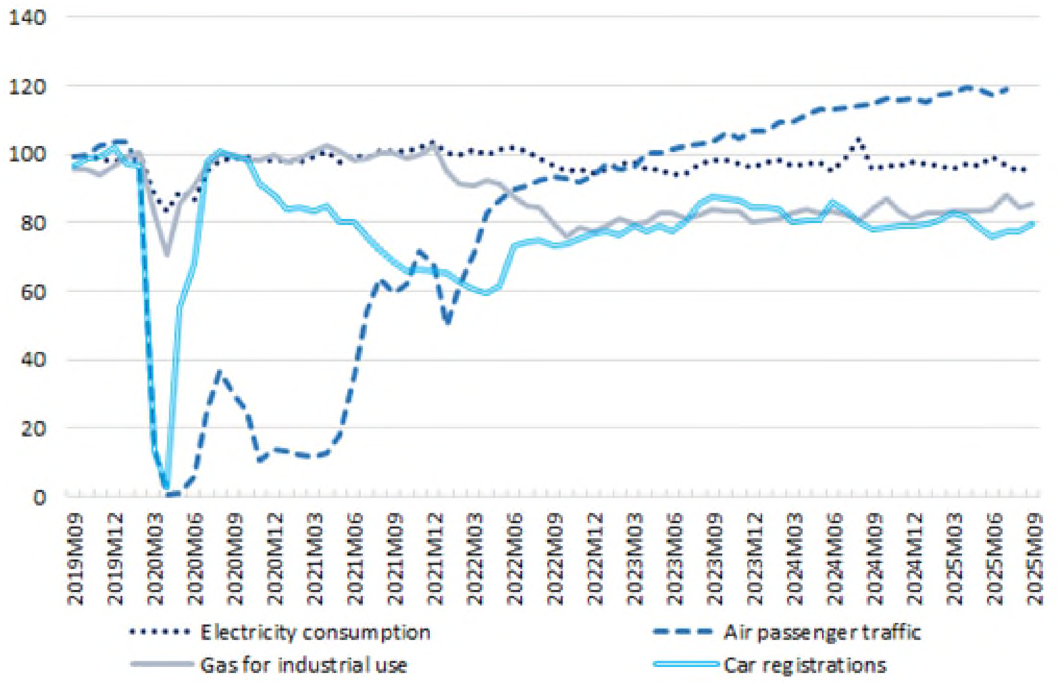


Source: calculations based on Istat data.

The timely economic indicators and short-term forecasts

Timely monthly quantitative variables point to a stationary cyclical phase. During summer continued the recovery in air passenger traffic, which, after the collapse during the Covid-19 period, continues to rebound, albeit at a slower pace than last year. Car registrations fell significantly in the third quarter, despite the recovery in September thanks to the contribution of electric and hybrid cars. Industrial gas consumption remained virtually unchanged, while electricity consumption fell by more than one and a half percentage points in the summer quarter compared with the spring months (Fig. 13).

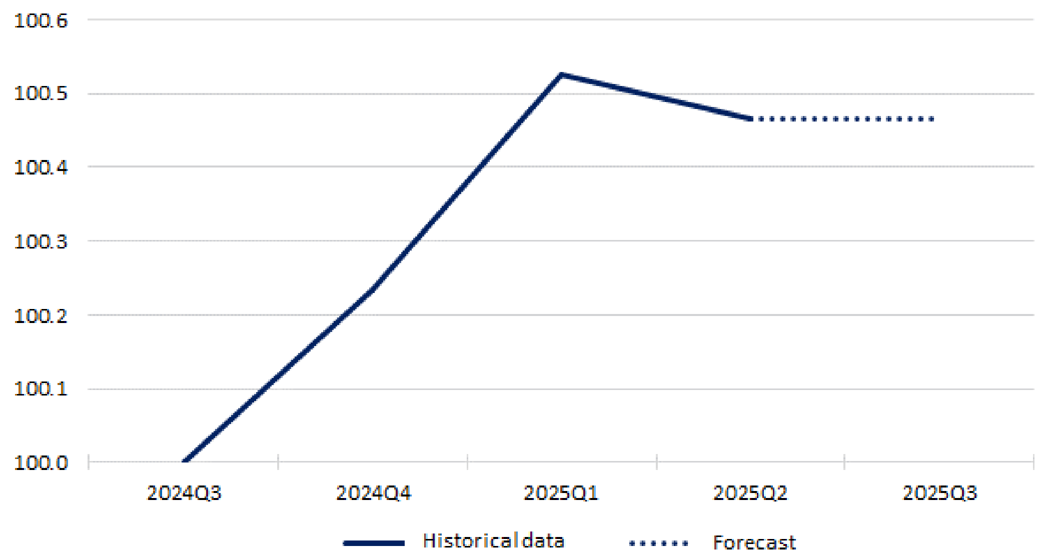
Figure 13 – Leading indicators of economic activity
(index numbers, 2019 average = 100; seasonally adjusted data)



Source: Terna, Snam, Assaeroporti, Anfia.

