Note ON THE ITALIAN ECONOMY

- In the United States, the economy continues to grow at a sustained pace, the more moderate expansion in the euro area is due to greater exposure to the energy shocks linked to tensions in the Middle East. Manufacturing in China continues to be driven by exports in high-tech sectors, against a backdrop of weak private consumption.
- The outlook for global economic growth remains uncertain, although the geopolitical situation has shown a slight improvement compared with the severe tensions at the start of the year. Despite the recent fall in energy costs, the systemic effects of the conflict between the US and Iran are still weighing on global inflation.
- In the first three months of 2026, Italian GDP grew by 0.3 per cent quarter-on-quarter, compared with a 0.2 per cent decline in the euro area. The annualised growth rate for 2026 stands at 0.6 per cent.
- In May, the seasonally adjusted industrial production index recorded a month-on-month fall of 0.3 per cent, bringing to an end three consecutive months of growth. On average for the March–May quarter, however, the index showed a month-on-month increase of 0.9 per cent.
- The number of people in employment fell in May, standing at 24 million 336 thousand. The decline affected men, women and all age groups except those aged 50 and over. By employment status, employment fell only amongst fixed-term employees. The unemployment rate, which remained stable at 6.2% in the euro area, fell to 5.0% (-0.1 percentage points compared with April).
- In June, according to preliminary estimates, the Harmonised Index of Consumer Prices (HICP) rose by 3.1 per cent year-on-year, exceeding the euro area average inflation rate for the first time since October 2023 (+2.8 per cent in June; +3.2 per cent in May).

***Focus**: Between 2019 and the first quarter of 2026, the Italian manufacturing sector, faced with numerous international shocks, recorded sharp increases in both selling prices (+18.4 per cent) and the prices of production inputs (+17.7 per cent), as well as showing, from mid-2022 onwards, a significant rise in labour costs (+12.9 per cent). After rising in 2023, companies' profit margins began to fall. By early 2026, there was a widespread reduction in margins across all sectors (particularly agriculture and manufacturing), caused by an increase in variable costs that outpaced the rise in selling prices.*

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	**0.3**	**-0.2**	**Q1 2026**	**0.3**	**0.2**
Industrial Production	-0.3	0.1 (Apr)	May. 2026	0.5	0.4
Production in the construction sector	0.3	0.6	Apr. 2026	1.9	1.7
Retail sales (volume)	0.1	0.2	May. 2026	-0.3	-0.3
Producer prices in the industry – domestic market	-0.5	0.2	May. 2026	0.1	0.7
Consumer prices (HICP)*	3.1	2.8	Jun. 2026	3.2	3.2
Unemployment rate	5.0	6.2	May. 2026	5.1	6.2
Economic Sentiment Indicator**	1.3	1.3	Jun. 2026	0.0	0.4

*Year-on-year variations **Absolute differences compared to the previous month *Source: Eurostat. European Commission. Istat*

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THE INTERNATIONAL FRAMEWORK

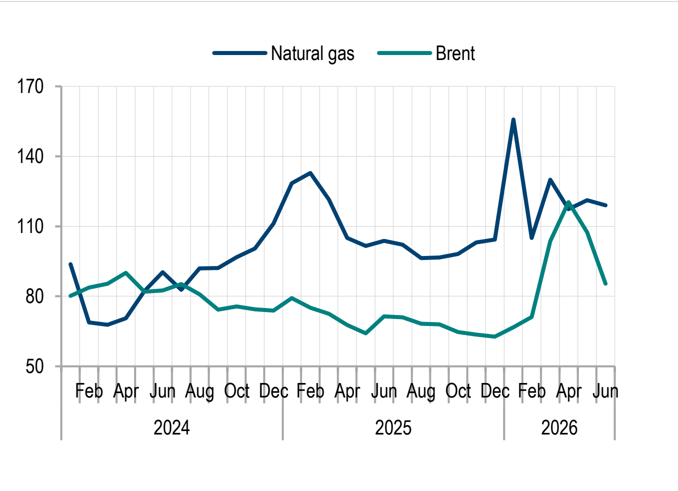
A partial easing of geopolitical tensions. The outlook for the global economy remains uncertain, although the geopolitical situation has improved compared with the severe tensions seen at the start of the year. Despite the recent sharp fall in energy costs, the systemic effects of the conflict between the United States and Iran continue to weigh heavily. Global inflation remains high, prompting the Federal Reserve to keep interest rates high and the ECB to opt for a 0.25% rate rise in June. The impact on the real economy remains difficult to assess, as international markets still have to factor in the effects of a monetary policy that appears set to remain restrictive for longer than expected.

