

ITALY'S ECONOMIC OUTLOOK 2023-2024

- Italian GDP is expected to increase in both 2023 (+1.2%) and 2024 (+1.1%), albeit slower than in 2022 (Table 1).
- Over the forecast period, the increase in GDP would be supported mainly by the contribution of domestic demand net of inventories (+1.0 percentage points in 2023 and +0.9 p.p. in 2024) and the smaller contribution of net foreign demand (+0.3 and +0.2 p.p.). In 2023, inventories are expected to make a marginal negative contribution -0.1 p.p. to be followed by 0 p.p. in 2024.
- The consumption of resident households and ISPs in line with the trend of economic activity is expected to show an increase in 2023 (+0.5%), which will strengthen the following year (+1.1%). Gross fixed capital formation will maintain high growth rates, compared with other components +3.0% in 2023 and +2.0% in 2024 decelerating in comparison with the previous two years.
- Over the two-year forecast horizon, employment, measured in terms of FTE, will show growth in line with that of GDP (+1.2% in 2023 and +1% in 2024). The improvement in employment will be accompanied by a decline in the unemployment rate to 7.9% this year and 7.7% the following year.
- Falling energy commodity prices and restrictive policies implemented by central banks, will be reflected in a reduction in the household consumption expenditure deflator both in the current year (+5.7%) and, to a greater extent, in 2024 (+2.6%).
- The forecast scenario is based on favorable assumptions of price reduction in the coming months and the implementation of recovery and resilience plan for the next two years.

TABLE 1: FORECAST FOR THE ITALIAN ECONOMY - 2021-2024

(% change on previous year)

	2021	2022	2023	2024
Gross Domestic Product	7.0	3.7	1.2	1.1
Imports of goods and services (fob)	15.2	11.8	0.8	2.0
Exports of goods and services (fob)	14.0	9.4	1.5	2.5
DOMESTIC DEMAND (INCLUDING INVENTORIES)	7.0	4.3	0.9	0.9
Residential household consumption expenditure	4.7	4.6	0.5	1.1
Government Consumption	1.5	0.0	0.4	-0.7
Gross fixed capital formation	18.6	9.4	3.0	2.0
CONTRIBUTION TO GDP				
Domestic demand (net of Inventories)	6.4	4.6	1.0	0.9
Foreign balance	0.2	-0.5	0.3	0.2
Inventories	0.4	-0.4	-0.1	0.0
Household consumption expenditure deflator	1.5	7.4	5.7	2.6
Gross domestic product deflator	0.6	3.0	5.6	2.8
Compensation of employees per full-time equivalent	0.3	3.7	3.5	2.7
Full time equivalent employment	7.6	3.5	1.2	1.0
Unemployment rate	9.3	8.0	7.9	7.7
Trade balance (level as % of GDP)	2.3	-1.5	0.1	0.6

International framework

The international scenario remains characterized by declining global demand, high uncertainty and less favourable financial conditions for households and firms. In the most recent period, signs of slowing inflation and the receding financial turmoil have prompted major central banks to continue the process of raising interest rates, albeit at a more moderate pace. These elements represent a hindrance on the World economy which is expected to decelerate this year followed by weakly acceleration next year.

Forecasts for the Italian economy

In 2023, GDP would mark growth (+1.2%) driven by domestic demand, which, net of inventories, would contribute 1 p.p. positively while net foreign demand would provide a smaller contribution (+0.3 p.p.). Changes in inventories would make a moderate negative contribution (-0.1 p.p.). The expansionary phase of the Italian economy would continue in 2024 when GDP would increase by 1.1%, supported again by the contribution of domestic demand net of inventories (+0.9 p.p.) and to a lesser extent by net foreign demand (+0.2 p.p.).

In May, household and especially business confidence indexes showed a deterioration interrupting the positive trend that had characterized the previous months (Figures 1 and 2). Consumer confidence on personal, current and future climate worsened while those on economic climate improved. Among firms, the sharpest decline in confidence was recorded in construction. Index components fell in all sectors except for assessments on orders books in market services.

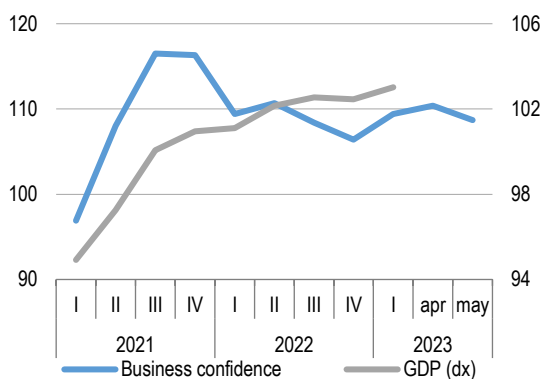
Consumption slowing down

In Italy, domestic final consumption expenditure increased by +0.7% in the first quarter compared with the previous quarter in contrast to the decline in other major European countries.