According to the estimates of the PBO's short-term models, GDP in the summer remained virtually unchanged compared with the previous quarter (Fig. 14), against a backdrop of widespread weakness in all major sectors of the economy.

Figure 14 – Short-term GDP forecasts (1)
(index number 2023Q4=100)



(1) GDP forecasts are obtained using the PBO's short-term models (for further details, see the technical note "The PBO's macroeconomic forecasting tools").

In the final part of the year, production is expected to gradually strengthen. For 2025 as a whole, the forecast for GDP growth in the annual series is around 0.5 per cent. This figure confirms the forecast indicated for the validation of the macroeconomic framework of the 2025 DPFP, although downside risks are intensifying in recent data.

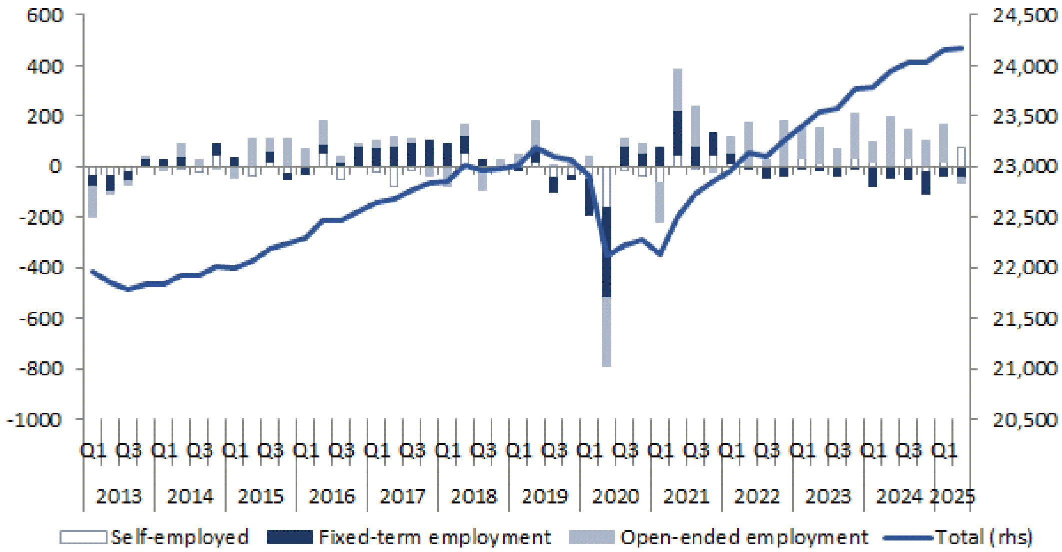
Employment is stable and wage growth is slowing

In the spring months, headcount employment fell slightly (-0.1 per cent compared with the previous quarter, based on national accounts data) and labour input remained stable. Total hours worked slowed down both in services (to 0.1 per cent, from 1.2 per cent in the first three months of this year), which account for almost three-quarters of total employment, and in construction; hours worked decreased in manufacturing and in agriculture. Hours worked per employee grew moderately in services (0.3 per cent), where the use of wage supplementation instruments increased, and in construction; in manufacturing, on the other hand, *per capita* hours worked decreased, as has been the case since the beginning of 2024, and the share of companies reporting difficulties in finding labour declined.

In the second quarter, the number of employees fell (-0.3 per cent based on the Quarterly Labour Force Survey), mainly due to the decline in temporary employment. This development was almost entirely offset by the acceleration in self-employment, which recovered from the winter quarter (Fig. 15). The proportion of older workers (aged 50-64) increased, due to the combined effect of demographic transition and stricter retirement requirements; on the other hand, the unfavourable contribution of younger workers became more pronounced. According to preliminary indications, employment levels rose slightly in the summer months (0.1 per cent).

Permanent jobs, net of terminations, as recorded by the INPS Observatory on the labour market for the non-agricultural private sector, continued to expand (5.5 per cent in the first six months of the year compared to the same period in 2024), supported by the conversion of fixed-term contracts into permanent positions. On the other hand, there was a decline in fixed-term employment contracts and, to a lesser extent, in intermittent and apprenticeship positions, resulting in an overall decrease in the net change in jobs (-1.2 per cent year on year). In the first half of the year, employment increased in construction and decreased in the service sector, particularly in the retail, transport, accommodation and catering sectors.

Figure 15 – Employed and self-employed workers
(changes quarter on quarter; levels)



Source: Istat.

The use of wage supplementation schemes declined in the spring, although with sectoral differences. In manufacturing, requests for authorised hours under the *Cassa integrazione guadagni* (CIG) slowed, but extraordinary CIG measures, activated in cases of corporate reorganisation or restructuring, remained at the high levels seen in the post-pandemic period. In retail trade, the increase in CIG was associated with a sharp rise in authorised hours in solidarity funds (FSI), which more than doubled compared with the same period last year. The use of wage supplementation measures declined in construction.

