Note ON THE ITALIAN ECONOMY

Istat

November 8th, 2024

- The international economy shows stable growth but high uncertainty and downside risks remain, mainly linked to geo-economic tensions.
- In the third quarter, Italy's GDP level, according to the preliminary estimate, remained unchanged compared to the previous three months, showing a worse result than its main European partners and the euro area average.
- On the supply side, in September, manufacturing output decreased by 0.4% in a month-on-month comparison, following a flat change in August.
- In the first eight months of 2024, exports in value recorded a 0.6% decrease in year-on-year terms, affected mostly by the weak performance of Italian product sales to EU markets.
- In September, after three months of continuous growth, employment decreased, with a widespread decline among men and women, and those aged 35-49.
- In Italy, the Harmonized Index of Consumer Prices (HICP) continued to grow more slowly than the euro area average and its major economies.
- In October, household confidence worsened, with a decline in opinions about the general economic situation and future prospects. Business sentiment also declined, particularly in manufacturing and market services.

***Focus**: Using dependence and relevance indicators - calculated based on the production of intermediate inputs - this focus analyzes the interdependence between Italy and Germany and their role in global trade between 1998 and 2020. In 2020, Italy's dependence on Germany was 2.5 times higher than Italy's relevance for Germany. Compared to the rest of the world, Italy and Germany show a similar level of dependence. Still, Germany's relevance is significantly higher, also due to the role played by market services.*

TABLE 1. MAIN ECONOMIC INDICATORS FOR ITALY AND THE EURO AREA - q-o-q and m-o-m variations.

INDICATORS	ITALY	EURO AREA	PERIOD	ITALY PREVIOUS PERIOD	EURO AREA PREVIOUS PERIOD
GDP	**0,0**	**0,4**	**T3 2024**	**0,2**	**0,2**
Industrial Production	-0,4	1,8 (Aug)	Sep. 2024	0,0	-0,5
Production in construction sector	-1,8	0,1	Aug. 2024	1,4	-0,5
Retail sales (volume)	-0,4 (ago)	0.5	Sep. 2024	0,2	1.1
Producer prices in industry – domestic market	-0,8	-0,6	Sep. 2024	1,2	0,6
Consumer Prices (HICP)*	1,0	2,0	Oct. 2024	0,7	1,7
Unemployment rate	6,1	6,3	Sep. 2024	6,1	6,3
Economic Sentiment Indicator**	-0,5	-0,7	Oct. 2024	1,2	-0,1

* Year-over-year variations ** Absolute differences compared to the previous month

Source: Eurostat, European Commission, Istat

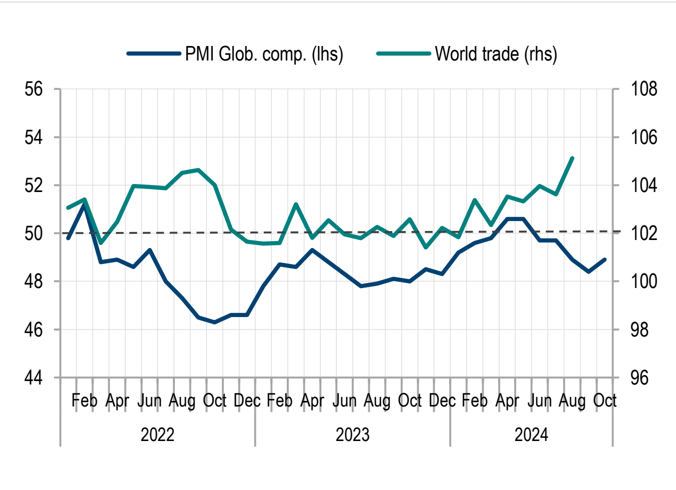
THE INTERNATIONAL FRAMEWORK

The international economy shows stable growth but high uncertainty and downside risks remain. Global prospects are weighed down by persistent geo-economic tensions, which have intensified recently. The IMF forecasts global GDP growth of 3.2% this year and next, with greater dynamism in China and the United States compared to the euro area, whose growth rate is also impacted by Germany's weakness.

The energy commodity markets show moderate volatility. The price of Brent oil, after an increase in the second quarter (the average price was $84.9, up from $83.1 in the first quarter), driven by the effects of geopolitical tensions, registered a downward trend between July and September ($80.2 per barrel) due to weakened Chinese demand, high inventories, and increased crude oil supply. In contrast, natural gas prices showed a continuous upward trend in 2024: the average index values for the first three quarters of the year were 76.8, 81.1, and 89.1, respectively. In October, Brent's price and the natural gas index increased compared to the previous month (rising to $75.8 per barrel from $74.3 and to $97 from $92.1, respectively).