For 2023, household and ISP consumption is expected to increase in real terms (+0.5%) despite still high inflation, which would be accompanied by a decrease propensity for savings. In 2024, growth is expected to be of higher intensity (+1.1%) with a rising propensity for consumption. PA consumption, given also the strong increase in the first quarter (+1.2% over the previous three months), is also expected to increase in 2023 (+0.4%) and then it will slow down in 2024 (-0.7%).

FIGURE 1. GDP AND BUSINESS CONFIDENCE CLIMATE

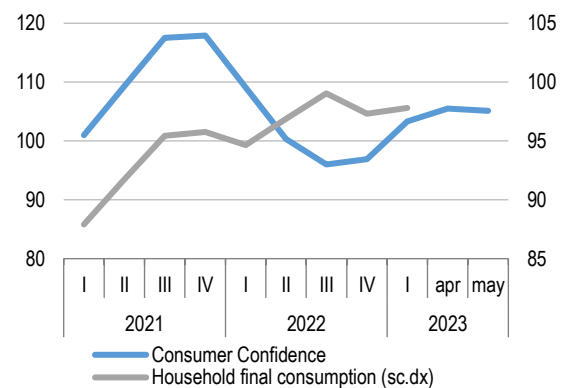
(chain-linked values and indices. base 2010=100.)



Source: Istat

FIGURE 2. HOUSEHOLD CONSUMPTION AND CONSUMER CONFIDENCE CLIMATE

(chain-linked values and indices. base 2010=100.)



Source: Istat

Gross fixed capital formation is increasing

Data for the first quarter of 2023 confirm the expansive dynamics of Italian investment, although with a lower growth rate (+0.8%), less than Spain (+1.9%) and Germany (+3%); while France recorded a -0.7% decline. With reference to the type of investments, in Italy, construction continues to show the highest growth (+1%), followed by investments in machinery and armaments (+0.8%) and investments in intellectual property (+0.3%).

In 2023 capital accumulation process is expected to grow (+3%), slowing down compare with the last two years. A more subdued dynamic is projected for 2024 (+2%), this would lead to a reduction in the investment-GDP ratio to 21.4% over the two-year period.

Dynamism in foreign trade

In the first quarter of 2023 it has been registered a decline in imports of goods and services (-1.0%) and more pronounced decline in exports (-1.4%).

In the current year, as an effect of the slowdown in international trade, exports are expected to continue to increase, but to a lesser extent than in the previous year +1.5% and then rise again in 2024 +2.5%. Imports will have a similar trend, growing by +0.8% and by +2% in the two-year forecast period.

Labour market improves

The improvement in the labour market continued in the first quarter of 2023 with a recovery in hours worked and FTE for the whole economy (+1.3% and +1.1% respectively) and registering in April a further positive sign in terms of employment rate (61%,+0.1 p.p. from the previous month).

Under this scenario, FTE growth in the two-year forecast period will keep in line with that of GDP (+1.2% and +1%, respectively). The unemployment rate will mark an improvement in 2023 (7.9%) that will continue in 2024 (7.7%).

Slowing inflation driven downward by energy component

In the early months of 2023, there was a slowdown in inflation driven by declines in oil, and natural gas and agricultural commodity prices that impacted at different stages of the price formation process.

The trend in Italian inflation as measured by the HICP index remains more pronounced than that of the euro area although the differential to the overall index is narrowing: -2.0 percentage points in May, compared with a differential of -2.1 in January for the overall index. In contrast, the differential to core inflation has increased: amounting to 0.3 percentage points in April from -0.1 percentage points in January.

Under the assumption of normalization of agricultural commodity and natural gas prices in the coming months and stabilization of oil prices and the exchange rate, price dynamics are expected to partially decelerate in the current year. In 2023, the household spending deflator is expected to decline (+5.7 percent, from +7.4 percent in 2022) while the GDP deflator will mark an increase (+5.6 percent, +3.0 percent in 2022). In 2024, the household consumption expenditure deflator and the GDP deflator are expected to grow more moderately by +2.6 percent and +2.8 percent, respectively.

For more details please refer to the Italian version

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