

6TH DECEMBER 2022

ITALY'S ECONOMIC OUTLOOK 2022-2023

■ Italian GDP is expected to increase in 2022 (+3.9%) and then slowdown in 2023 (+0.4%), (Table 1).

■ Over the forecast horizon, the increase of GDP will be determined by the contribution of domestic demand net of inventories (+4.2 and +0.5 percentage points respectively) while net foreign demand would contribute negatively in both years (-0.5 and -0.1 percentage points). In the current year, inventories are expected to contribute positively (+0.2 p.p.) followed by a zero contribution in 2023

■ Gross fixed capital formation will be the main driver of growth this year (+10.0%) and albeit to a lesser extent the next, (+2.0%). Consumption by resident households and ISPs will show a trend in line with economic activity (+3.7% and +0.4%).

■ Energy goods price growth will drive household consumption deflator in the current year (+8.2%), the effects of which should ease in 2023 (+5.4%).

■ Employment, measured in terms of FTE, will record a higher growth respect to GDP with a more pronounced increase in 2022 (+4.3%) compared to 2023 (+0.5%). The improvement in employment will be accompanied by unemployment rate which will decrease significantly this year (8.1%) and rise moderately in the following year (8.2%).

■ Forecast scenario is characterized by downside risks associated with further price increases, a deceleration in international trade and the persistence of a restrictive monetary policy.

TABLE 1: FORECAST FOR THE ITALIAN ECONOMY - 2020-2023

(% change on previous year)

	2020	2021	2022	2023
Gross Domestic Product	-9.0	6.7	3.9	0.4
Imports of goods and services (fob)	-12.1	14.7	13.2	2.2
Exports of goods and services (fob)	-13.5	13.4	10.8	2.0
DOMESTIC DEMAND (INCLUDING INVENTORIES)	-8.5	6.8	4.5	0.4
Residential households consumption expenditure	-10.4	5.2	3.7	0.4
Government Consumption	0.0	1.5	0.2	-0.5
Gross fixed capital formation	-8.0	16.5	10.0	2.0
CONTRIBUTION TO GDP				
Domestic demand (net of Inventories)	-7.7	6.3	4.2	0.5
Foreign balance	-0.8	0.1	-0.5	-0.1
Inventories	-0.5	0.3	0.2	0.0
Households consumption expenditure deflator	0.1	1.6	8.2	5.4
Gross domestic product deflator	1.6	0.5	3.6	3.6
Compensation of employees per full-time equivalent	3.9	0.9	2.5	3.4
Full time equivalent employment	-11.1	7.6	4.3	0.5
Unemployment rate	9.2	9.3	8.1	8.2
Trade balance (level as % of GDP)	3.6	2.4	-1.1	-1.1

International framework

High inflation, driven by energy raw materials prices, and the restrictive stance of monetary policy in the main countries, characterize the international scenario together with high uncertainty on the evolution of the war between Russia and Ukraine. These elements represent a brake on the World economy which is expected to decelerate this year and next.

Forecasts for the Italian economy

In 2022, the GDP on average will increase further (+3.9%) driven by domestic demand net of inventories, that would contribute positively by 4.2 percentage points, while foreign demand would contribute negatively (-0.5 percentage points). Changes in inventories would provide a marginal positive contribution (+0.2 p.p.).

Italian economy will decelerate strongly in 2023 with a GDP increase of 0.4%, entirely supported by the contribution of domestic demand net of inventories (0.5 percentage points) while foreign demand would provide a slightly negative contribution (-0.1 p.p.). In this scenario, the balance of trade will be in deficit in both the forecast years (-1.1% in both years).

In November, the household and business confidence indexes increased, interrupting the downturn of the previous months (Figures 1 and 2). Consumers expressed a generalized improvement in their expectations, while a marked recovery in production expectations was reported among manufacturing firms. In the constructions sector all the index components worsened.