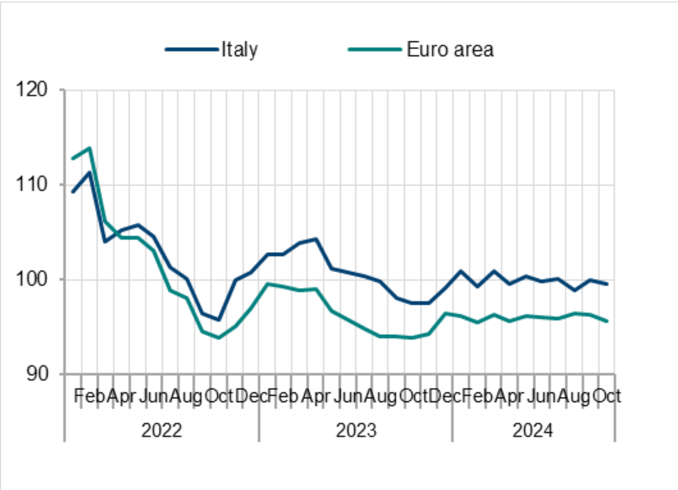
Global trade continues to grow, but prospects are slightly deteriorating. After a modest increase in the first quarter of 2024 (+0.4% in the q-o-q change), international merchandise trade volumes grew faster in the second quarter (+1.1%), driven by exports from China and the United States. In August, global trade grew by 1.4% in seasonally adjusted terms (compared to -0.3% in July). However, the outlook has slightly worsened: the global Purchasing Managers' Index (PMI) for new export orders, which anticipates the trend in international trade, remained below the expansion threshold of 50 in October, despite a slight rebound (48.9 from 48.4, see Figure 1).

FIGURE 1. GLOBAL MERCHANDISE TRADE VOLUME AND GLOBAL PMI FOR NEW EXPORT BUSINESS
Index base 2021=100; >50 = growth



Source: CPB and IHS

FIGURA 2. ECONOMIC SENTIMENT INDICATOR (ESI).
Seasonally adjusted values.



Source: European Commission, DG ECFIN

The major central banks continue on a path of loosening monetary conditions. In June, September, and October, the European Central Bank (ECB) reduced its key interest rates by 25 basis points. The Federal Reserve, on the other hand, adopted a different strategy, cutting rates by 50 and 25 basis points in September and November respectively. In both cases, further reductions in the cost of money are expected, which will be driven in timing and magnitude by the evolution of economic indicators, particularly inflation-related ones.

The euro-dollar exchange rate in 2024 has been fluctuating around the average value of 2023. The euro, which showed some stability against the dollar in the first seven months of the year (an average of 1.08 dollars per euro), appreciated starting in August (1.11 dollars per euro), driven by expectations of a slowdown in the U.S. economy and the anticipated possible asynchrony in the monetary policy decisions of the Federal Reserve and the ECB. However, it recorded a slight depreciation in October (1.09 dollars).

The major global economies continued to grow heterogeneously in the third quarter. China's GDP showed acceleration between July and September, increasing by 0.9% quarter-on-quarter (+0.7% in the second quarter), with improvements in consumption. Fixed investments showed moderate recovery, but the real estate market remains fragile. The fiscal and monetary stimulus implemented by the government is expected to support local governments, households, and the financial stability of banks. It remains uncertain whether the Chinese economy will meet this year's growth targets set by the government ("around 5.0 %"). The IMF estimates a growth of 4.8% for this year and 4.5% for next year.

U.S. GDP grew by 0.4% quarter-on-quarter between July and September, slowing down compared to the second quarter (+0.7%). The decline in inflation and substantial wage increases have supported private consumption. The economic outlook for the country will be affected by the outcomes of the presidential elections, which have fueled tensions and uncertainty in the markets. The IMF forecasts a GDP increase of 2.8% this year, with a slowdown to 2.2% in 2025.

Growth in the euro area shows a slight acceleration. Euro area GDP increased by 0.4% quarter-on-quarter in the third quarter, up from 0.2% in the previous three months (+0.8% and +1.2% are the IMF's forecasts for the average annual growth in 2024 and 2025). However, this trend reflects heterogeneous dynamics across the main countries in the area: unexpected growth in Germany (+0.2%, 0.0%, and +0.8% are the IMF's projections for the next two years), moderate growth in France (+0.4%, +1.1%, and +1.1% according to the IMF), and confirmation of strong dynamism in Spain (+0.8%, +2.9%, and +2.1% are the IMF's forecasts for the two years).

The outlook for the euro area is worsening. In October, the Economic Sentiment Indicator (ESI) decreased by 0.7 points (Figure 2). The decline in the index was driven by a sharp drop in industrial confidence, partly offset by a slight improvement in retail trade, construction, and consumer confidence. The services sector index remained broadly stable. Among the major economies, the ESI worsened significantly in Spain (-4.8 points) and France (-4.7), recorded a smaller decrease in Italy (-0.5), while in Germany, it saw an increase (+0.8).