Mixed growth rates across the major economies. In recent months, the United States has shown strong economic momentum, with the Federal Reserve forecasting quarter-on-quarter growth of over 2.0 per cent in the second quarter (driven by investment in technology and AI). The euro area has been more severely affected by the energy shocks linked to tensions in the Middle East, recording a modest quarter-on-quarter decline in GDP in the first quarter (-0.2%) and a rise in inflation that has led the ECB to cut its growth forecasts for 2026. Finally, China confirmed robust supply-side momentum and weak domestic demand, with the manufacturing sector expanding (PMI index at 50.3 in June), driven by high-tech exports.

Global trade in goods by volume rose by 0.7 per cent month-on-month in April, marking only a partial recovery from the March decline (-2.3 per cent). The impact of the war in Iran on global trade appears to have remained limited, primarily affecting trade in the Gulf region. The acceleration in stockpiling due to the conflict, combined with strong demand for electronic components linked to infrastructure development and artificial intelligence systems, has likely underpinned global trade growth.

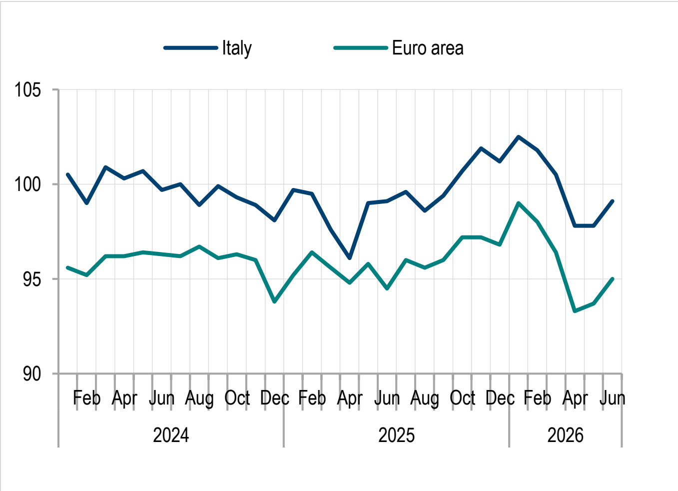
Energy commodity prices are falling. The escalation of the conflict in the Middle East in the early months of 2026 and the prolonged blockade of the Strait of Hormuz sharply reduced energy supply, pushing Brent above $100 per barrel (peaking at $120 per barrel in April). However, the agreement signed in mid-June and the gradual reopening of commercial shipping routes brought average crude oil prices back down to $85.4 in June. The natural gas index, by contrast, showed greater resilience and, following its peak in March, remained at slightly lower but stable levels between April and June (Figure 1).

FIGURE 1. BRENT AND NATURAL GAS PRICE TRENDS.
Brent: US dollars per barrel. Natural gas: index (2010 = 100)



Source: World Bank

FIGURE 2. ECONOMIC SENTIMENT INDICATOR (ESI).
Seasonally adjusted data



, *Source:* European Commission. DG ECFIN

The euro has depreciated moderately. The nominal euro-dollar exchange rate has depreciated, falling from 1.17 dollars per euro in May to 1.15 in June. The weakening of the euro is due, among other factors, to stronger growth prospects for the United States than in the euro area and to the tendency of currency markets, in times of uncertainty and crisis, to shift towards investments in safe-haven currencies, the main one being the US dollar.

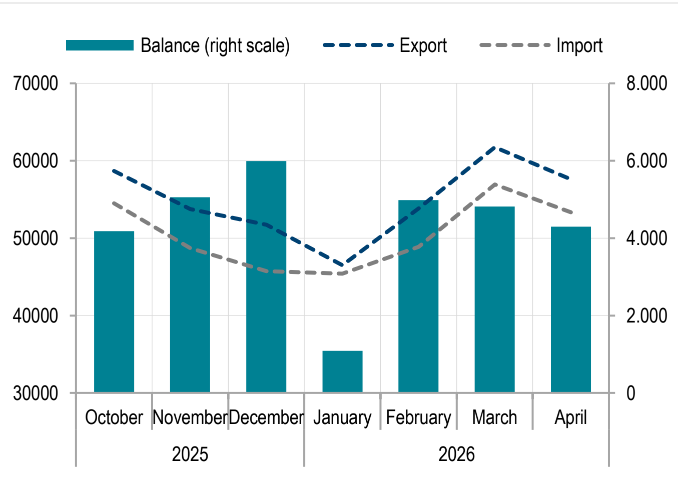
The outlook for the euro-area economy is improving: the European Commission's Economic Sentiment Indicator (ESI) showed a marked rise in June (+1.3 points, Figure 2), driven by a strengthening of confidence across almost all sectors — retail trade, industry, and services — and among consumers. At the national level, the ESI rose significantly in Germany (+1.7 points) and Italy (+1.3 points), rose moderately in Spain (+0.7 points) and fell in France (-0.2 points).