The participation rate (15-64 years) rose slightly in the second quarter, driven by older age groups, reaching its highest level since the beginning of the time series (67.0 per cent); however, the indicator remains significantly lower than that of other European countries, particularly for women (58.1 per cent in Italy in the first half of the year, more than thirteen points below the euro area average). The unemployment rate (15-64 years) rose slightly in the second quarter (to 6.5 per cent), before falling again in the summer (to 6.1 per cent).

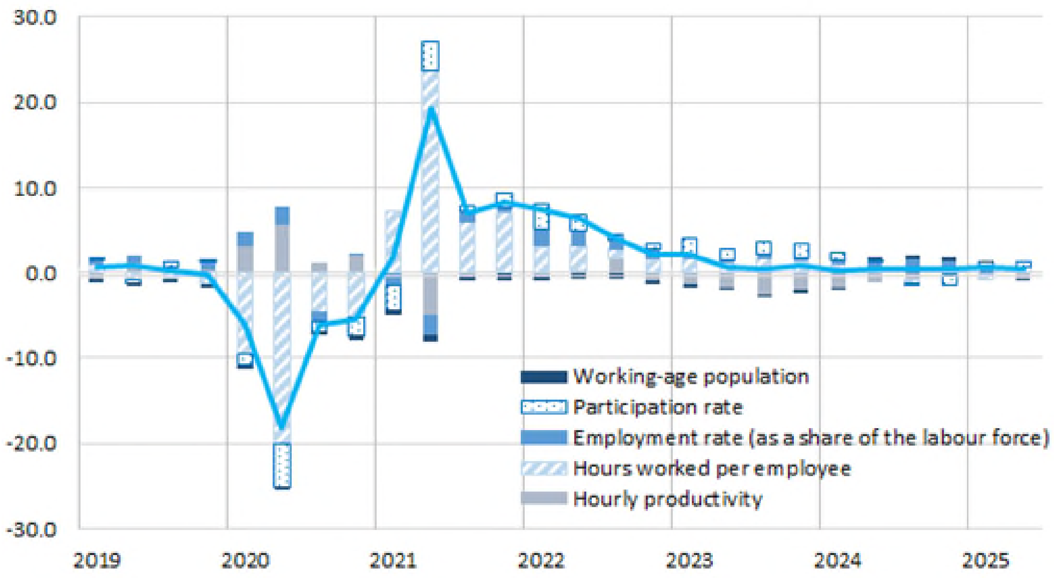
Inactivity declined slightly in the spring, especially among the older population and women, but remains considerable (at 30.0 per cent). The decline in the number of people who say they are available for work but not actively seeking employment continued, with a greater likelihood of transition into the labour force; on the other hand, the largest group of inactive people, those furthest from the labour market (not seeking work and not immediately available), expanded.

Yearly GDP growth in the second quarter benefited from the contribution of the participation rate, as shown by the breakdown based on the main labour market variables, hourly productivity and demographic factors (Fig. 16). Economic activity was also supported by the increase in hours worked per employee, which had contributed unfavourably since the second half of last year, and to a lesser extent by the employment rate. Hourly productivity and, to a lesser extent, the working-age population, slowed down output growth.

The growth in contractual hourly wages slowed in the second quarter (3.2 per cent year-on-year, down from 3.9 per cent in the previous three months), reflecting the slowdown in the private sector, despite the resumption of collective bargaining in both industry (energy and oil extraction, chemicals, cement, gas and water) and services (banking and airport services). In the metalworking sector, the national collective labour agreement was extended in June until its renewal, with wage floors adjusted in line with the 2024 HICP excluding imported energy goods (1.3 per cent). In the public administration sector, contractual wages accelerated following renewals in the law enforcement and defence sectors. The change in actual hourly wages across the economy as a whole slowed to 3.1 per cent on an annual basis; in real terms, they were still significantly lower than their average 2020 values (around 8.8 per cent). The dynamic in ULC, which appeared more subdued, nevertheless exceeded that of labour costs, reflecting the decline in productivity, especially in services, despite the acceleration in construction.

During the summer, contractual wages slowed further, mainly in the private sector, while the upward trend continued in the public sector. Overall, in the first eight months of the year, the increase in hourly wages (3.3 per cent) was slightly above the average change in the previous two years. The proportion of employees awaiting contract renewal decreased compared with the beginning of the year, standing at 27.3 per cent in the private sector in August (43.0 per cent in the economy as a whole).

Figure 16 – GDP growth and the labour market
(year-on-year percentage changes; contributions to growth)



Source: based on Istat data.

Inflation remains lower than in the euro area

Despite external disinflationary pressures, due to the strong euro, lower energy commodity prices and increased competition following the trade war between China and the United States, Italian inflation remains stable, below 2 per cent. In Italy, deflationary pressures from the energy component are offset by increases in food prices, and the services component remains fairly resilient. On the domestic front, as mentioned in the previous paragraph, wage pressures remain subdued.

