

- International economy continues to show moderate but stable growth, supported by a decrease in inflation and still solid labor market conditions in many countries.
- In the second quarter, Italy's gross domestic product (GDP) recorded a slight increase on a quarterly basis, marking the fourth consecutive positive growth rate.
- Industrial production showed a new contraction in July, following increases in the previous two months.
- Exports of goods in value remain lackluster; direct sales to EU markets continue to decline.
- The upward trend in employment continued in July; the number of employed persons exceeded 24 million units for the first time since this series began..
- The trend of the harmonized consumer price index (HICP), which slightly rose in July and August, was driven by a strengthening of inflation in services, only partially offset by reductions in the goods sector.
- Business confidence improved in August, following four months of decline; consumer confidence worsened after three months of increase, driven by a deterioration in all components of the index.

**Focus:** *In Italy, the downward phase of the industrial production index does not yet seem to be over. However, the contraction spread among the productive sectors has been heterogeneous. Starting from 2022, the diffusion indicator for capital goods initially expanded and later indicated a contraction for more than 50% of the sectors. In contrast, the index for consumer goods, starting from January 2024, has shown an increase in the share of expanding sectors, which has continued in the most recent months.*

## THE INTERNATIONAL ENVIRONMENT

**International economics continues to show moderate but stable growth**, supported by declining inflation and solid labor market conditions in many countries. Overall, the outlook for the coming months is positive but characterized by significant uncertainty, mainly due to persistent geopolitical tensions in various strategic areas.

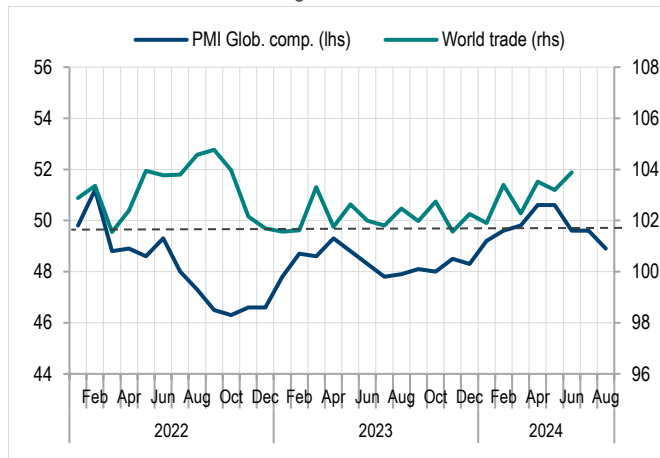
**Inflation is expected to continue its gradual downward trend**, although energy commodity prices have resumed rising. The price of Brent, at \$83.2 per barrel in the first quarter of this year, reached an average value of \$84.2 between April and August, driven by the effects of geopolitical tensions. Natural gas prices have also shown an upward trend: in August, prices were 12.6% higher than the second quarter's average.

**The outlook for global trade is slightly worsening**. After modest cyclical growth in the first three months of 2024 (+0.3%), the volumes of international merchandise trade, grew at a more sustained pace (+1.0%) in the second quarter, driven by Chinese and U.S. exports. However, the global Purchasing Managers' Index (PMI) for new export orders, which anticipates the trend in international trade, fell below the 50-point threshold (49.7) in June and worsened further in August (48.9) (Figure 1). Despite the current asynchrony of monetary policy between the two areas, the euro-dollar exchange rate has continued to fluctuate around 2023 levels, averaging \$1.08 per euro from January to July 2024. The euro then appreciated moderately, reaching an average price of \$1.10 in August, driven by expectations of a deterioration in growth prospects in the United States.

**Overall, the risks associated with the international scenario remain balanced.** However, the prolonged process of reducing inflation in the services sector and potential price pressures due to the volatility of major energy commodity prices weigh heavily.