THE ITALIAN ECONOMIC SITUATION

Italian GDP continues to grow. According to estimates from the quarterly national accounts, in the first three months of 2026, Italian GDP grew by 0.3 per cent quarter-on-quarter. Both domestic demand (excluding changes in stocks) and, to a greater extent, external demand contributed positively to this growth, whilst changes in stocks contributed negatively. The annualised growth rate for 2026 stands at 0.6%.

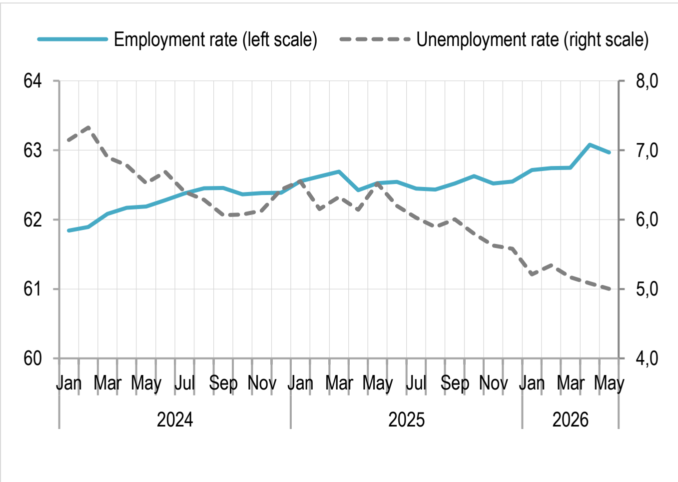
Industrial production falls. In May, the seasonally adjusted industrial production index recorded a month-on-month decline of 0.3 per cent, bringing to an end three consecutive months of growth. This result reflects a fall in consumer goods (-0.5%) and intermediate goods (-0.8%), broad stability in capital goods (-0.1%), and a marked increase in the energy sector (+4.6%). On average for the March–May quarter, however, the index rose by 0.9% compared with the previous three months, driven mainly by capital goods (+2.5%) and, to a lesser extent, by intermediate goods (+0.7%).

FIGURE 3. ITALY'S TRADE IN GOODS.
Values in millions of euros, seasonally adjusted data



Source: Istat

FIGURE 4. EMPLOYMENT AND UNEMPLOYMENT RATE.
Seasonally adjusted data, percentages



Source: Istat

Growth in construction. In April, the seasonally adjusted index of production in construction rose by 0.3 per cent month-on-month, following the sharp increase recorded in March (+1.9 per cent), and also showed a similar rate of growth in the February–April average (+0.4 per cent compared with the previous quarter). Against a backdrop of rising sales volumes in the residential sector, the house price index (HPI) for homes purchased by households, whether for residential or investment purposes, showed its fourth consecutive quarterly increase for the January–March period (+1.0%), following a marked fall in new home prices (-1.5%) and a rise in existing home prices (+1.5%). In the first quarter of 2026, the Revenue Agency's Real

Estate Market Observatory recorded year-on-year growth of 4.4 per cent, an acceleration compared with the increase (+0.4 per cent) in the previous three months.

The expansion in services continues in April at a similar pace to the previous month (the turnover volume index rose by 0.3% on a month-on-month basis, following a 0.2% increase in March). However, between February and April, the year-on-year comparison shows a slight overall decline (-0.1%). Over the same period, the worst-performing sectors were professional, scientific and technical activities (-1.0%), accommodation and food services (-0.6%) and real estate activities (-0.5%).

In the first quarter, the investment rate of non-financial corporations increased further: it stood at 24.9 per cent (+0.3 percentage points compared with the previous quarter) following more modest value growth in added value (+0.1 per cent) than in gross fixed capital formation (+1.4 per cent). During the same period, the profit share of non-financial corporations, by contrast, fell sharply, standing at 42.8% (-0.5 percentage points quarter-on-quarter).

