ITALY
2025-2026 SCENARIO

BETWEEN A ROCK AND A HARD PLACE

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Sofia Tozy

WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

ITALY, BETWEEN A ROCK AND A HARD PLACE

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Scenario highlights

- **Slight recovery in consumption**
- **Investment momentum driven by Germany**
- **US protectionism**
- **Slowdown in construction**

	2024	2025	2026	2027
GDP **y/y, %**	0,5	0,6	1,0	0,9
Domestic demand contribution to GDP, pps	0,4	0,6	0,6	0,6
Private consumption y/y, %	0,4	0,9	0,9	0,8
Investment y/y, %	0,0	-0,2	0,2	1,0
Stockbuilding contribution to GDP, pps	-0,2	0,3	0,4	0,3
Net exports contribution to GDP, pps	0,3	-0,4	0,0	0,0
Inflation y/y, %	1,1	1,7	1,2	1,2
Unemployment rate %	6,6	6,5	6,7	6,7
Fiscal balance % of GDP	-3,2	-3,3	-3,0	-2,8

Slight recovery in consumption

Investment momentum driven by Germany

The Italian economy proved resilient in 2024 in an already unpromising international environment, with better-than-expected growth of 0.7%. But in early 2025 the economic outlook is sending out more mixed signals. Consumer and business confidence is weakening and uncertainties are mounting, with persistent geopolitical tensions and threats of tariff hikes from the United States. All of which puts the recovery on hold.

As such, Italy in 2025 is expected to post a third year of moderate growth (+0.6%). Consumption, supported by slightly more favourable purchasing power, is expected to increase, even though caution continues to prevail in terms of savings. While, exports are likely to suffer from trade tensions, with an expected decline of 0.5%, despite a hoped-for rebound in Europe, thanks to Germany and the increase in defence spending. Our estimate does not factor in Trump's "Liberation Day" announcements, which would generate a decline of a full 4% to 6% if the 20% customs tariffs were to be applied. Business investment could recover slowly, supported by more favourable monetary conditions, but the slowdown in the construction sector will weigh on overall momentum. Inflation is expected to remain stable at around 1.3%.

ITALY, BETWEEN A ROCK AND A HARD PLACE

In 2024, the Italian economy surprised by its resilience, achieving GDP growth of 0.7%, exceeding the initial forecast of 0.5%. This positive trend was driven by domestic demand, offsetting the negative impact of inventory changes. But indicators for early 2025 paint a mixed picture, with a deterioration in consumer and business confidence. The time for recovery has therefore not yet come, especially as headwinds remain, with the sword of Damocles effect of US tariffs, which threaten global trade, and the ongoing impact of the conflict in Ukraine on the geopolitical situation in Europe.

Italy is expected to post its third consecutive year of moderate growth in 2025, with a projected 0.6% increase in GDP. This outlook will be underpinned by an increase in consumption (+0.9%), through improved purchasing power, but limited by persistent precautionary savings behaviour. Trade tensions, particularly the increase in US tariffs, will weigh on exports, which could post a second year of negative growth at -0.5%. Weak demand from non-EU countries should nevertheless be offset by a recovery in European momentum, driven by the German stimulus package and by increased EU defence spending. With the return of favourable monetary conditions, expectations of a recovery in manufacturing are likely to have a positive impact on productive investment, which is expected to recover moderately. But the increase in gross fixed capital formation (GFCF) is expected to remain negative overall, owing to the expected slowdown in construction. Inflation is expected to remain contained, at 1.3%, despite a slight recovery in energy prices.

A slight pick-up is forecast in 2026, with GDP growth of 1.0%. This recovery will be underpinned by stable consumption (+0.9%) and a rebound in exports (+1.3%), driven by intra-European momentum. GFCF growth is also expected to strengthen.

Given the current environment, upside and downside risks alike remain significant. Greater spillover effects from the German investment plan could boost the Italian economy, as could the potential non-enforcement of US tariff increases. In contrast, growth could be adversely affected by an increase of US tariffs to 20% on all EU exports from 2025, or by the diluted impact of the European and German rearmament plan. Moreover, an inversion in the long-term yield curve could increase the cost of credit. Some sectors in particular call for special attention. The automotive industry remains vulnerable to US tariffs, while manufacturing appears to be stabilising, albeit in a fragile manner. Construction remains robust despite the upcoming end of tax incentives but is expected to stumble once their impact dries up. The labour market has proved resilient, with a historically low unemployment rate, but is showing signs of a slowdown.

