

ITALY'S ECONOMIC OUTLOOK 2024-2025

- The Italian GDP is expected to grow by 1% in 2024 and by 1.1% in 2025, showing a moderate acceleration compared to 2023 (Table 1).
- In 2024, the GDP growth rate will be supported by the contribution of both domestic demand net of inventories and net foreign demand (+0.7 percentage points each), with a still negative contribution from inventories (-0.4 p.p.). In 2025, the growth of the Italian economy will be predominantly driven by domestic demand (+0.9 p.p.).
- Private consumption continues to be supported by the strengthening labor market and by the real wages increase. These dynamics will lead to a growth of +0.4% of household consumption in 2024 and +1% in 2025.
- Gross fixed investment growth rate is expected to decelerate during the forecast period (to +1.5% and +1.2% in 2024 and 2025, respectively, from +4.7% in 2023), driven by the phasing out of fiscal incentives for construction, which will be offset by the effects of the implementation of the new measures under the PNRR and by lower interest rates.
- Employment, measured in terms of FTE, will grow in line with GDP (+0.9% in 2024 and +1.0% in 2025), accompanied by a decrease in the unemployment rate (7.1% this year and 7.0% in 2025).
- In the coming months, a gradual return to inflation rates closer to the ECB targets is expected; this trend will lead to a sharp deceleration in the household spending deflator (+1.6% in 2024, down from +5.2% in 2023), followed by a moderate increase in 2025 (+2.0%).
- The forecast scenario remains characterized by the persistence of high uncertainty in the international framework, determined by the evolution of geopolitical tensions.

TABLE 1: FORECAST FOR THE ITALIAN ECONOMY - 2022-2025

(% change on previous year)

	2022	2023	2024	2025
Gross Domestic Product	4.0	0.9	1.0	1.1
Imports of goods and services (fob)	12.9	-0.5	-0.1	2.8
Exports of goods and services (fob)	10.2	0.2	2.0	2.8
DOMESTIC DEMAND (INCLUDING INVENTORIES)	4.7	0.6	0.3	1.1
Residential household consumption expenditure	4.9	1.2	0.4	1.0
Government Consumption	1.0	1.2	0.6	0.5
Gross fixed capital formation	8.6	4.7	1.5	1.2
CONTRIBUTION TO GDP				
Domestic demand (net of Inventories)	4.7	2.0	0.7	0.9
Foreign balance	-0.6	0.3	0.7	0.1
Inventories	-0.2	-1.3	-0.4	0.1
Household consumption expenditure deflator	7.7	5.2	1.6	2.0
Gross domestic product deflator	3.6	5.3	2.4	2.1
Compensation of employees per full-time equivalent	3.5	1.9	2.4	2.4
Full time equivalent employment	3.7	2.2	0.9	1.0
Unemployment rate	8.0	7.5	7.1	7.0
Trade balance (level as % of GDP)	-1.6	1.4	3.0	3.5

International framework

The international economy maintained a positive growth rate in the first part of 2024, although with varying trends across different geographical areas.

The latest forecasts from the European Commission show a marginal acceleration in global GDP this year and next (+3.2% and +3.3%, from +3.1% in 2023), characterized by still heterogeneous performances among countries and regions; however, uncertainty remains high, especially due to the unpredictable evolution of geopolitical tensions.

Forecasts for the Italian economy

In the 2024-2025 period, the Italian economy is expected to show a moderate but steady expansion rate.

The international outlook should nevertheless favor a continuation of Italian export growth at modest rates. For imports, the expectations of a moderately favorable trend in domestic demand components in the coming months imply a recovery in foreign purchases, following the sharp contraction recorded in the first quarter of the current year. In 2025, the continued stimulus of international demand and the ongoing positive trend in the Italian economy, particularly in private consumption, would favor both an acceleration of exports and a strong recovery in imports.

The expected increase in employment and real wages would contribute to supporting a moderate but continuous expansion of private consumption; these trends are expected to continue in 2025 as well.

Regarding gross fixed investment, despite the still positive signs shown in the first quarter of 2024 for housing, a contraction is expected for the two-year period due to the phasing out of construction incentives, which will be more than compensated by the effects of the implementation of the new formulation of the measures provided by the PNRR and the effects of the reversal in ECB monetary policy.

The disinflationary trend, began in 2023 and continued in the early months of 2024, is expected to have essentially completed its downward phase. In the coming months, a slow return to inflation rates close to the ECB targets is expected; this dynamic will lead to a sharp reduction in 2024 compared to the average values of the previous year, followed by a modest increase in the following year.

Overall, in 2024, GDP growth (+1.0%) will be driven equally by domestic and foreign demand (each contributing 0.7 percentage points); however, this momentum would be counterbalanced by the reduction in inventories (by 0.4 p.p.), continuing the trend in place since 2022. For 2025, the recovery in imports would lead to a smaller contribution from net foreign demand (+0.1 p.p.); GDP expansion (+1.1%) would thus be almost entirely driven by domestic components (+0.9 p.p.).

Moderate consumption trends continue

In Italy, in the first quarter of 2024, the contribution of domestic demand net of inventories to GDP growth was positive, particularly that of household and private social institutions consumption (+0.2 percentage points).