In the last quarter, consumer inflation (measured by the Italian consumer price index for the whole nation NIC) remained virtually stable at 1.6 per cent, one tenth of a point below that of the previous three months, but with a different composition. The trend in the food component strengthened in the last three months (3.7 per cent from 3.1 per cent in the second quarter), while that of energy goods became more negative (-4.0 per cent from -1.6 per cent); overall, core inflation remained stable in the summer at 2.0 per cent (2.2 per cent in the harmonised measure, fig. 17).

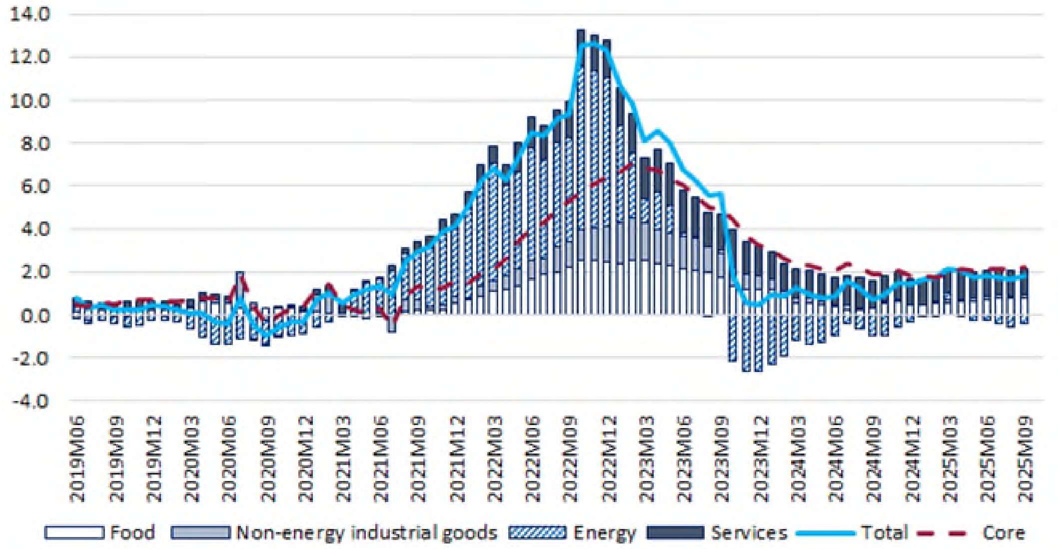
In September, inflation (measured by the NIC index) remained at 1.6 per cent, as in the previous month, against contrasting developments: energy prices slowed their decline (-3.7 per cent from -4.8 per cent in August) and the increase in food prices slowed, especially for unprocessed food (4.8 per cent from 5.6 per cent), and consequently also the prices for goods of primary use (classified as “Grocery and unprocessed food”) (3.2 per cent from 3.4 per cent). Inflation in services remained virtually stable (at 2.6 per cent, one tenth less than in August). Carry-over inflation for 2025 in September remained at 1.7 per cent, both nationally and harmonised.

The negative differential between Italian inflation and that of the euro area widened in the last three months (-0.4 percentage points), mainly due to the energy component, which has been falling more sharply than in the euro area since July (Fig. 18).

With regard to individual items, the number of those recording moderate price dynamics remains predominant in Italy (70 per cent with inflation below 3.0 per cent in the third quarter), but the share of those above 5.0 per cent (12 per cent) is still non negligible.