Business confidence is rising. In June, the confidence indicator returned to its April level, although figures remain below those of the first three months of the year. The improvement was seen across all sectors, particularly marked in retail trade and construction, where order assessments and production expectations are rising. In the manufacturing sector, by contrast, order assessments are deteriorating, whilst production expectations are rising. Stocks are assessed as being in a phase of drawdown. In particular, the proportion of manufacturing firms reporting obstacles to exports in the second quarter is rising, mainly due to higher costs and prices. In market services, expectations regarding orders showed a positive trend in June, whilst assessments of both business conditions and orders deteriorated.

Trade on the rise: in the first four months of 2026, the value of Italian goods and services recorded year-on-year increases (+3.2% for exports and +1.4% for imports, Figure 3). As regards manufacturing exports (+3.2%), the rise in sales was concentrated in the sectors of metal products (+30.3%), coke and refined products (+8.8%), computers and electrical equipment (+3.7 per cent) and pharmaceuticals (+3.5 per cent), whilst all other sectors saw a decline, which was most pronounced in the transport equipment sector (-4.7 per cent; motor vehicles, however, recorded growth of 4.9 per cent).

During the same period, the rise in imports for the manufacturing sectors (+2.9%) was driven by purchases of computers and electronic equipment (+16.7%), base metals (+11.9%) and coke and refined products (+10.6%). In contrast, imports of chemicals and pharmaceuticals (-9.5 per cent) and food and beverages (-4.6 per cent) fell. The trend in trade with EU countries was similar (+2.5 per cent year-on-year for both import and export flows in the January–April period).

Highly dynamic extra-EU markets: between January and April, exports by value rose by 4.4 per cent year-on-year, whilst imports rose by 2.9 per cent. Despite the trade and geopolitical tensions of the past 12 months, Italian trade flows to these markets appear to have found alternative routes: the trade surplus over the same period rose by €2.4 billion (from €19 billion to €21.4 billion).

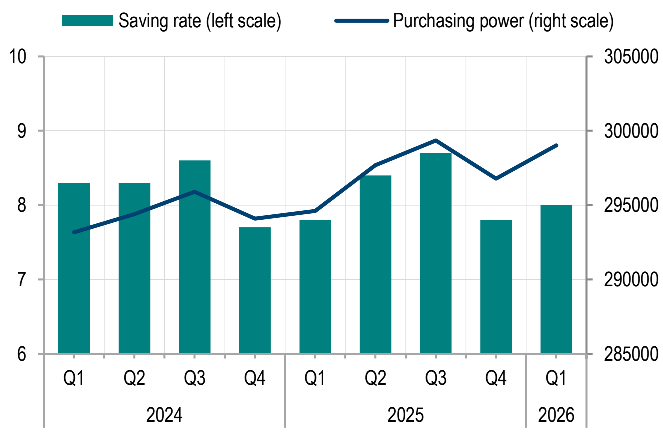
Exports to the US remain positive (+2.3% compared with the first five months of 2025). However, the balance has fallen (15.2 billion in the first five months of 2026, compared with 17.4 billion in the corresponding period of 2025), whilst sales to China (+18.9 per cent) and Switzerland (+46 per cent) continue to grow strongly. The effects of the war between the United States and Iran, however, are still evident in the sales figures for the Middle East, which fell by 12.3 per cent year-on-year in May (-14.6 per cent in the first five months), due to the halt in shipments of goods bound for the Persian Gulf region. On the imports side, notable year-on-year increases were seen in purchases from the United States (+23.5% in the first five months), OPEC countries (+12.1%) and Mercosur (+18.7%), whilst imports from the ASEAN region (-3.2%) and Japan (-11.9%) contracted.

Employment falls in May: the number of employed people has fallen (-0.1%, -22thousand units) to 24 million 336 thousand. The decline affects men, women and all age groups except those aged 50 and over; by employment status, employment has fallen only amongst fixed-term employees. The employment rate fell to 63.0 per cent. Compared with the previous month, unemployment fell, driven by a decrease affecting only women, 15–24-year-olds, and those aged 50 and over.