The growth of national final consumption expenditure was +0.2% on a quarterly basis, compared to a decline recorded in Spain and Germany. In particular, Germany experienced a larger decrease (-0.4%, after an average annual change of -0.7% in 2023) compared to Spain (-0.1%), which, however, had shown a strong increase in national final consumption expenditure in 2023 (+2.1%). In the first quarter of 2024, France showed higher growth (+0.4% quarterly change), although it showed a more modest increase in 2023 (+0.6%, compared to +1.2% in the Italian economy).

Despite a moderately positive outlook for the remaining quarters of the year, the weak start to 2024 is expected to result in a slowdown in real household and business consumption growth on a yearly base. This latter is projected to reach 0.4% on average in 2024, down from 1.2% in 2023. This slowdown is accompanied by an increase in the savings rate. For 2025, a more robust expansion rate of 1.0% is expected, primarily driven by an increase in real wealth.

The capital accumulation process is slowing down.

The growth of capital accumulation in Italy over the next two years is expected to be driven by the implementation of the revised National Recovery and Resilience Plan (PNRR), which outlines a significant public investment program. Additionally, the anticipated reduction in interest rates by the European Central Bank (ECB) could provide further support for capital accumulation by making borrowing more affordable for businesses and households.

However, there are growing concerns about the slowdown in industrial production (excluding construction) and the total economy's mark-up in the first quarter of 2024. Moreover, a significant decline in residential investment is anticipated in 2024 due to the expiration of construction incentive measures.

In light of these factors, investment growth is projected to be moderate in 2024 (+1.5%), at a significantly slower pace than observed in the previous two years. For 2025, an even more subdued growth rate is expected (+1.2%), leading to a further reduction in the investment-to-GDP ratio, which is projected to reach 20.9% in 2024 and 20.6% in 2025.

Foreign trade is expected to recover in the foreseeable future.

Italy's foreign trade experienced a marked slowdown in the first quarter of 2024, with both export and import volumes declining compared to the previous quarter (-0.5% and -1.7%, respectively) and the first quarter of 2023 (-0.5% and -5.1%, respectively). This slowdown occurred against a backdrop of progressive growth in services exports, which increased by 5.4% on a quarter-on-quarter basis and 15.5% on a year-on-year basis. Service imports, on the other hand, while up 4.0% year-on-year, fell by 2.0% compared to the last three months of 2023.

For 2024, a continuation of export growth at a modest pace is expected, leading to a 2.0% increase in exports of goods and services. Despite the moderately favorable trend in consumption and investment, imports are expected to grow at a slower pace in 2024, resulting in an overall annual decline of -0.1%. In 2025, both exports and imports are projected to accelerate, driven by the continued expansion of the Italian economy and a more favorable international environment. Both export and import flows are expected to grow at a rate of 2.8%.

The improvement of the labour market continues

Employment in Italy continued to expand in April, marking a 0.4% increase compared to the previous month. Leading the employment rate up by 0.1 percentage point, reaching 62.3%. Italy's unemployment rate fell to 6.9% in the reported period, marking a decrease of 0.2 percentage points compared to the previous month.

In this scenario, full time equivalent employment is expected to grow steadily over the two-year forecast period, aligning with GDP growth. The projected increases are 0.9% for 2024 and 1.0% for 2025. The unemployment rate will show an improvement in 2024, reaching 7.1%, and further decline to 7.0% in 2025. Per capita wages are forecast to accelerate compared to 2023, with increases of 1.9% in 2024 and 2.4% in 2025.

Inflation slows down driven by energy component

The disinflationary process started in 2023 continued in the first months of 2024. Italian Consumer Price Index for the whole nation (NIC) growth rate, which decreased from 10% in January to 0.6% in December 2023, remained below unity in the first five months of the year, standing at 0.8% in both April and, according to provisional data, in May. This trend benefited from the decline in energy prices, a significant reduction in the underlying inflation of food items, and the stabilization of service price growth at minimal levels since May 2022.

Core inflation (the Consumer Price Index for the whole nation, excluding energy and fresh food), which had been gradually decreasing from its peak in March 2023 (when it reached 6.3%), fell below 3% since January (+2.7%) reaching, according to provisional data, 2.0% in May.

The disinflationary process in Italy is more pronounced compared to that recorded in the main European partners. The change in the Harmonized Index of Consumer Prices (HICP) in May 2024 (+0.8%) was significantly lower than that of Germany (with a differential of -2 percentage points), France (-1.9 p.p.), and, especially, Spain (-3 p.p.).

Regarding expectations about future consumer prices, among households, in May there were prevailing expectations of a moderate increase in inflation over the next twelve months. As for

the manufacturing sector, intentions to increase prices in the next three months slightly outweigh those to decrease them, although to a lesser extent than in the first months of the year.

The evolution of price dynamics in the forecast horizon is expected to see a slight but progressive increase, thanks to the exhaustion of the downward phase of the components that have so far shown the most pronounced disinflationary processes, primarily the energy component. This trend will result in a significant reduction in the dynamics of the deflator of resident household expenditure in 2024 (+1.6%, down from +5.2% in 2023), followed by a slight increase in 2025 (+2.0%).

For more details, please refer to the Italian version

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