THE ITALIAN ECONOMIC SITUATION

Italian GDP Growth Stabilizes. According to provisional data, in the third quarter, Italy's GDP level (in chain-linked values with the 2020 reference year, calendar-adjusted and seasonally adjusted) remained unchanged compared to the previous three months. Economic activity slowed down compared to the year's first half, recording a worse result than Italy's main European partners and the euro area average (+0.4%, Figure 3). Domestic demand (gross of inventories) positively contributed to growth, unlike net external demand, which contributed negatively. The acquired change for 2024 is 0.4%.

Industrial Production Declines Again. The seasonally adjusted manufacturing production index decreased by 0.4% in September compared to the previous month, following a flat change in August. As a result, the average for the third quarter showed a 0.6% decline compared to the previous three months. Specifically, the quarter-on-quarter change in the production of intermediate and capital goods in the third quarter remained negative (-2.0% and -1.1%) despite increases in September (+1.9% and +1.8% compared to August). During the same period, consumer goods production recorded a decline of 1.0%, driven by a sharp drop in the last month of the period (-2.5% in September on a month-on-month basis). Despite the significant decline in September, the energy sector was the only industrial group to increase production (+2.0% compared to the previous quarter).

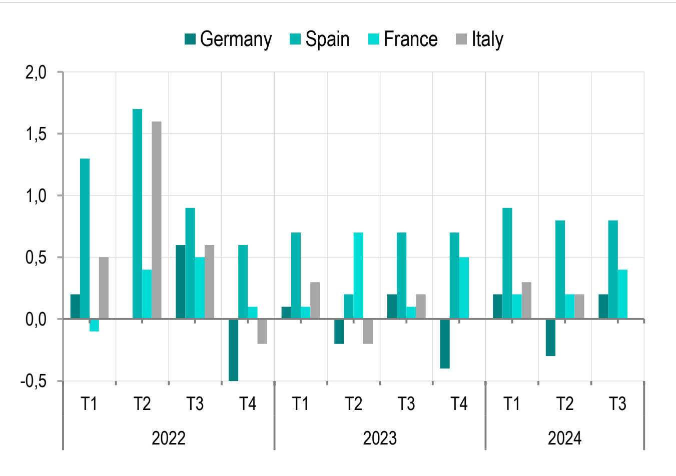
The construction sector experienced a substantial slowdown in August. After the previous month's increase, the seasonally adjusted construction production index decreased by 1.8% compared to July (Figure 4). However, on a moving quarterly basis, the result remains slightly positive (+0.1% in the June-August period on a quarter-over-quarter basis). In the average of the first eight months of 2024, the calendar-adjusted index increased by 6.8%.

Signs of resilience in the construction sector appear to come from non-residential buildings. According to building permit data for the second quarter, the residential sector recorded a significant quarter-on-quarter decrease, bringing the number of dwellings (-9.5%) and usable floor space (-7.7%) to their lowest levels since the third quarter of 2020. In contrast, the non-residential sector grew (+6.1%) following a negative first quarter.

In August, service sector volume indices declined broadly (-2.0% compared to the previous month) after the increase observed in July (+1.8%). Only accommodation and food services showed a month-on-month increase. On average, the seasonally adjusted total services index decreased by 0.7% for the June-August quarter.

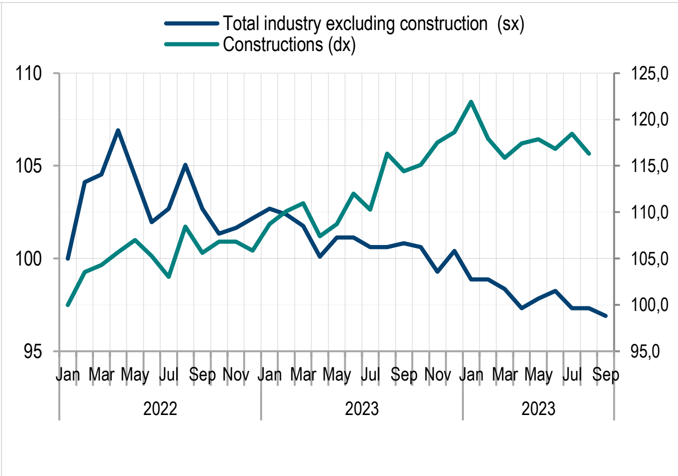
Business confidence in October reaches its lowest point since April 2021. This reflects an increase in construction and retail sales and a sharp decline in the market services sector, especially in transportation and warehousing. In manufacturing, the decrease in confidence was less pronounced than in market services, with a deterioration in sentiment among companies producing intermediate and capital goods and a slight improvement for companies producing consumer goods. In manufacturing, assessments of order levels and expectations for production levels worsened; inventories were reported to decrease compared to September. Additionally, a decrease in the percentage of plant utilization and a further increase in the share of companies reporting insufficient demand as a barrier to production activity were estimated.