INTRODUCTION

THE INTERNATIONAL ENVIRONMENT

Global growth is expected to slow in 2025 before picking up slightly in 2026. This momentum will be driven mainly by advanced economies, with emerging economies trending at a more moderate pace. Growth in the latter is expected to dip from 4.3% in 2024 to 4.0% in 2025 and 2026. Chinese growth is expected to continue slowing on tighter US trade – with exports hit by tariffs – and a still gradual domestic recovery. After 5.0% in 2024, GDP is expected to grow by 4.6% in 2025 and 4.3% in 2026.

US GDP growth is expected to slow to 1.7% in 2025 before rebounding to 2.2% in 2026. Inflation is expected to follow a similar trajectory, with a decline at the beginning of the year followed by a gradual recovery, with an annual average of 2.7% for 2025 and 2026. The Fed looks set to resume its monetary easing cycle with two 25bp cuts in June and September 2025, before taking an extended pause with a terminal rate of 4.00%. Long-term rates are expected to fall slightly in second-quarter 2025 in response to the slowdown generated by tariffs and the drop in key rates.

Forecasts for 10-year Treasury yields are 4.45% at the end of 2025 and 4.75% at the end of 2026. Meanwhile, ECB easing is coming to an end. A final cut of 25bp is expected in June 2025, stabilising the deposit rate at 2.25% through end-2026. The 10-year Bund is expected to remain above 3%, at 3.1% at end-2026. The flattening of the German curve, combined with an improved growth outlook in the Eurozone, suggests a gradual tightening of sovereign spreads, with 55bp for OAT and 105bp for BTP by the end of 2026.

The euro is expected to appreciate moderately, reaching 1.12 against the US dollar in fourth-quarter 2025. But it will not rise any further, owing to the recovery of the US economy and the rise in US yields in the second half of 2026.

In the energy market, the recent announcement by OPEC+ to increase production should put downward pressure on prices, with the Brent expected to average USD XX in 2025 and USD 70 in 2026. Lastly, the increased use of natural gas stocks in a colder winter will drive the LNG market in the coming months.

International background assumptions

	2023	2024	2025	2026	2024				2025				2026			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP Euo area (YoY, QoQ, %)	0,9	0,9	1,0	1,5	0,3	0,2	0,4	0,2	0,2	0,1	0,3	0,6	0,3	0,3	0,3	0,3
GDP United States (YoY, QoQ, annualised, %)	2,9	2,8	1,7	2,2	1,6	3,0	3,1	2,4	0,8	1,5	1,2	1,8	2,5	2,5	2,4	2,4
GDP China (YoY, QoQ, %)	5,4	5,0	4,6	4,3	1,5	0,9	1,3	1,6	1,3	0,7	0,9	1,0	1,3	1,1	1,0	1,0
GDP World (YoY, QoQ, %)	3,3	3,1	2,8	3,0	-	-	-	-	-	-	-	-	-	-	-	-
ECB Deposit rate (period end, %)	4,00	3,00	2,25	2,50	4,00	3,75	3,50	3,00	2,50	2,25	2,25	2,25	2,25	2,25	2,25	2,50
Fed Funds rate (period end, %)	5,50	4,50	4,00	4,00	5,50	5,50	5,00	4,50	4,50	4,25	4,00	4,00	4,00	4,00	4,00	4,00
Exchange rate (average, EUR/USD)	1,08	1,08	1,10	1,11	1,09	1,08	1,10	1,07	1,11	1,08	1,10	1,12	1,12	1,11	1,10	1,10
Brent (average, USD/barrell)	82,2	79,9	71,3	69,3	81,9	85,0	78,9	74,0	75,1	73,0	70,0	67,0	65,0	70,0	70,0	72,0

Sources: BAE, ECB, Eurostat, IMF, Refinitiv, Federal Reserve, Crédit Agricole S.A./ECO.