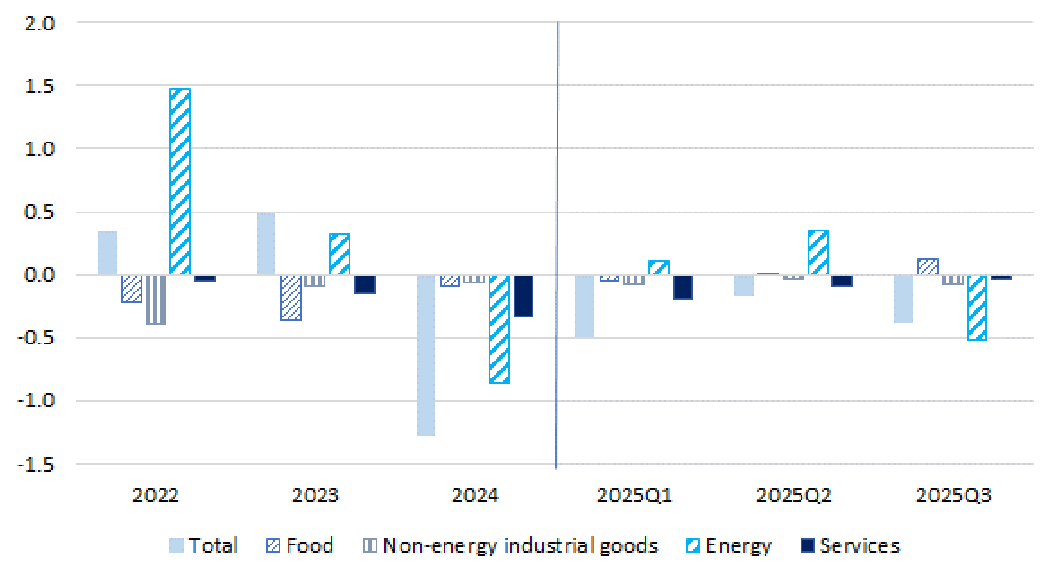
At the top of the production chain, the weak positive pressures that emerged in recent months are being reabsorbed, and modest deflationary dynamics of external origin are emerging, although these have not yet been transferred to consumer inflation (Fig. 19). Import prices fell again in August (-0.6 per cent) after two slight increases, but the effect of the stronger exchange rate still seems modest, as the decline is largely due to the energy component. Industrial producer prices also showed negative dynamics again in August (-0.6 per cent on July), still driven by energy trends. The signal coming from construction is more mixed: producer prices for buildings rose slightly on a monthly basis in August, while those for roads fell slightly. Producer prices in services also slowed (3.4 in the second quarter compared to 3.8 in the first), with some exceptions, such as accommodation services, which rose to 9.6 per cent (from 8.7 per cent), influenced by tourist flows during the summer period.

Figure 17 – Harmonised Index of Consumer Prices (HICP), contributions of components and core component (1)
(year-on-year percentage changes and contributions to growth)



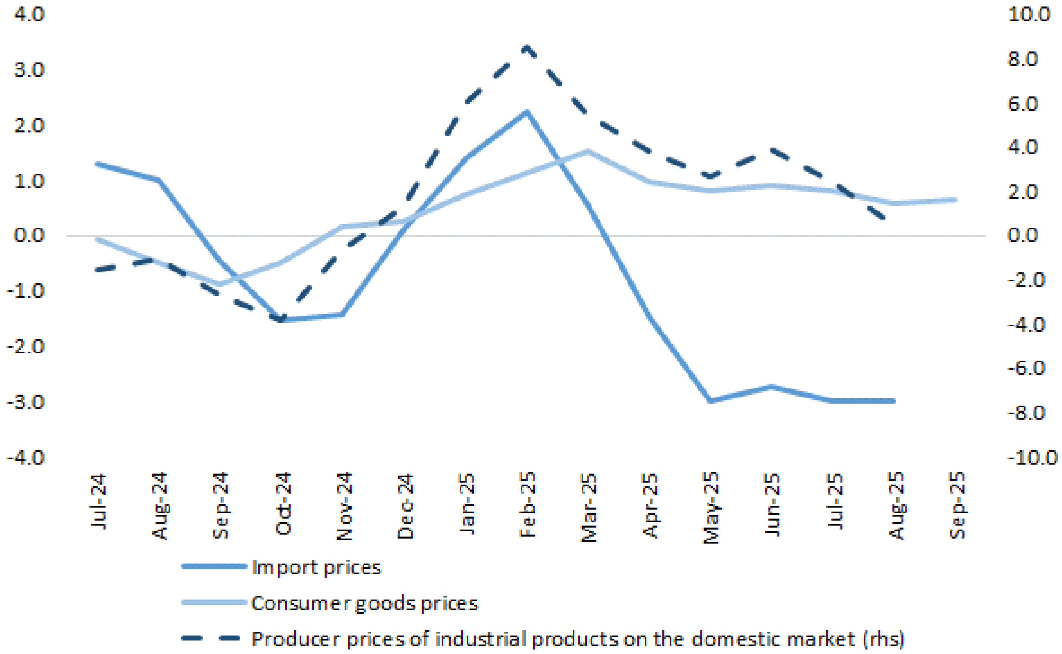
Source: calculations based on Eurostat data.
(1) The chart shows the contributions to growth of the sectoral components of the harmonised general consumer price index, as well as the change in the core component. The sum of the contributions may not correspond to the trend in the total index, as it is linked and calculated at a higher level of detail.

Figure 18 – Inflation differentials between Italy and the euro area (1)
(differences in percentage points)



Source: calculations based on Eurostat data.
(1) Differences between Italy and the euro area in terms of total harmonised inflation and the contributions of its components.

Figure 19 – Consumer, import and producer prices in industry
(percentage changes)



Source: Istat.

Consumer and business expectations remain stable. For three months, the percentage of businesses surveyed by Istat that expect sales prices to remain unchanged has been close to 90 per cent, while the share of those anticipating possible increases is almost complementary (8 per cent) and therefore modest. The Bank of Italy's survey of business expectations also shows that in the third quarter of the year, expectations for list prices point to moderate increases in industry in the strict sense and more sustained increases in construction. Businesses' expectations for consumer inflation in Italy, on the other hand, have fallen slightly, especially in the short term. Purchasing managers surveyed for the PMI index reported virtually stable selling prices in September, limited by competition and companies' efforts to increase sales. At the same time, consumers surveyed by Istat remain optimistic about price pressures, with 42.7 per cent expecting stability in September and a reduction in the proportion of households expecting prices to rise.