FIGURE 3. GDP DYNAMICS IN MAIN EUROPEAN COUNTRIES
Quarter-over-quarter percentage variations



Source: Eurostat and Istat

FIGURE 4. INDUSTRIAL PRODUCTION AND CONSTRUCTION INDEX.
Index Numbers base January 2022 = 100, seasonally adjusted data



Source: Istat

Goods trade is slowing down. The value of goods exports in the June-August quarter decreased by 1.5% compared to the previous three months; in the first eight months of 2024, they recorded a 0.6% reduction compared to the same period in 2023, reflecting in particular a decline in Italian product sales to EU markets (-1.9% in value, -2.6% in volume). This downsizing is part of a broader slowdown in EU markets: the value of intra-area trade fell by 3.2% during the period, with declines of 5.5% in France, 2.0% in Spain, and 1.2% in Germany.

In particular, the decline in Italian sales to France and Germany (respectively -2.2% and -5.6% in the first eight months of the year) weighs heavily, as these countries account for about 40% of total exports to the EU. This is only partially offset by increases in exports to the Netherlands (+4.7%), Spain (+3.4%), and Poland (+1.4%).

On the other hand, exports to countries outside the European Union showed a growth of 0.8% (a change similar to that of EU countries as a whole). An increase influenced this trend in average unit values (+3.6%) of the goods exported, along with a decrease in volumes (-2.7%). However, the value trend of exports was uneven across major destination markets: the increase in exports to the United Kingdom (+2.8%), Turkey (+23.8%), and Japan (+5.9%) contrasted with declines to the United States (-0.2%), Switzerland (-4.8%), China (-24.7%), and Russia (-9.2%).

The downsizing of Italian exports in the first eight months of the year affected several production sectors, particularly metals and metal products, machinery, and transport equipment, which account for over 37% of total Italian exports and more than 40% of exports to the German market. In addition, there was a decline in the export of other traditional Italian manufacturing products, such as textiles, clothing, leather and accessories, and furniture.

In the first eight months of the year, imports in value registered a sharper decline than exports (-5.6%), particularly for those from non-EU markets (-8.2%, with EU-origin flows decreasing by -3.5%). This improved Italy's trade surplus, which amounted to over 37 billion euros (compared to 17.8 billion euros in the same period last year). The decrease in the value of imports is attributed to lower prices of goods and a reduction in the volume of purchases. As with exports, the decline is widespread across various production sectors.

In September, following three months of growth, employment declined, with the number of employed people reaching 23.983 million (Figure 5). This decrease affected both men and women, particularly those aged 35-49. Employment dropped among permanent and temporary employees while the self-employed remained stable. The employment rate fell to 62.1% from August.

Unemployment also declined in September compared to the previous month, mainly due to a drop among men and those over 34. In a monthly comparison, the overall unemployment rate remained stable at 6.1% in Italy, while it held at 6.3% in the Euro area. Youth unemployment rose to 18.3% (+0.3 percentage points). Lastly, the inactivity rate increased to 33.7% (+0.2 percentage points) from August.

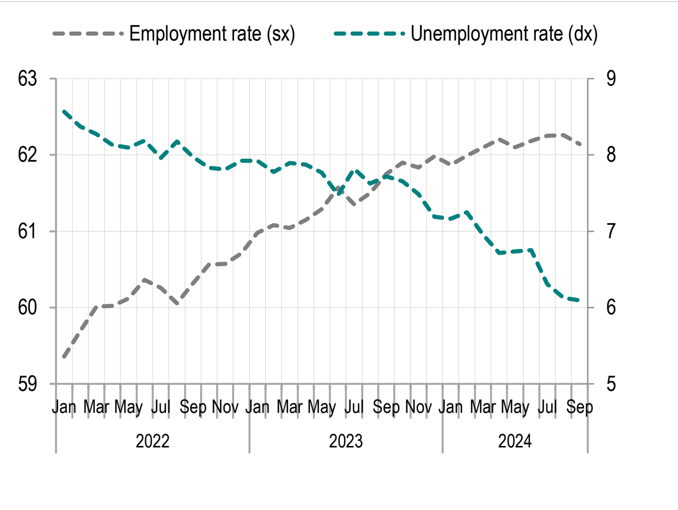
Comparing the third quarter to the second, employment levels increased (+0.4%, totaling 84,000 additional employed individuals) across both genders, among permanent employees, self-employed, and all age groups except those aged 35-49. The quarterly employment growth was coupled with a decrease in job seekers (-8.5%, equating to -147,000 individuals) and an increase in the inactive population (+1.1%, or +138,000 individuals).

In a year-on-year comparison, employment rose by 301,000 (+1.3%) in the third quarter, with the employment rate increasing by 0.4 percentage points compared to September 2023. The number of unemployed individuals fell significantly, down by 423,000 units, or 21.4%, over the past year. The unemployment rate dropped by 1.6 percentage points overall and by 4.5 points among young people. However, the inactive population increased by 2.8% (+337,000 units), with the inactivity rate up by 0.8 percentage points.

Contractual wages continued to grow, with the index of hourly contractual wages in September 2024 rising by 0.2% from the previous month and by 3.7% year-on-year. The year-on-year increase was 4.6% for industrial employees, 4.1% for private services workers, and 1.6% for public administration employees. In the third quarter, wage growth across the economy exceeded consumer price inflation by just over two percentage points, gradually recovering purchasing power.