**FIGURE 1. MERCHANDISE WORLD TRADE IN VOLUME AND PMI GLOBAL COMPOSITE NEW EXPORT BUSINESS.**

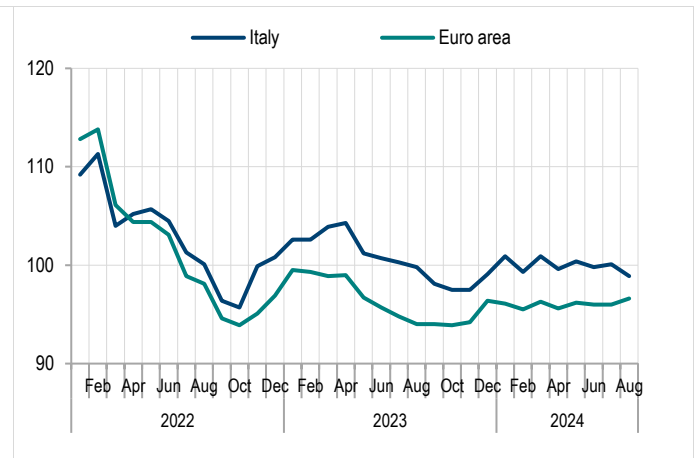
Index base 2021=100, >50 = growth



Source: CPB and HIS

**FIGURE 2. ECONOMIC SENTIMENT INDICATOR (ESI).**

Index base 2010=100; seasonally adjusted.



Source: European Commission

**The cyclical phase of the major economies remains moderately expansive.** In China, GDP has consistently slowed in the second quarter (+0.7% quarter-on-quarter, after +1.5% in the first quarter). The real estate crisis, which has been ongoing for many months, is negatively affecting private consumption, despite a meager inflation rate (+0.5% in July). In the United States, on the contrary, there has been an acceleration of economic activity (+0.7% quarter-on-quarter in the second quarter, up from +0.4% previously), supported by consumer spending on goods and services, inventories, and investments in machinery. Net foreign demand, however, contributed negatively, mainly due to a sharp increase in imports.

**Growth in the euro area remains moderate.** The slow decline in inflation and the currently limited reduction in interest rates have yet to have a positive impact on the recovery of private consumption and investments. The GDP of the area in the second quarter grew by 0.2% quarter-on-quarter, with opposing dynamics in the main countries: a contraction in Germany (-0.1%), modest growth in France (+0.2%), and very strong growth in Spain (+0.8%).

**The outlook for the area is favourable but with high heterogeneity at the national level.** In August, the Economic Sentiment Indicator (ESI) increased (+0.6 points) (Figure 2) as a summary of improved confidence in industry, services, and retail trade, as well as stability in consumer and construction sentiment. In the leading economies of the area, sentiment improved significantly in France (+4.3 points) and Spain (+1.3 points), while it deteriorated in Germany (-1.7 points) and Italy (-1.2 points)."

## THE ECONOMIC SITUATION IN ITALY

**The Italian economy continues to grow in the second quarter...** Gross Domestic Product (GDP), expressed in chained values with a reference year of 2015, adjusted for calendar effects and seasonally adjusted, recorded a slight increase on a quarter-on-quarter basis (+0.2%), marking the fourth consecutive positive growth rate. Among the aggregate components, the largest contribution came from the change in inventories (+0.4 percentage points), while the contribution from net foreign demand was negative (-0.3 percentage points) due to a more significant decline in exports compared to imports of goods and services (the quarter-on-quarter changes were -1.5% and -0.6%, respectively).

**...with modest contributions from final consumption...** Domestic demand, net of inventories, provided a slight positive contribution (+0.1 percentage points). National final consumption (+0.1 percentage points contribution) remained stable compared to the previous quarter, reflecting a strong decline in public administration spending (-0.5% quarter-on-quarter) and an increase in spending by resident households and non-profit institutions (+0.2%). Household spending in the economic territory showed a marked increase for services and durable goods (+1.3% and +0.5% quarter-on-quarter, respectively); semi-

durable goods interrupted the contraction that began in the fourth quarter of 2022 (+0.6%). Spending on non-durable goods marked a significant slowdown (-1.4%) after the marked growth of the previous quarter (+1.8%). In August, a decrease in the consumer confidence index was also recorded, with a deterioration in opinions about the overall and personal economic situation, both current and future; expectations regarding the prospective saving capacity also worsened significantly.