In the month-on-month comparison, the overall unemployment rate – which remained stable at 6.2% in the euro area – fell to 5.0% (-0.1 percentage points, Figure 4), whilst the youth unemployment rate fell to 15.1% (-1.3 percentage points). Finally, compared with April 2026, the inactivity rate rose to 33.6% (+0.2 percentage points).

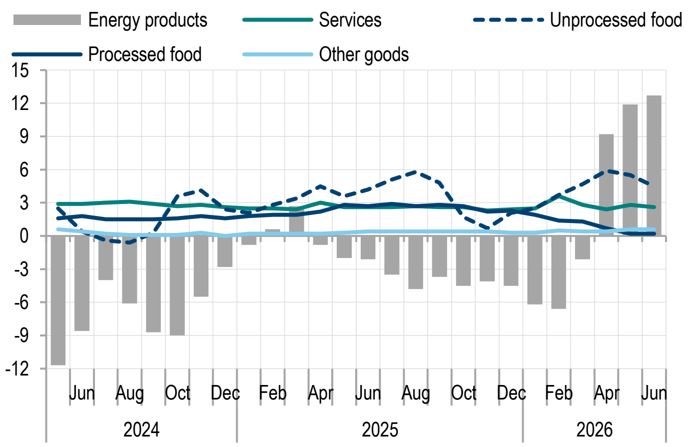
On a quarterly basis, in the period March–May 2026, there was a 0.5 per cent increase in employment compared with the previous quarter (a total of 119,000 people employed), affecting men, women, permanent employees, and the self-employed. This rise in employment is linked to a fall in the number of jobseekers (-5.0%, equivalent to -68,000 people) and in the number of economically inactive people (-0.3%, equivalent to -38,000 people).

FIGURE 5. HOUSEHOLD SAVING RATE AND PURCHASING POWER. Chain-linked values, millions of euros and percentage values



Source: Istat

FIGURE 6. CONSUMER PRICE INFLATION IN ITALY. Price Index for the Whole Economy NIC, year-on-year changes; ECOICOP v2 classification



Source: Eurostat

** The year-on-year changes refer to the series reconstructed according to the new ECOICOP v2 classification.*

Household disposable income and consumption rose by 1.6 per cent and 1.4 per cent, respectively, on a quarter-on-quarter basis in the first quarter of 2026. Consequently, the household savings rate stood at 8.0 per cent, up 0.2 percentage points on the previous quarter. Against a 0.8% change in the implicit consumption deflator, household purchasing power rose by 0.8% compared with the previous quarter (Figure 5).

Consumer confidence fell (from 93.4 to 92.4) in June, with almost all components of the index showing a decline: the exceptions are expectations regarding the general economic situation, those concerning unemployment, and views on whether it is advisable to save at present. Employment expectations improved only in the construction sector, whilst they deteriorated in the market services, retail trade and manufacturing sectors.

Retail sales are on the rise, with a month-on-month increase in May (+0.2% in value and +0.1% in volume). This trend applies to both the food and non-food sectors (+0.2% in value and volume). On a quarterly basis (March–May 2026), retail sales also show a positive trend (+1.2% in value and +0.5% in volume month-on-month). Both main components recorded positive growth (+1.1% in value and +0.3% in volume for food goods; +1.2% in value and +0.8% in volume for non-food goods).

The monthly index of contractual wages rose in March (+0.1% compared with the previous month and +2.4% compared with March 2025). The year-on-year increase in wages was greater in the public administration sector (+3.2%) than in private industry and services (+2.3% in both cases). In the first quarter of 2026, the average hourly wage rose by 2.6% compared with the same period in 2025. Although the increase in contractual wages exceeds the inflation rate, wage growth has been gradually slowing for three consecutive quarters.

Consumer inflation falls slightly. In June, according to preliminary estimates, the Harmonised Index of Consumer Prices (HICP) rose by 3.1 per cent year-on-year in Italy, showing a slight decrease from 3.2 per cent in May and, for the first time since October 2023, exceeding the average inflation rate for the euro area (+2.8 per cent in June; 3.2 per cent in May). A comparison with the main countries in the euro area shows that inflation is higher than in Germany (+2.4%; +2.7% in May) and France (+2.0%; +2.8%) but lower than in Spain (+3.6%; +3.6%). Similarly, the year-on-year trend in the national consumer price index for the whole population (NIC) fell from 3.2% in May to 3.0% in June, with zero month-on-month growth (+0.4% in May). The year-to-date inflation rate (NIC) for 2026 stood at 2.6% in June.