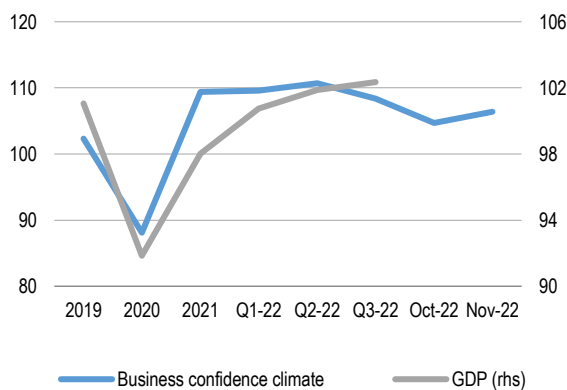
Consumption slowing down

In the third quarter of 2022, consumer spending increased in the main European countries with the exception of France where it remained at the levels of the previous quarter. Italy recorded the best performance (+1.8%), with a slight acceleration compared to the previous quarter. For 2022, an increase in household and ISP consumption is expected in real terms (+3.7%) which would be accompanied by a reduction in the propensity to save.

The improvement in consumption is expected to slow down in the following year (+0.4%) conditioned by high levels of inflation. Over the forecast horizon, public administration consumption shows an improvement this year (+0.2%) and a decrease in 2023 and -0.5%).

FIGURE 1. GDP AND BUSINESS CONFIDENCE CLIMATE

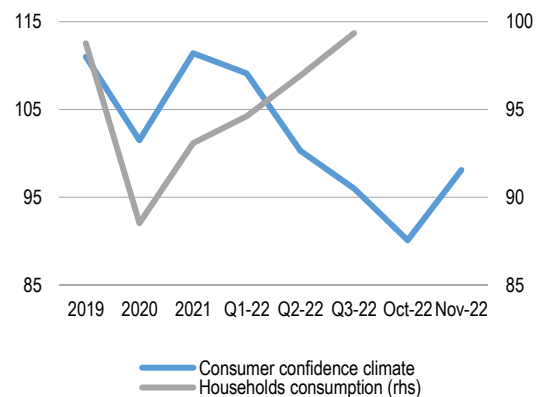
(chain-linked values and indices. base 2010=100.)



Source: Istat

FIGURE 2. HOUSEHOLDS CONSUMPTION AND CONSUMER CONFIDENCE CLIMATE

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



Source: Istat

Gross fixed capital formation in improvement

In the first three quarters of 2022, Italian investments recorded significant progress, compared to the same period of the previous year (+10.8%), decidedly higher than that observed by France, Germany and Spain (+2.0% respectively, + 0.2% and +4.8%). Italian growth was driven by investments in construction (+12.8%) and in machinery and armaments (+11.6%).

In 2022, the capital accumulation process is expected to grow by 10.0% and then slowdown in the following year (+2.0%) maintaining its role as the main driving force of GDP growth also in the next year. In 2023 the investment to GDP ratio would be 21.5%.

Dynamism in foreign trade but growing trade deficit

In the January-September period, Italy's foreign exchanges showed lively dynamics, both for exports and for imports compared to main European countries. However, the widening of the trade deficit, caused by the exceptional increase in raw materials prices, has been a negative factor.

Despite the slowdown, an increase in exports of goods and services of 10.8% and imports of 13.2% is expected for 2022, while the contribution of foreign demand to GDP growth would be negative (-0.5 percentage points) . In the coming year, the marked slowdown in world trade would lead to a strong deceleration for both imports and exports (+2.2% and +2.0% respectively).

Labor market improvements

In the third quarter, labor market conditions showed a substantial stabilization in hours worked and a marginal reduction in work units (FTE) for the whole economy (-0.1% the cyclical change).

In the there was a zero change in hours worked and FTE for the whole economy (-0.1% the cyclical change), synthesis of an improvement in industry in the strict sense (+0.9%), a reduction in agriculture and construction (respectively -2.5% and -1.1%) and a stabilization in services.

Employment, measured in terms of FTE, will record a higher growth respect to GDP with a more pronounced increase in 2022 (+4.3%) compared to 2023 (+0.5%).

Inflation continues to spread

During 2022, the diffusion of the phase of price growth was reflected in the measures of core inflation, and in particular in that net of energy goods alone (6.1% in November from 5.9% in October).

The trend of Italian inflation in October and November, measured by the harmonized index of consumer prices IPCA, is higher than the euro area average with a further increase in the differential (respectively +2.0 and +2.5 percentage points). In November, the HICP net of energy goods alone instead shows a negative differential with respect to the area average (-0.5 percentage points), highlighting how the trend dynamics of the prices of the component is particularly strong for Italy (+67.8% in November) compared to that of Germany (+39.8%) and France (+19%).

For more details please refer to the Italian version

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