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ITALY'S ECONOMIC OUTLOOK 2023-2024

- Italian GDP is expected to grow by 0.7% in both 2023 and 2024, slowing down compared to 2022 (Table 1).
- During the two-year forecast period, the increase in GDP would be driven mainly by the contribution of domestic demand net of inventories (+0.8 p.p. in 2023 and +0.7 p.p. in 2024). This is in contrast to a marginally negative contribution of net foreign demand in 2023 (-0.1) and zero in 2024. The contribution of inventories is expected to be negligible in both years.
- Internal demand will be mainly influenced by private consumption. (+1.4% in 2023 and +1.0% in 2024) thanks to the deceleration of inflation, associated with a gradual (albeit partial) recovery in wages and employment growth. Investments, although still growing, are expected to significantly slow down compared to the previous two years (+0.6% in 2023 and 2024).
- Over the two-year forecast period, employment, measured in terms of FTE, will grow in line with GDP (+0.6% in 2023 and +0.8% in 2024). The improvement in employment will be accompanied by a decrease in the unemployment rate to 7.6% this year and 7.5% in 2024.
- Inflation deceleration, mostly determined by the decline of energy raw material prices and restrictive monetary policies implemented by ECB, will moderate the dynamics of resident household expenditure deflator both in 2023 (+5.4%) and in 2024 (+2.5%).
- The forecast scenario is based on the assumptions that inflation will continue to decelerate in the coming months, international trade will recover and the National recovery and resilience plan will be effectively implemented.

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

(% change on previous year)

	2021	2022	2023	2024
Gross Domestic Product	8.3	3.7	0.7	0.7
Imports of goods and services (fob)	15.1	12.4	0.3	2.0
Exports of goods and services (fob)	13.9	9.9	0.0	2.1
DOMESTIC DEMAND (INCLUDING INVENTORIES)	8.4	4.3	0.9	0.7
Residential household consumption expenditure	5.3	5.0	1.4	1.0
Government Consumption	1.5	0.7	-0.4	-0.1
Gross fixed capital formation	20.7	9.7	0.6	0.6
CONTRIBUTION TO GDP				
Domestic demand (net of Inventories)	7.1	5.0	0.8	0.7
Foreign balance	0.2	-0.5	-0.1	0.0
Inventories	1.0	-0.7	0.0	0.0
Household consumption expenditure deflator	1.6	7.3	5.4	2.5
Gross domestic product deflator	1.3	3.0	4.9	2.8
Compensation of employees per full-time equivalent	-0.6	3.6	3.5	2.4
Full time equivalent employment	9.6	3.5	0.6	0.8
Unemployment rate	9.3	8.0	7.6	7.5
Trade balance (level as % of GDP)	2.2	-1.5	-0.1	0.5

International framework

The global economy continued to grow in 2023, with a moderate deceleration compared to the previous year. The most recent European Commission's forecasts show a moderating dynamic of the World GDP this year and the next (respectively +3.1% and +2.9%). The international economic outlook remains characterised by high uncertainty and downside risks linked to the worsening and broadening of geopolitical tensions alongside persistently tight financial conditions.

Forecasts for the Italian economy

In 2023, GDP would grow (+0.7%) driven by domestic demand, which, net of inventories, would contribute positively by 0.8 percentage point, while net foreign demand would make a marginally negative contribution (-0.1 percentage points). Changes in inventories would give a null contribution. The expansionary phase of the Italian economy will continue in 2024 when GDP is expected to increase by 0.7%, supported entirely by the contribution of domestic demand net of inventories (+0.7 p.p.). The contribution of net foreign demand and changes in inventories are expected to be null.

In November, the signals from surveys on consumer and business confidence are mixed (Figures 1 and 2). For the former, an increase was recorded for the first time since July, spreading across all components and in particular to the personal climate (2.6 p.p.) and the current one (2.4). For the business confidence, the decline in the index has been ongoing since August, albeit more moderate (-0.5 p.p.) and with heterogeneous trends among sectors. Confidence sharply declined in construction (-2.5 p.p.) and in market services (-1.6 p.p.), while the manufacturing and trade index increased (0.5 and 1.3 p.p. respectively).

Growing consumption

In Italy, in the third quarter of 2023, domestic final consumption expenditure increased by 0.7 % compared to the previous quarter, in contrast to economic decline experienced in other major European countries. Public Administration (PA) spending in Italy remained stationary compared to an increase in France, Germany and Spain. In the same quarter, the consumption of Italian families recorded greater growth than that of other main countries euro area (+0.7%), with a strong acceleration compared to the previous three months (+0.1 %).

In 2023, growth in household consumption is expected to continue in real terms (+1.4%) accompanied by a reduction in the saving rate. An increase is expected in 2024, although with a lower intensity than in 2023 (+1.0%). Instead, public administration consumption is expected to decrease in 2023 (-0.4%) and remain stationary in 2024.

Investment dynamics slowing down markedly

The growth of the capital accumulation process in the main countries euro area continues, albeit at a moderate intensity.

In the first three quarters of 2023, compared to the same period of the previous year, France recorded the highest growth rate (+1.8%) followed by Italy (+0.9%), Spain (+0.7%) and Germany (+0.5%).

In Italy, the decline in investments in construction was mainly determined by those in housing (-7.8% in the first three quarters of 2023 compared to the same period of 2022), caused by the end of the deductions related to the "110% superbonus", non-residential investments are growing (+4.4%). Positive signals also come from investments in intellectual property products (+4.4%).

Trade balance is improving

In the first three quarters of 2023, foreign trade showed a weak dynamic, reflecting the slowdown in World trade and the fragility of the main European economies and in particular Germany. Italian exports of goods and services, measured in volumes, decreased by 0.2% and imports by 0.3%.

The trade balance of goods and services, which returned positive at the end of last year, showed a marked improvement, aided by the reduction in the energy deficit.

Over the two-year forecast period, the contribution to the growth of foreign demand should be slightly negative (-0.1%) for 2023 and zero in the following year. Exports of goods and services are expected to remain stable in 2023, and then recover in 2024 (+2.1%), while imports, will slightly increase this year (+0.3%), and will show a greater dynamism next year (+2.0%).

The improvement of the labour market continues

In the third quarter of 2023 the positive phase of the labour market resumed, after the setback of the previous three months.

In October, the labour market showed further positive signals with employment growing (+0.1% compared to the previous month, +27 thousand employed) which brought the employment rate to 61.8%.

Under this scenario, Full-Time Equivalent (FTE) growth in the two-year forecast period will remain in line with that of GDP (0.6% and +0.8%, respectively). The unemployment rate will mark an improvement in 2023 (7.6%) that will continue in 2024 (7.5%).

Inflation slows down driven by energy component

Consumer inflation decelerate significantly during 2023 especially starting from October. The slowdown in inflation was primarily driven by declines in oil, natural gas, and agricultural commodity prices, impacting various different stages of the price formation process.

Inflation measured by the harmonized consumer index (HICP) experienced a notable reduction throughout the year, falling from 12.3% in December 2022 to 0.7% in November.

Since October 2023, in Italy the growth rate of HICP has been below the euro area average and the other major countries. In November the Italian HICP was 1.7 points lower than in the euro area average (-2.1 points compared to France and -1.6 points compared to Germany),

Over the two-year forecast period, household consumption deflator growth would be 5.4% in 2023 and, in the hypothesis of raw material prices and exchange rate stabilization, it would reduce to 2.5% in 2024. The growth of the GDP deflator would be equal to 4.8% and 2.8% respectively in the two years.

For more details, please refer to the Italian version

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