A moderate acceleration in inflation for energy goods in June on a year-on-year basis (+12.7%, up from +11.9% in May, Figure 6), which nevertheless shows a decrease compared with the previous month (-0.2%, +0.4% in May).

Food prices are slowing (+1.9% in June, down from +2.3% in May), due to lower growth in unprocessed food prices (+4.5% in June; +5.5% in May) and a modest rise in processed food prices (+0.2% in both June and May). On a month-on-month basis, food prices fell by 0.4% in June (no change in May).

The year-on-year trend in service prices slowed (+2.6% in June from +2.8% in May). In particular, the rate of increase in prices for recreational, cultural and personal care services slowed (+2.7% in June; +3.0% in May), as did that for transport services (+1.1%; +1.7% in May). On a month-on-month basis, the increase in service prices was 0.4% (0.6% in May).

Inflation remains low and stable for goods other than energy and food, which recorded steady growth in June (+0.6% year-on-year) compared with May; on a month-on-month basis, the change was negligible (+0.1% in May).

The cost of the shopping basket is falling… The year-on-year trend in the cost of the shopping basket stood at 1.6% in June (+1.9% in May), reflecting a slowdown in food prices and was significantly lower than that of the overall NIC index (-1.4 percentage points in June, -1.3 in May, and -0.4 in April).

…and core inflation as well, which excludes the most volatile components such as unprocessed food and energy, slowed in June, falling to 1.6% (+1.7% in May). Core inflation stood at 1.7%.

Prices of industrial imports are rising… In April, import prices for the industrial sector rose by 4.6% (+0.1% in March) compared with the same period last year, driven mainly by the sharp rise in energy sector prices (+23.4% in April and -1.4% in March) and, to a lesser extent, by price rises in non-energy sectors (+1.5% in April and 0.1% in March); among these, the highest inflation was recorded for intermediate goods (+4.4% in April and 1.5% in March).

.. as well as those relating to the production of goods. In May (latest figures available), industrial producer prices rose by 7.3 per cent year-on-year (+6.8 per cent in April), driven by the energy sector (+23.0 per cent; +22.8 per cent in April), with more moderate inflation in the other sectors (+2.3 per cent;

+1.7 per cent in April). On a month-on-month basis, however, there was a slight fall (-0.2%; +0.3% in April). In the construction sector, prices for building construction rose by 2.5 per cent year-on-year in May (+2 per cent in April) and by 0.3 per cent month-on-month (+0.6 per cent in April); prices for the construction of roads and railways rose by 4.0 per cent year-on-year (+4.4 per cent in April) whilst falling by 0.6 per cent month-on-month (+1.3 per cent in April).

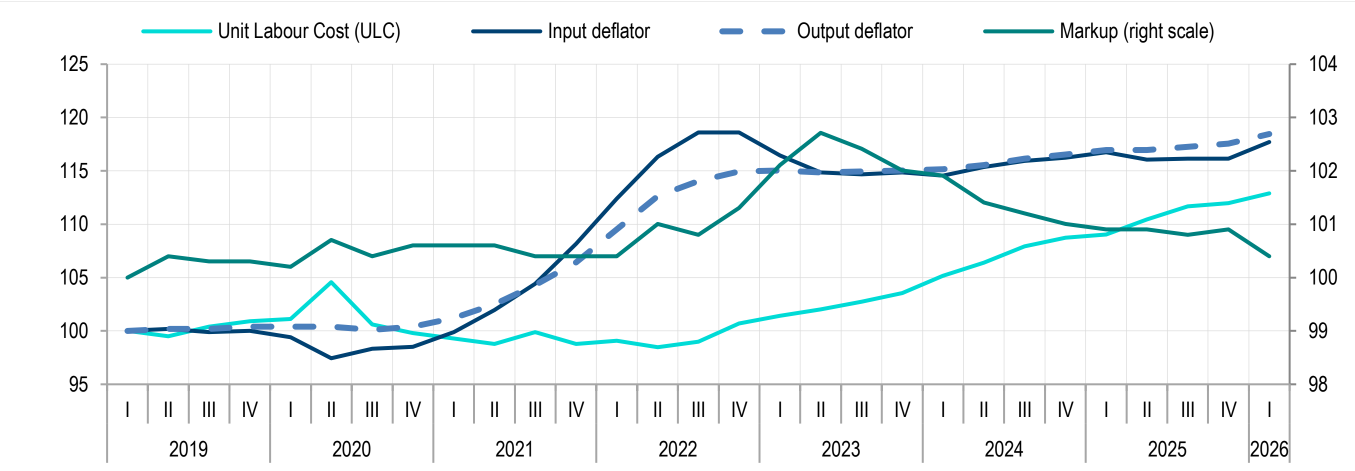
Expectations of rising inflation are easing. In June, the proportion of consumers who expect inflation to rise over the next 12 months compared with the previous 12 months fell for the second consecutive month, to 55.7 per cent (from 57.8 per cent in May and 69.4 per cent in April). As regards businesses, the net balance between the proportions expecting price rises and those expecting price falls over the next three months fell in June across all sectors: in manufacturing (from 25 percentage points in May to 21.1 points in June), in construction (from 18.5 to 13.4), in retail trade (from 21.1 to 19.7) and, albeit slightly, also in market services (from 6.2 to 6.1), where it was already significantly lower. At the same time, the proportion of firms intending to keep their prices stable increased (in manufacturing from 69.9 per cent to 73.1 per cent; in construction from 76.2 per cent to 82.1 per cent; in services from 84.4 per cent to 88.5 per cent; and in retail from 72.7 per cent to 77.3 per cent).