RECENT ECONOMIC TRENDS

After an initial estimate of 0% in Q4 2024, Istat revised its GDP growth estimate upwards in January, to 0.1%, when the details of the national accounts were published. This increase was driven primarily by domestic demand, which contributed 0.5% to activity. Despite the decline in imports (0.4%) and exports (0.2%), foreign trade also continued to make a positive contribution. Growth was dampened by a sharp negative change in inventories, which took 0.4% off GDP. Over the quarter, despite a slight pick-up in inflation, the GDP deflator increased by just 0.8%, while the household consumption deflator rose by 0.4%. Nominal GDP increased by 0.9%.

In terms of **demand**, while growth in consumption remained limited (+0.2% over the quarter), the surprise came from investment, which grew by 1.6%, after a 1.6% decline in the previous quarter.

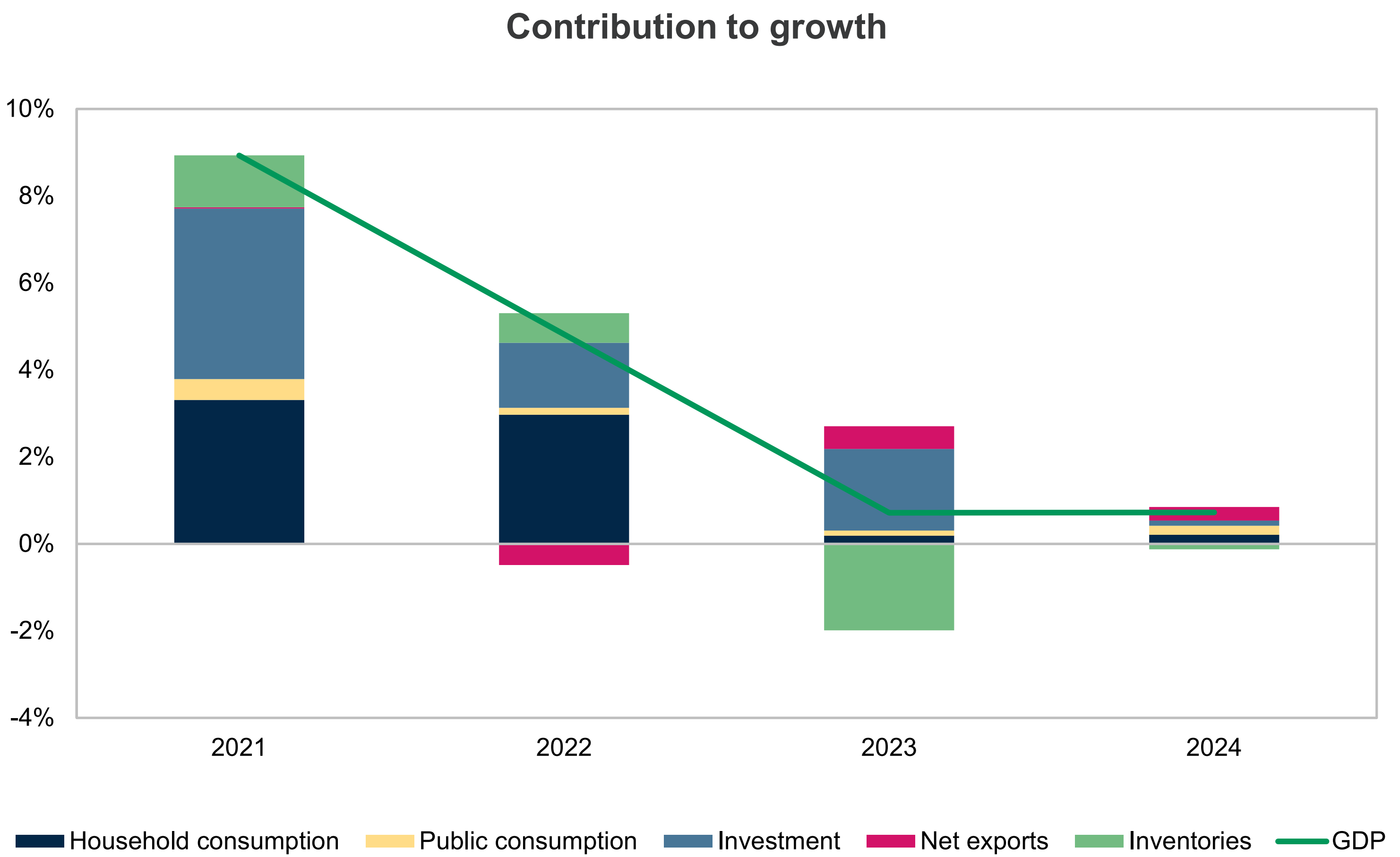
In terms of **supply**, industry in the broad sense gained 0.9%, driven by manufacturing (+0.8%) and construction (+1.2%). The 0.1% decline in services resulted from a negative performance by insurance and telecommunications, which declined 0.7% quarter-on-quarter. The contraction in these sectors was not offset by the growth in real estate and research and support businesses. The retail, transport and hotel and restaurant sectors, which account for a substantial share of the services activity, held steady over the period.