**...and investments.** In the second quarter, investments positively contributed (by one-tenth of a point) to GDP growth, recording a quarter-on-quarter increase (+0.3%), in line with the previous quarter (+0.4%) but at much more moderate rates than those observed in the second half of last year (+1.3% and +2% in the third and fourth quarters of 2023, respectively). The modest expansion is the result of a decline in spending on housing (-1.1%) and intellectual property products (-0.9%), offset by an increase in spending on non-residential buildings and other works, as well as on plants, machinery, and equipment (increases of +1.8% and +1.1%, respectively).

From the supply side, in the second quarter, the value added of construction and services registered growth (+0.6% and +0.4%, respectively). In the services sector, except for professional activities where the value added remained stable, all other activities showed increases: trade, vehicle repair, transport, storage, accommodation, and food services (+0.5%), information and communication services (+0.6%), financial and insurance activities (+0.2%), real estate activities (+0.8%).

**Industrial production continues to decline in July...** After a recovery in May and June (+0.5% quarter-on-quarter in both months), the seasonally adjusted industrial production index again showed a contraction in July (-0.9%; -3.2% compared to the same month in 2023), thus continuing the reduction phase that has been ongoing since mid-2022. On average, from May to July, there was a decline in production levels of 0.4% compared to the previous three months. Except for energy (+2.3%), the decline in July affected all major categories of goods, albeit less pronounced for intermediate goods (-0.7%), capital goods (-1.2%), and durable consumer goods (-1.3%).

**...with a further deterioration in the manufacturing confidence climate in August.** In August, the confidence of manufacturing firms continued to decline, particularly regarding assessments of orders and production expectations. The overall increase in the business confidence index (Iesi), which interrupted the contraction period started in April, was driven by improvements in the market services sector, especially in tourism and information and communication services.

**Weak goods trade.** Goods exports in value, which had recorded a quarter-on-quarter decline in the first quarter of the year, remained overall unchanged in the second quarter. Direct sales to EU markets continued to decrease. Overall, in the first six months of the year, exports decreased by 1.1% compared to the same period of the previous year, while imports fell by 7.4%. For both exports and imports, the decline in value was accompanied by a contraction in the sales volumes of Italian products. The trade balance in the year's first half was positive for over 29 billion euros, a figure higher than that observed in the first six months of 2023 (9.8 billion).

From a sectoral perspective, in the first half of the year, sales of Italian products declined in almost all manufacturing sectors, except for food products, beverages, tobacco, pharmaceuticals, other manufactured goods (sports articles, games, jewelry, musical and medical instruments), and computers and electronic and electrical devices.

**Signs of recovery in retail sales.** In July 2024, a positive quarter-on-quarter change in retail sales is estimated in value (+0.5%) and volume (+0.3%). In the May – July 2024 quarter, compared to the February - April period, there was an increase in retail sales in value (+0.3%) and stability in volume; for food goods, the increase concerned both values (+0.5% quarter-on-quarter) and volumes (+0.2%), while for non-food goods, opposite trends were observed, with a slight increase in value (+0.1%) and a decrease in volume (-0.2%).

**Employment continues to rise,** with the number of employed in July exceeding 24 million for the first time since the beginning of the series. The growth has primarily involved women and individuals of all age groups, except for those aged 25 - 34. By professional position, employment increased only among the self-employed, while it decreased among permanent and temporary employees. The employment rate (62.3%) rose by 0.1 percentage points compared to June.

Unemployment in July saw a significant decrease compared to the previous month, particularly among women and individuals of all age groups. Finally, the inactivity rate increased to 33.3% (+0.2 percentage points) compared to June.