focus

QUARTERLY TRENDS IN COSTS, PRICES AND PROFIT MARGINS ACROSS ECONOMIC SECTORS *

The persistence of an international environment characterised by considerable instability and inflationary pressures significantly affects the decisions of economic operators. Although there is no comprehensive and consolidated set of data based on company financial statements and provided within the framework of structural economic statistics, it is possible to derive certain indicators1 from Istat's quarterly national accounts estimates, which allow for a more timely assessment of the Italian production system's strategies for adapting to international price shocks and the effects these have on the domestic labour and intermediate goods markets.
Between the first quarter of 2019 and the first three months of 2026 (Figure F1), selling prices for the economy as a whole (+18.4 per cent) and those of intermediate inputs (+17.7 per cent) showed very similar growth patterns. Over the same period, unit labour costs rose sharply (+12.9 per cent), largely attributable – against a backdrop of broadly stable productivity – to the wage increase that began in mid-2022.
In particular, the profit margin for firms (or markup) rose over the two years 2022–2023, then declined further between 2024 and early 2026, coinciding with a gradual recovery in labour costs.

FIGURE F1. KEY INDICATORS OF PRICES, COSTS AND MARGINS FOR THE ECONOMY AS A WHOLE. Q1 2019 – Q1 2026 (index figures, base: Q1 2019 = 100).



Source: Processing of Istat data.

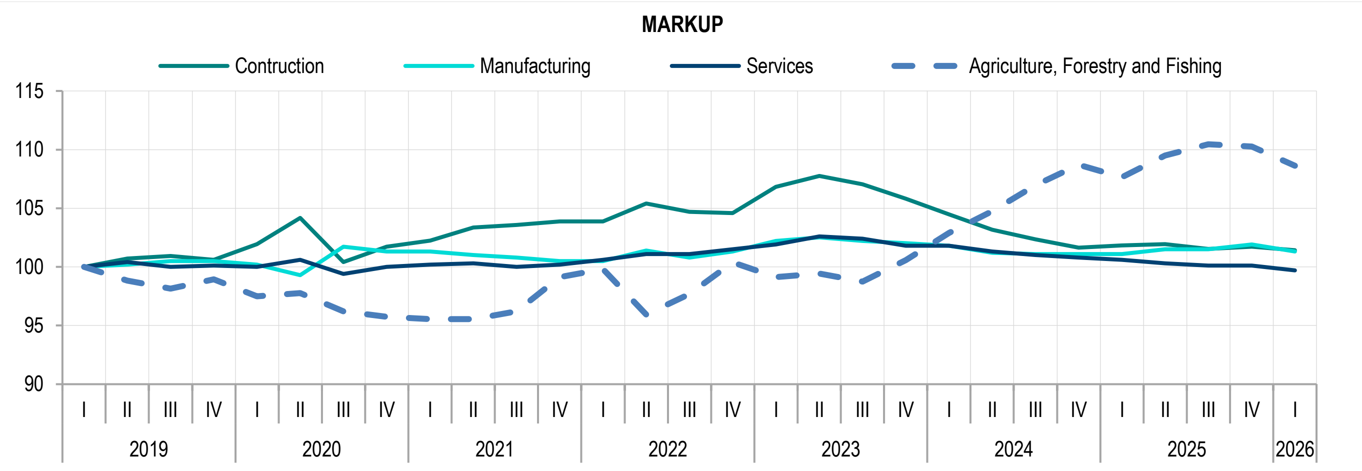
The decline in the markup was particularly pronounced in the first quarter of 2026 (-0.5% compared with the fourth quarter of 2025), while unit variable costs rose by 1.3% quarter-on-quarter. This increase is mainly attributable to the rise in the input deflator (+1.4%), whilst unit labour costs recorded a more moderate increase (+0.8%). Over the same period, selling prices, as measured by the output deflator, rose by 0.9%.
The trend in mark-ups across the main sectors of production between 2019 and the first quarter of 2026 (Figure F2) highlights different patterns in the pass-through of increases in labour and intermediate input costs to selling prices. In manufacturing and services, price and cost trends were broadly similar, resulting in a similar markup trend that only diverged in the most recent period. In the manufacturing sector, the markup level in the first three months of 2026 was slightly higher than in the first quarter of 2019 (+1.3%), whilst for services there was a marginal decline (-0.3%).