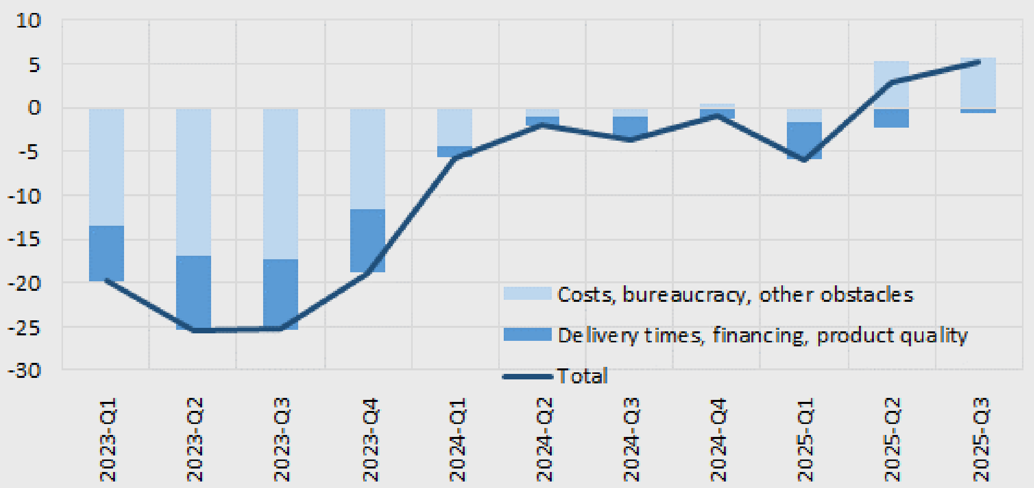
Box – Export obstacles amid geopolitical tensions and administrative barriers

Surveys on the confidence of exporting companies carried out by Istat provide insight into operators' perceptions of the obstacles affecting their activities on foreign markets. In the questionnaire, these obstacles are divided into five macro-areas: those related to costs and price competitiveness, delivery times, bureaucratic and administrative aspects, financing constraints and product quality; to these is added the residual item 'Other obstacles', which tends to take on greater importance in contexts of geopolitical uncertainty and the reorganisation of global value chains. Tariffs are a barrier that affects several dimensions: on the one hand, they increase costs and reduce price competitiveness; on the other, they introduce procedural complexities and more stringent documentation requirements, thus also constituting an administrative obstacle.

To summarise the impact of tariffs and geopolitical tensions on business sentiment, the responses to the surveys on obstacles relating to 'Costs', 'Bureaucracy and Administration' and 'Other obstacles' have been grouped together and summarised in a single index. Similarly, assessments of obstacles that are not directly influenced by tariffs, i.e. those relating to 'Delivery times', 'Financing' and 'Product quality', have been summarised in an index. The 'Costs' item also considers prices, so it can capture both the impact of US tariffs and that of countermeasures implemented in Europe on profitability and price competitiveness. 'Bureaucracy' captures the indirect effects associated with stricter customs procedures and interpretative uncertainties; 'Other obstacles' can capture several other aspects, such as the risk of trade retaliation, the volatility of tariff policies and planning difficulties in a fragmented geopolitical context. Figure B.1 shows the (yearly) evolution of *export* barriers reported by Italian companies, disentangling the categories affected by tariffs (light blue histogram, while the other factors are represented in blue) to highlight their weight in companies' perceptions of access to foreign markets.

As expected, businesses perceive that export barriers related to tariffs and geopolitical tensions (light blue histogram) have intensified in recent quarters. Similarly, during the trade recovery phase in 2023, this component was a key factor in explaining the reduction in barriers, confirming the prominent role of price competition compared with the product (blue histogram) for many Italian companies. Although it is an indirect measure, the indicator seems to capture the effect of trade shocks on confidence in the manufacturing sector in a timely manner. It appears that in the most recent period, the increase in the component most closely linked to tariffs (light blue histogram) has been driven mainly by factors related to perceptions of costs and prices.

Figure B1 – Export barriers: total economy (1)
(changes in absolute frequencies compared with the same period of the previous year)



Source: calculations based on Istat data.
(1) The light blue histogram shows the change, compared to the same period last year, in the frequency of responses from companies regarding the incidence of export barriers attributable to 'Costs', 'Bureaucracy and Administration' and 'Other barriers'. The blue histogram refers to factors not directly influenced by tariffs, such as 'Delivery times', 'Financing' and 'Product quality'. The line represents the algebraic sum of the two categories of obstacles.