**Contractual wages continue to recover compared to inflation.** The hourly index of contractual wages in June 2024 recorded an increase of 1.2% compared to the previous month and 3.6% compared to June 2023; the year-on-year increase was 4.9% for industry employees, 3.7% for private services employees, and 1.6% for public administration workers. In the first half of the year, the average hourly contractual wage grew by 3.1% compared to the same period in 2023, against a price increase of +0.9% (HICP index). The recovery phase of contractual wages compared to inflation is expected to consolidate in the coming months in light of the conclusion of further renewals in the services sector.

**Expectations for employment have worsened.** In August indications from confidence climate surveys show a deterioration in expectations regarding employment trends, particularly in construction and retail trade, except in market services.

**Consumer inflation in Italy is rising in the summer months.** The year-on-year dynamics of the Consumer Price Index (CPI) was 1.3% in July and 1.1% in August (preliminary data), up from the previous months (+0.8% from April to June). This trend results from a strengthening of inflation in services, only partially offset by reductions in the goods sector. In August, the inflation rate acquired for 2024 was 1.1%.

**...with declining prices for goods.** The prices of goods continued to decrease year-on-year (-0.1% in July and -0.5% in August) due to the deceleration in food price dynamics (down from +5.6% in January to +0.9% in July and +1% in August), the ongoing contraction in energy prices (-4.0% in July and -6.1% in August), and the stabilization of inflation dynamics for other goods.

**...and particularly for energy goods.** The year-on-year dynamics of energy goods prices were -4.0% in July and -6.1% in August (down from -20.5% in January 2024). Unregulated energy goods, which currently account for over 90% of the total, recorded a decrease of 6.0% in July and 8.6% in August, while prices for regulated energy goods strengthened with growth since May (+11.7% in July and +14% in August). Compared to the peak recorded in November 2022, prices for energy goods are 27.7% lower overall in August.

**Inflation in services rises above 3%.** The price dynamics for services were much more vigorous: after hovering around 2.9% in the first six months of the year, it showed a slight increase in July (+3.0%) and August (+3.2%). Among the components, the prices for recreational, cultural, and personal care services continue to show the most significant growth (+4.4% in July and +4.5% in August), while the prices for communication services showed the most contained increase (+0.8% in July and +0.9% in August).

**The core component remains substantially stable.** Core inflation (related to consumer goods for the entire national community, excluding energy and fresh food) has stabilized in recent months around 2.0% (+2.0% in May, +1.9% in June and July, +2.0% in August). The core inflation rate acquired for 2024 in August is 2.2%.

**Inflation in Italy is still lower than the average in the euro area.** The harmonized consumer price index (HICP) continues to grow in Italy at a lower rate for the eleventh consecutive month compared to the average in the euro area and its other major countries. In August, the HICP inflation rate in Italy was 1.3%, compared to 2.4% in Spain, 2.2% in France and the euro area, and 2.0% in Germany. The inflation rate acquired for 2024 in August was +0.7% in Italy (+2.3% for the euro area).

**Stable inflation expectations in manufacturing and construction...** Among consumers, expectations for a decrease in inflation have lessened. While those expecting a reduction or stability in price dynamics for the next twelve months (compared to the previous twelve months) continue to prevail in August, their percentage has decreased, and the percentage of those expecting increases has risen. Among enterprises, the proportion of firms intending to keep their prices stable in the next three months remains largely predominant, slightly increasing in manufacturing (from 87.3% in July to 88.0% in August) and decreasing in the construction sector (from 91.1% to 90.6%).

**...slightly increasing in services.** In the services sector, the proportion of providers anticipating an increase in prices has risen compared to the previous month (from 7.4% in July to 9.8% in August), while the percentage of those expecting stable prices has decreased (from 90.2% to 87.5%).

## For technical and methodological information

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**Roberta De Santis**

tel.+39 06 4673 7294

[rdesantis@istat.it](mailto:rdesantis@istat.it)

**Claudio Vicarelli**

tel.+39 06 4673 7313

[cvicarelli@istat.it](mailto:cvicarelli@istat.it)