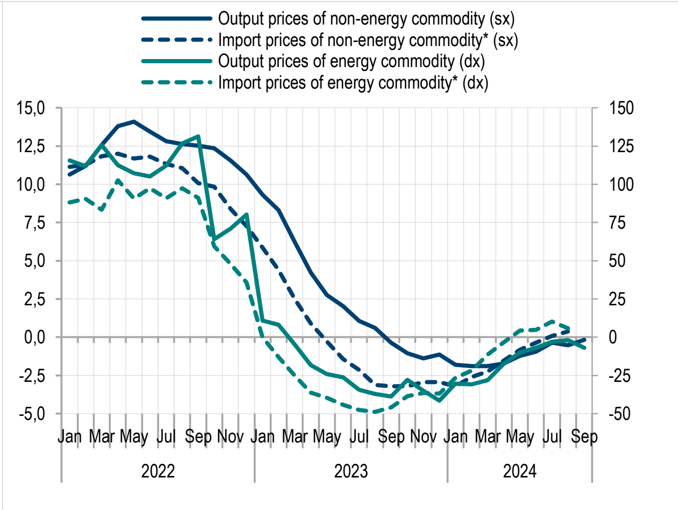
In October, consumer confidence weakened, reflecting a widespread deterioration in views on the general economic situation and future outlook. The overall index dropped from 103.9 to 99.7, and the future expectations index declined from 97.4 to 95.0. However, there was a slight improvement in the personal (from 96.3 to 96.6) and current climate indexes (from 99.0 to 99.2).

FIGURE 5. EMPLOYMENT AND UNEMPLOYMENT RATE.
Percentages



Source: Istat

FIGURE 6. IMPORT AND OUTPUT PRICES OF COMMODITY INDUSTRY.
Import and producer price index for industry, year-on-year variations



Source: Istat

* The prices refer to industrial products imported by businesses (whose primary economic activity falls under sections B, C, D, E, and G of the Ateco 2007 classification) located within the national territory

Consumer inflation in Italy is slowing compared to the summer months. The annual growth rate of the consumer price index for the whole nation (NIC) was 0.9% in October, up from 0.7% in September (preliminary data), yet lower than the summer months (1.3% in July and 1.1% in August) and consistent with previous months (+0.8% from April to June). The inflation acquired for 2024 stands at 1.0% as of October. Prices for goods continued to decrease yearly in the past two months, registering a drop of -0.9% in September and -0.5% in October (-0.1% in July and -0.5% in August). This trend is primarily due to a steeper decline in energy prices, partially offset by rising food prices. At the same time, inflation for other goods remained nearly stable (+0.1% in September and +0.2% in October).

The price dynamics of food are accelerating. The increase in food prices recorded an acceleration in year-on-year terms (from +1.1% in September to +2.4% in October), driven both by processed food items (+1.5% in September and +2.0% in October) and, to an even greater extent, by unprocessed goods. After a gradual decline throughout 2024 (from +7.5% in January to -0.5% in August), the latter saw a significant rise (+3.3% in October compared to +0.3% in September), bringing their price levels above those at the beginning of the year.

Energy prices continue to decline. The month-on-month trend in energy goods prices was -8.7% in September and -9.1% in October (down from -4.0% in July and -6.1% in August). Prices of non-regulated energy goods (over 90% of the total) decreased 11.0% in September and 10.2% in October, while prices of regulated energy goods slowed down from +14.3% in August to +2.0% in October.

The price trend for grocery baskets, which slowed progressively for much of 2024 (from +5.1% in January to +0.6% in August), showed an acceleration in the last two months (+1.0% in September and +2.2% in October).

Service inflation is also slowing. After fluctuating around 2.9% in the first half of the year and accelerating in the summer months (+3.0% in July and +3.2% in August), the month-on-month growth rate for service prices slowed to +2.8% in September and +2.6% in October. The core inflation (referring to consumer goods for the entire national population, excluding energy and fresh food) stabilized in the last two months at +1.8%. The accumulated core inflation for 2024 in October stands at +2.0%.

Price trends in Italy remain significantly lower than in the Euro area. Italy's Harmonized Index of Consumer Prices (HICP) continued to rise (+1.0% month-on-month in October, up from +0.7% in September) at a slower pace than the Euro area average (+2.0% from +1.7%) and other major countries where, in October, inflation reached 2.4% in Germany, 1.8% in Spain, and 1.5% in France (up from +1.8%, +1.7%, and +1.4% in September, respectively).

Import prices are decelerating. In August 2024, the most recent month available, import prices for goods and services increased by 1.0% year-over-year, slowing from +1.3% in July, with a month-over-month decrease of -0.5%. This trend is mainly due to imported energy product prices, which rose 5.8% year-over-year in August (compared to +10.2% in July). Among non-energy imports (+0.1% in July and +0.4% in August, Figure 6), the decline in consumer goods prices intensified in August (-0.9% from -0.6% in July), while inflation for capital goods returned to positive territory (+0.4% from -0.2% in July), and intermediate goods inflation accelerated (+1.3% from +0.6% in July).