Hours worked increased by 0.2% compared with the previous quarter, signalling continued strong growth in employment. This trend was driven by the increase in hours worked in agriculture (+4.5%), construction (+2.8%) and, to a lesser extent, industry. In contrast, hours worked in services fell by 0.4%.

In volume terms, Italian GDP grew by 0.7% in 2024, outstripping both the consensus and our December forecast of 0.5%. This growth was underpinned in part by household spending. However, gross fixed capital formation slowed significantly in 2024.

RECENT ECONOMIC TRENDS

GROWTH STABILISED IN 2024



Sources: Istat, Crédit Agricole S.A./ECO.

RECENT ECONOMIC TRENDS

The **revision of the public accounts** also led to a downward revision of the public deficit compared with the amount forecast in the October medium-term budget programme. The public deficit now stands at 3.2% (vs. 3.8% in official forecasts). Italy also achieved the budget targets for the primary balance in 2024, with a return to a surplus slightly higher than expected, at 0.4%. Public debt increased slightly, to 135.3%.

While the **national accounts** are trending fairly positively, the picture painted by the leading indicators in early 2025 remains mixed.

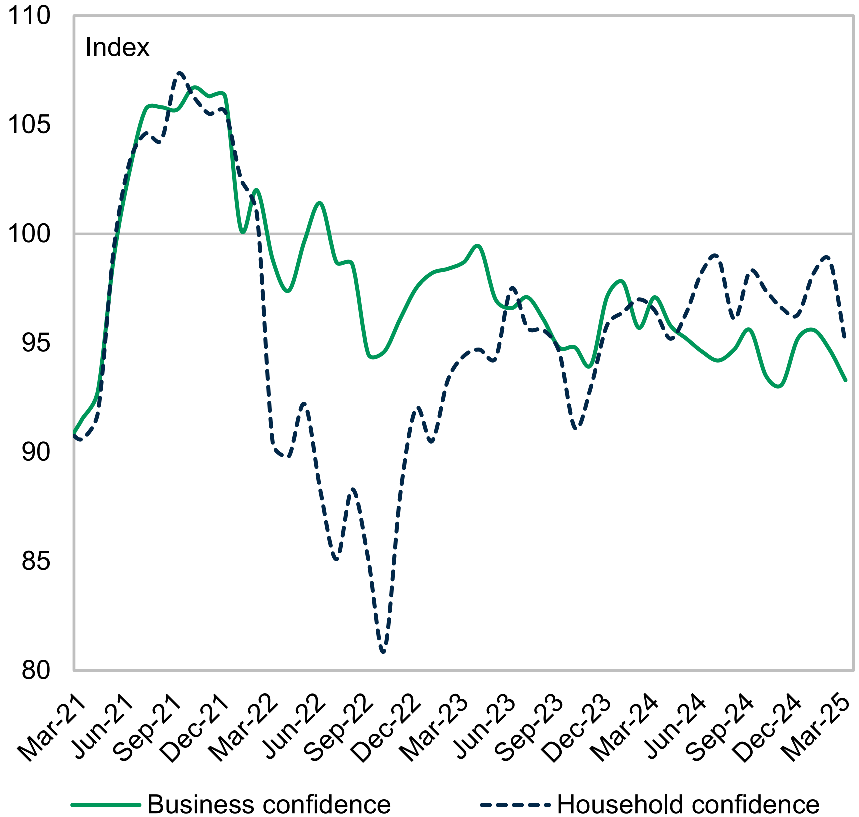
In March, **confidence** deteriorated both among consumers and businesses. The household indicator broke with the improvement of the previous two months, falling from 98.8 to 95.0. Households remain concerned about general and future economic prospects. Only the perception of the opportunity to save is improving in a meaningful manner. However, business confidence, which declined for the second month in a row, shows contrasting developments from one sector to the next, with a decline in services and manufacturing, stability in retail trade, and encouraging growth in the construction sector. The construction sector confounded expectations by continuing to post strong performances. The sector grew 5.9% month-on-month in January 2025 after contracting in December and posted a quarterly increase of 3.3% between November 2024 and January 2025. Industry and services also showed signs of a recovery at the beginning of the year, with industrial revenue up 3.8% in value terms and 4.0% in volume terms in January, in the domestic and external markets alike. Services also boasted positive momentum, with an increase of 1.2% in value and 0.9% in volume.