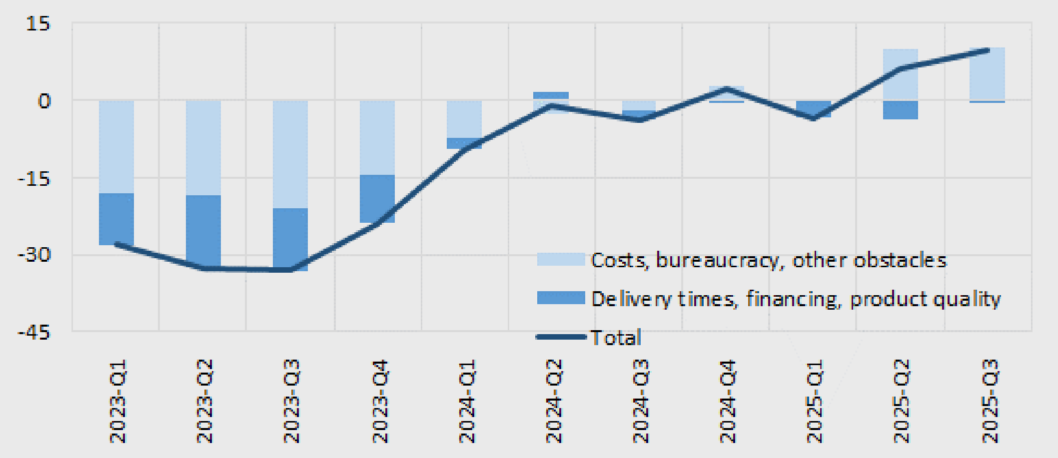
For a better interpretation, the index can be broken down by territory or sector to verify whether areas and supply chains with greater exposure to foreign markets show more pronounced variations. At the territorial level, the evidence is more marked in areas with a stronger *export* orientation: the North-East shows a high sensitivity of sentiment to tariffs, with an intensification of perceived obstacles in line with the most recent frictions (Fig. B.2). This is consistent with the area's production and market structure, which is characterised by high trade openness and supply chains integrated into non-EU markets.

The sectoral reading confirms that the impact of the trade war varies across sectors, being more pronounced for some sectors that characterise Italian manufacturing (Fig. B.3). In particular, the three figures show that export barriers have increased significantly in recent quarters among companies producing beverages (wine and sparkling wine, Division 11), clothing (Division 14) and other industries (manufacture of jewellery, musical instruments, sports goods and medical supplies; Division 32). The marked change in the index for these sectors suggests a dual transmission channel: pressure on margins through costs and price competition, as well as greater exposure to documentation and customs requirements in destination markets.

Surveys conducted among Italian exporting companies depicts a picture of a growing perception of obstacles to exports that may arise from tariffs and other geopolitical tensions. The intensification of the obstacles reported in surveys in recent quarters, especially in areas with a greater *export* focus such as the North-East, signals growing pressure on margins, as well as greater operational complexity, implying a deterioration in confidence in commercial prospects. "Made in Italy" sectors, such as clothing, beverages and medical instruments, show particularly marked variations, suggesting a specific vulnerability to tariff barriers and documentary constraints in markets outside the European free trade area.

These findings complement the structural analysis previously conducted by the PBO using Input-Output tables to quantify the effects of US tariffs in terms of loss of value added and employment for the Italian economy.[3] The estimated impact – equal to half a percentage point of value added and approximately 110,000 fewer jobs – is concentrated in the sectors most exposed to the US market and with greater price elasticity (such as some of the products associated with "Made in Italy"), while also extending to sectors not directly affected, due to production interdependencies.

Figure B2 – Export barriers: North-East (1)
(changes in absolute frequencies compared with the same period last year)