Producer prices continue to decline every year. Industrial producer prices, which have been falling year-over-year since April 2023, continued to decrease in September (-2%) and showed a month-over-month decline of -0.6% from August after four consecutive months of increases. This contraction spans all sectors, varying degrees: it is especially pronounced in energy goods (-7.0% in September, following -2.0% in August) and for goods destined for the domestic market (-1.1% in August and -2.7% in September).

Moderate signs of rising inflation expectations among consumers are emerging. In October, the percentage of consumers expecting inflation to decline in the next 12 months fell to 42.5% (from 44.1% in September), while expectations for an increase strengthened (37.3% from 33% in September).

Among businesses, expectations for price stability largely prevail. In the construction sector, the proportion of businesses intending to keep prices stable in the next three months rose slightly (from 92.1% to 92.9%), while in manufacturing, it decreased slightly (from 86.8% in September to 86.5% in October). In services, more providers anticipate a price decrease (from 3.6% in September to 7.4% in October), while the share expecting stable prices declined (from 89.3% to 85.5%).

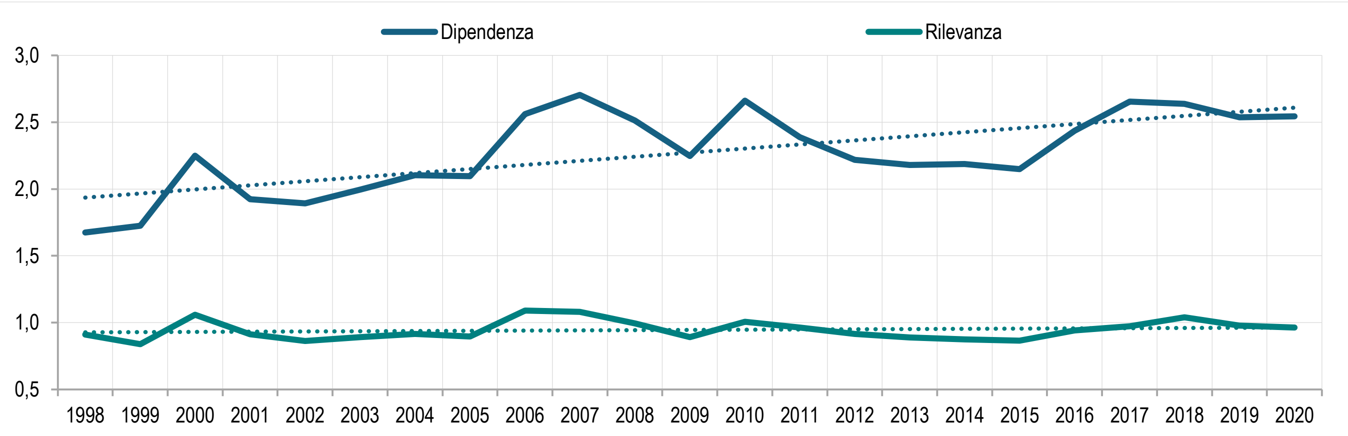
focus

ITALY'S DEPENDENCE AND RELEVANCE IN FOREIGN TRADE RELATIONS*

The international scenario remains characterized by uncertainty and moderate economic growth. In Europe, economic activity is less dynamic than that of major partners, partly due to the German economy's challenges.
As Germany is Italy's leading trading partner, the negative performance of the German economy acted as a drag on Italian growth in 2023. According to estimates by Istat [1] this impact resulted in a 1 percentage point reduction in exports and a 0.2 percentage point reduction in GDP for Italy. This significant impact accounts for a quarter of the overall effect of the global economic slowdown (estimated at -0.8 percentage points).
This focus provides a long-term analysis (1998-2020) of the interdependence between the two economies and their roles in global trade. Specifically, the degree of economic integration between Italy and Germany is analyzed using indicators of dependence and relevance[2], calculated bilaterally (between the two countries)[3] and multilaterally (in relation to the rest of the world).

The findings show that, as of 2020, Italy's dependence on Germany is 2.5 times greater than Germany's dependence on Italy (see Figure F1). In other words, Italy's production relies significantly more on intermediate goods and services from Germany than Germany's production relies on Italian inputs. This dependence has tended to increase throughout the period examined (though at a decreasing rate) but declines during periods of cyclical weakening or misalignment (-7.4% from 2017 to 2020; -18.5% from 2010 to 2013). Specifically, the slowdown in global economic growth (and among major advanced economies) between 2018 and 2019 led to a slight reduction in Italy's dependence on Germany.
Currently, available data do not allow for an assessment of whether this trend continued in the years following the pandemic crisis. However, they seem to provide indications consistent with evidence from other empirical studies, suggesting a weakening interaction between the two countries[4].