* Focus by Marco Rinaldi.

[1] The indicators used in this analysis are taken from the quarterly national accounts. Specifically: the output deflator, which measures the prices of all goods and services produced in the economy, is calculated as the ratio of output at factor cost at current prices to output at chained factor cost; the input deflator, which measures the prices of intermediate goods used by firms in the production process, is calculated as the ratio of intermediate costs at current purchase prices to those at chained purchase prices; unit labour costs (ULC), which measure the proportion of labour costs per unit of goods and services produced, are given by the ratio of employee compensation (the sum of gross wages and social security contributions) to output; Finally, the markup, defined as the ratio of the output deflator to unit variable costs (the sum of input prices and the ULC), serves as a proxy for profit margins.

In construction, on the other hand, partly driven by the fiscal stimulus measures introduced at national level (e.g. the Superbonus), there was initially (between 2021 and 2023) a marked increase in the mark-up (+4.5%), driven by a more pronounced rise in prices relative to costs, followed by a gradual reabsorption of profit margins in subsequent years.
The trend in profit margins in agriculture is more complex; this sector was initially characterised by a sharp decline, due to the faster growth in intermediate costs compared with selling prices, and subsequently by a substantial recovery, driven by the gradual adjustment of selling prices, resulting in profitability levels in the first quarter of 2026 that were 8.6 per cent higher than at the start of 2019.

FIGUR2 F2. MARKUP BY ECONOMIC SECTOR. Q1 2019 – Q1 2026 (index figures, base: Q1 2019 = 100).



Source: Processing of Istat data.

Looking at the most recent period, the first quarter of 2026 saw a quarter-on-quarter decline in mark-ups across all major sectors, driven by growth in unit variable costs outpacing growth in selling prices. Compared with the fourth quarter of 2025, the decline is particularly marked in the agriculture, forestry and fisheries sector (-1.5 per cent), where the rise in costs (+1.5 per cent) is not reflected in selling prices, which remain broadly stable. A similar trend is observed in the manufacturing sector, where variable costs rose by 1.9 per cent quarter-on-quarter, whilst selling prices increased by 1.2 per cent, resulting in a 0.6 per cent reduction in the markup. Finally, the decline in the markup was more modest in construction (-0.3 per cent) and services (-0.4 per cent).

In conclusion, the analysis highlights that the evolution of mark-ups among Italian firms is characterised by three distinct phases: a period of substantial stability between 2019 and 2022, a phase of expansion in 2023, and a gradual decline in the most recent period. Output and intermediate goods prices followed broadly similar trends, except that intermediate goods prices rose more sharply than final goods prices during 2022–2023, coinciding with the energy crisis triggered by the war between Russia and Ukraine. Unit labour costs (ULC) remained stable until mid-2022, then rose steadily, contributing to a squeeze on profit margins. In the early months of 2026, the further reduction in profit margins was also driven by the differing trends in sales prices and intermediate goods prices.

For technical and methodological clarifications

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OFFICIAL STATISTICS LISTEN TO ITS USERS

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The consultation focuses not on data communication or dissemination methods, but rather on statistical production itself.

The initiative aims to strengthen the quality, relevance, and usability of statistical production, while at the same time fostering transparency and participation.

The consultation is open to institutions, the scientific community, media professionals, businesses, associations, and citizens.

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