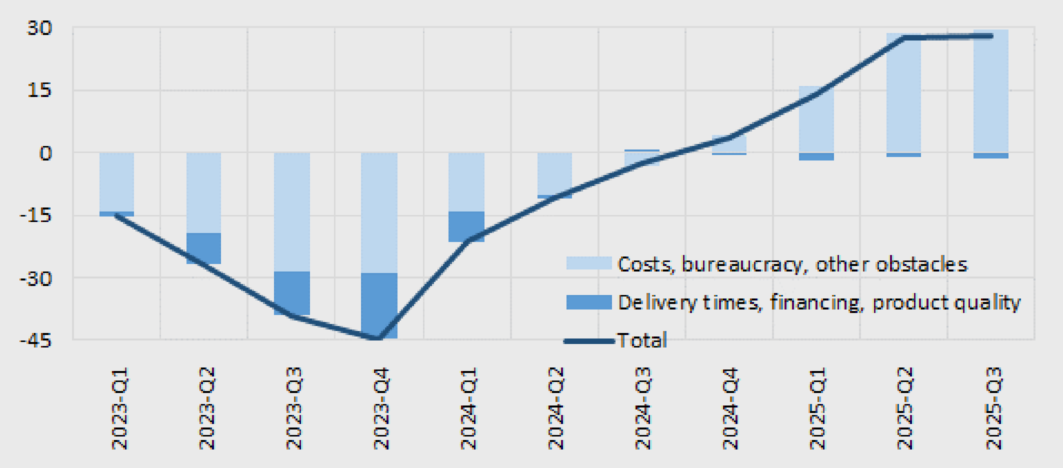


Source: calculations based on Istat data.
(1) The light blue histogram shows the change, compared to the same period of the previous year, in the frequency of responses from companies regarding the incidence of *export* barriers attributable to 'Costs', 'Bureaucracy and Administration' and 'Other barriers'. The blue histogram refers to factors not directly influenced by tariffs, such as 'Delivery times', 'Financing' and 'Product quality'. The line represents the algebraic sum of the two categories of obstacles.

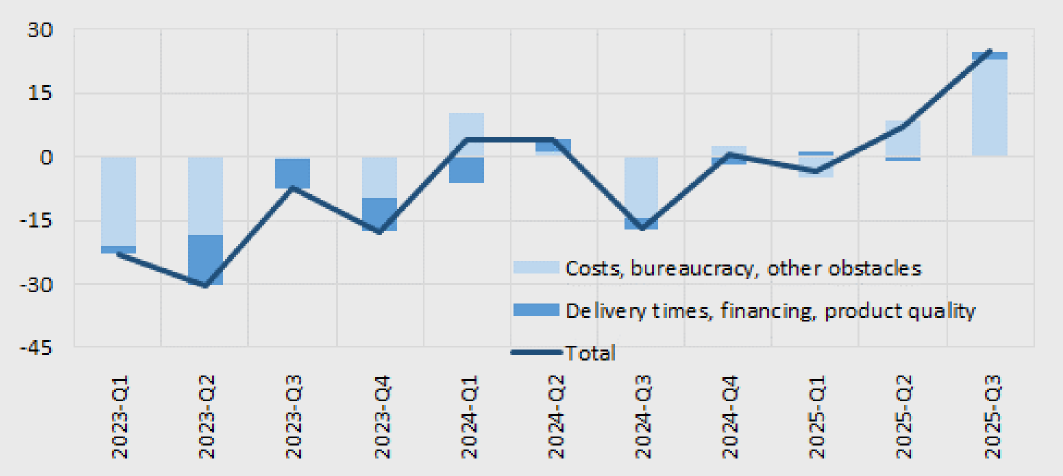
[3] See "Box 1.2 – Sectoral impacts on Italy of the duties imposed by the United States of America" published in June in the PBO's 2025 Budgetary Policy Report.

Figure B3 – Export barriers in certain sectors exposed to foreign markets (1)
(changes in absolute frequencies compared with the same period last year)

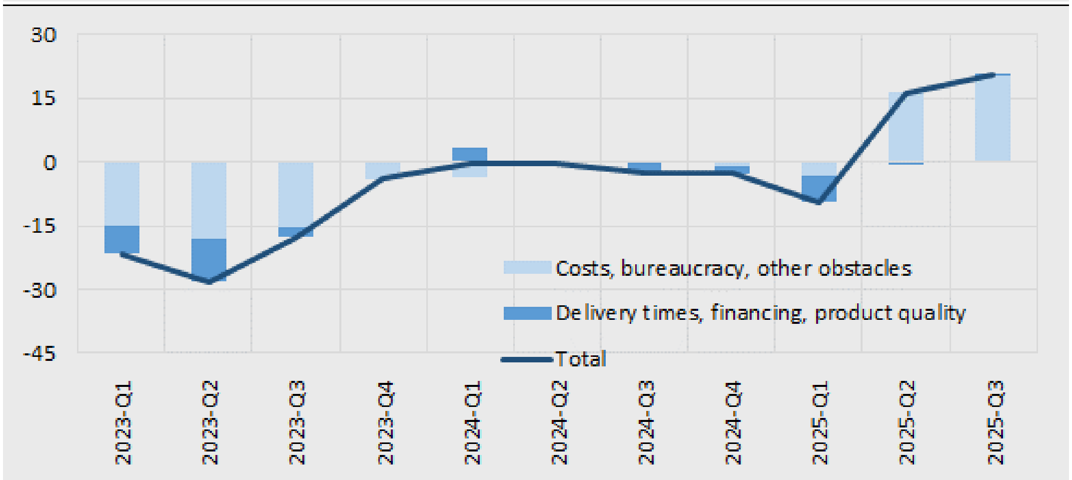
Beverages



Clothing



Other manufacturing industries



Source: calculations based on Istat data.
(1) The light blue histogram shows the change, compared to the corresponding period of the previous year, in the frequency of responses from companies regarding the incidence of *export* barriers attributable to 'Costs', 'Bureaucracy and Administration' and 'Other barriers'. The blue histogram refers to factors not directly influenced by tariffs, such as 'Delivery times', 'Financing' and 'Product quality'. The line represents the algebraic sum of the two categories of obstacles.