FIGURE F1. ITALY'S DEPENDENCE ON AND RELEVANCE TO GERMANY. Years 1998-2020. Absolute values



Source: Istat elaboration on ICIO (OECD) data.

* This focus was prepared by Stefano Costa and Claudio Vicarelli.

[1] For further details, please refer to Istat (2024), Report on the Competitiveness of Production Sectors, March.

[2] Building on a recent approach used to analyze the exposure of the U.S. economy to foreign production (see R. Baldwin, R. Freeman & A. Theodorakopoulos 2023, "Hidden exposure: measuring US supply chain reliance", NBER Working Paper 31820), dependence is defined as the extent to which a country's production processes require inputs produced by another country (thus observed from the perspective of the focal country's imports). Relevance, on the other hand, relates to the importance of a country's domestic production for the production processes of other countries, viewed from the perspective of the focal country's exports. Both aspects are measured using direct and indirect activation coefficients, calculated based on the OECD's Inter-Country Input-Output tables (ICIO), which provide data on international trade across 76 countries and 45 economic sectors. For details on the methodology used, refer to Istat ("Report on the competitiveness of productive sectors" 2024, Chapter 1).

[3] In the bilateral version, the dependence of the first country on the second corresponds to the relevance of the second country for the first.

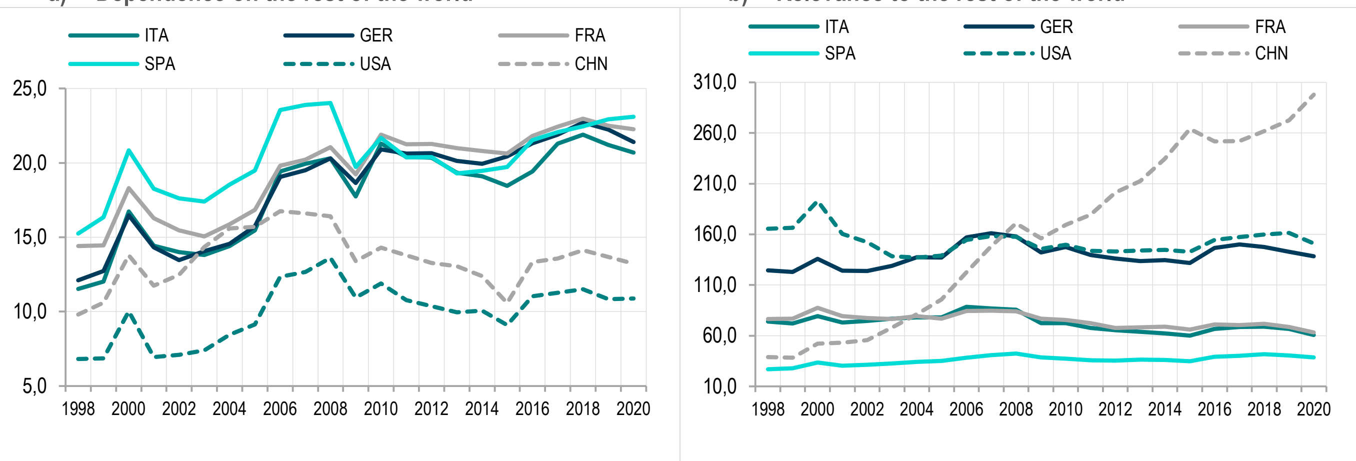
[4] Some recent analyses (Centro Studi Confindustria - CSC, 2023, "Is the Italian economy returning to low growth? - Fall 2023", Forecast Reports, Rome, Italy) suggest that the productive and trade ties between Italy and Germany may have weakened in terms of the correlation between German industrial production and Italian exports of intermediate goods. Despite significant sectoral heterogeneity, Italy's dependence on Germany's economy, while still considerable, appears to be lower than in the past two decades. Under this assumption, Germany's recent recession may have had more modest effects than in previous periods.

It is important to highlight that the observed period (1998–2020) was marked by numerous events capable of reshaping the structure of international relations (e.g., the introduction of the European single currency, the rise of global value chains, China's entry into the WTO, and the 2009 trade collapse). Therefore, the evolution of the degree of economic integration between these two countries must also be considered within the broader context of other countries' dependency on and relevance to the rest of the world (see Figure F2).

FIGURE F2. DEPENDENCE ON AND RELEVANCE TO THE REST OF THE WORLD FOR SELECTED ECONOMIES.
Years 1998–2020. Absolute values

a) Dependence on the rest of the world

b) Relevance to the rest of the world



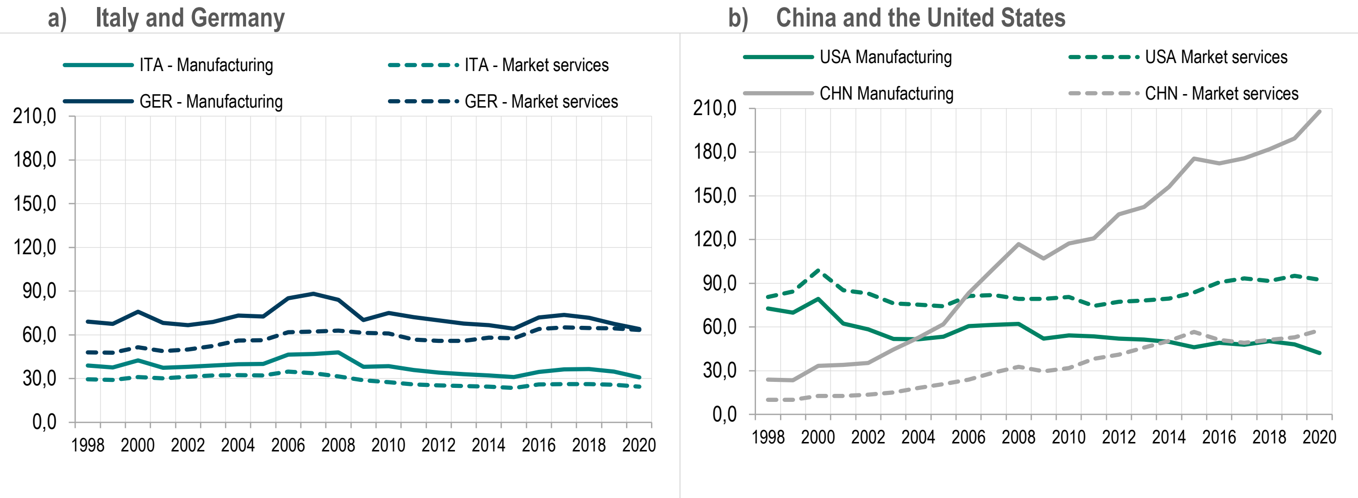
Source: Istat elaboration on ICIO (OECD) data.

From 1998 to 2007, major Eurozone economies, the United States and China (following its 2001 WTO entry), gradually increased their reliance on foreign inputs, albeit with varying intensities and a partial interruption in the early 2000s (see Figure F2a). Starting in 2010, a divergence emerged between the dependency trends of European and non-European countries. While Eurozone economies continued to increase their dependence on imported inputs, the United States and China reduced their dependence, likely due to reshoring efforts in the U.S. and import substitution in China.
For European countries, there was a shared trend of increasing reliance on foreign inputs (with the partial exception of Spain)—particularly marked until 2010—with notable convergence in their dependency trajectories beginning in 2010. This convergence likely reflects the growing integration of the European Single Market, particularly in sourcing intermediate goods. As seen in the Italy-Germany relationship, these dependency trends also tend to reverse during economic downturns. For the Eurozone's three largest economies, there was a visible reduction in foreign reliance during periods of recession or economic weakening.
In other words, the weakening interdependence between Italy and Germany from 2017 to 2020 reflects a broader trend in which the production processes of these countries (as well as France) relied less on imported intermediate goods. This trend is also observed in the U.S. and China, both of which have seen a steady decline in foreign dependency since 2007, except for the 2015-2017 period.

Regarding the relevance of intermediate input production from different countries to the rest of the world, the trends are more varied (Figure F2b). Notably, China's role grew significantly after joining the WTO in 2001 and participating significantly in global production chains. In 1998, China's importance as a supplier of inputs was only slightly higher than Spain's; by 2008, it surpassed both Germany and the United States, and by 2020, its relevance had doubled compared to these economies. Meanwhile, Germany and the U.S. have maintained relatively stable levels of relevance, consistently higher than those of Italy, France, and Spain, which can likely be attributed to their offshoring activities. Unlike the trend in dependency, the European market does not appear as "integrated" in terms of relevance: Germany's significance as an intermediate goods supplier to the global economy is twice that of Italy and nearly four times that of Spain.

In a global economy increasingly shaped by advanced digital technologies, industrial processes are undergoing profound transformations, with a growing emphasis on services, the supply of which is becoming increasingly important in both national and international trade. This shift is particularly evident in relevance indicators for market services (Figure F3). In Germany, Europe's leading manufacturing country, market services increased their global economic impact between 1998 and 2020 to match the relevance of manufacturing, widening the gap with Italian services (Figure F3a). The importance of the service sector is also apparent in China's case (Figure F3b). Although China's increasing relevance to global growth is largely due to manufacturing, there is a clear rise in the importance of market services. By 2020, the indicator for China's market services reached levels close to German manufacturing and exceeded U.S. manufacturing.

FIGURA F3. RELEVANCE OF CERTAIN ECONOMIES COMPARED TO THE REST OF THE WORLD. MANUFACTURING AND MARKET SERVICES. Years 1998-2020. Absolute values



Source: Istat elaboration on ICIO (OECD) data.

While still primarily driven by industrial processes, the positioning of different economies in international trade is increasingly influenced by the role of the service sector. Between 1998 and 2020, the importance of Italian market services in the global economy progressively declined, resulting in a growing gap compared to other major European and global economies.

For technical and methodological clarifications

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