Foreign trade with non-EU countries is showing signs of resilience in the short term, with exports up 2.8% in February from January, mainly driven by consumer goods. However, year-on-year exports contracted by 2.1%, while imports increased by 8.6%, leading to a reduction in the trade surplus (€4.7 billion, compared with €6.9 billion a year earlier). This deterioration resulted in particular from an increase in the energy deficit and a sharp drop in exports to certain key markets, such as the United States (-9.7%). Excluding exceptional developments linked to shipbuilding, exports nevertheless increased by 1.7% year-on-year, suggesting a more favourable underlying trend. These trends come against a backdrop of sluggish overall growth for the Italian economy. The country's monetary policy is starting to ease, but international uncertainties and weak external demand continue to erode the confidence of economic agents and the economic outlook. The coming months will be decisive in confirming whether the positive signals observed at the beginning of the year in industrial production and construction can strengthen despite a dip in confidence.

RECENT ECONOMIC TRENDS

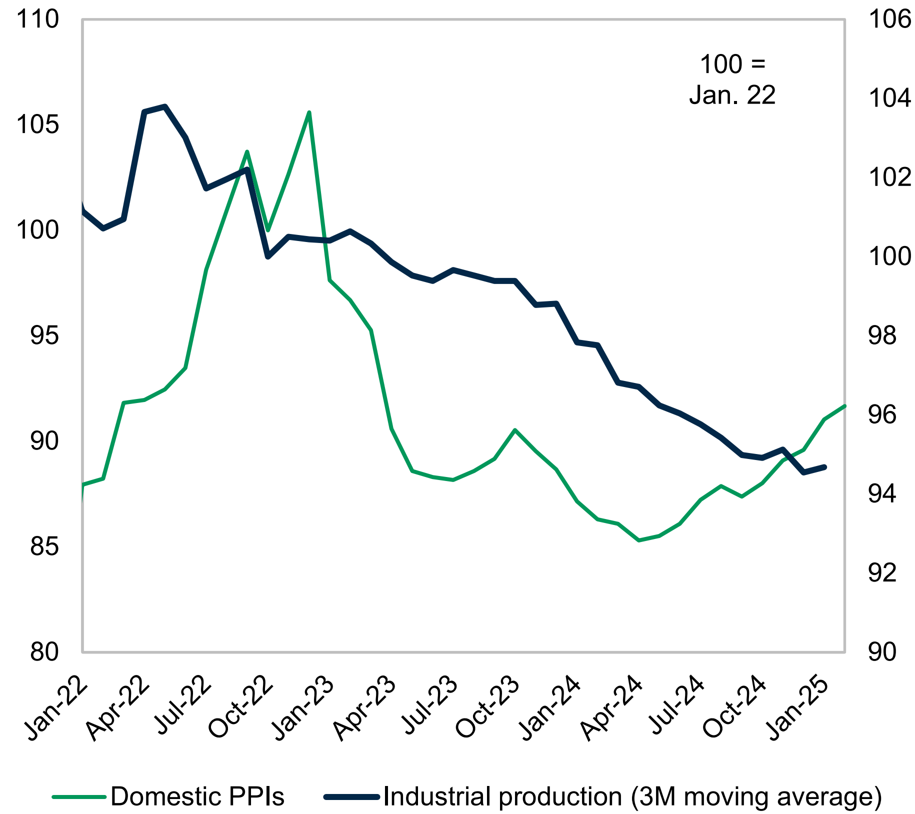
MORE CONTRASTED ECONOMIC SIGNALS

Consumer and business confidence



Sources: Istat, Crédit Agricole S.A./ECO.

Industrial production prices and industrial production



Sources: Istat, Crédit Agricole S.A./ECO.

HOUSEHOLDS

CONSUMPTION: LOW GROWTH AND SERVICES GONE AWOL

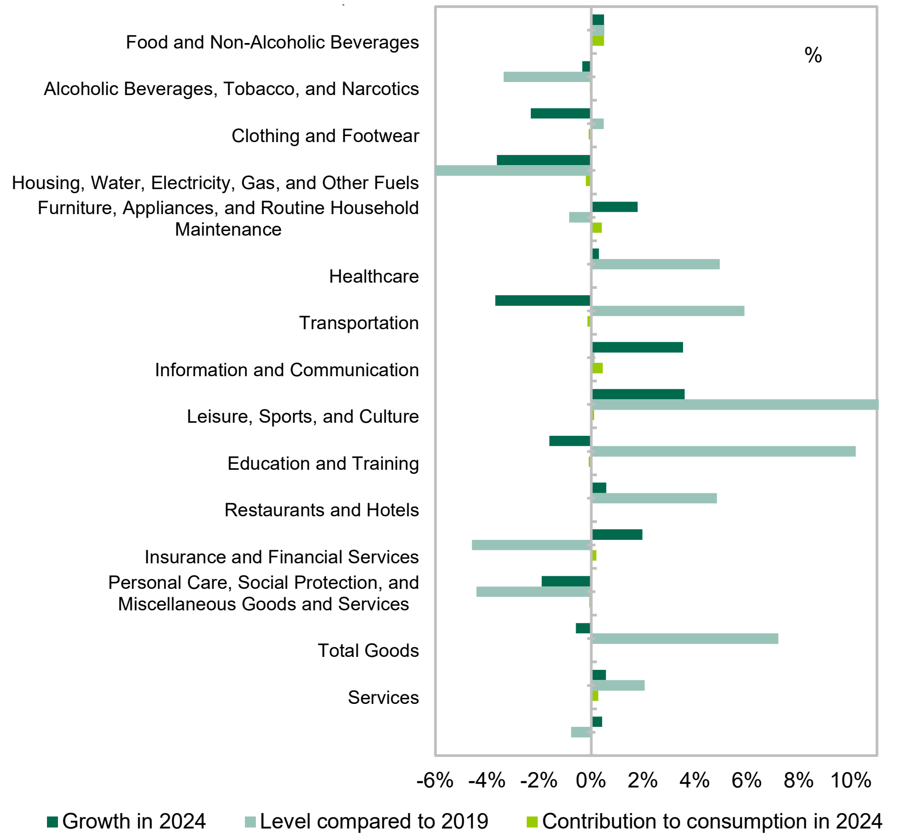
Despite a sharp drop in inflation, the effects of the inflationary shock on household consumption continue to persist in 2024. The annual accounts show that consumption was sluggish in 2024, up 0.4% in volume terms, after an already timid 0.3% in 2023, following the latest revision by Istat.

The quarterly consumption review also shows a much less favourable profile. While growth rates for fourth-quarter 2023 and first-quarter 2024 were revised upwards substantially, leaving a more favourable overhang for 2024, the recovery in consumption was much softer in the following quarters. The increase in consumption in Q2 was revised downwards, while the rebound in Q3 was reduced by more than two thirds. In the last quarter of the year, the slowdown was confirmed at 0.2% quarter-on-quarter.

With a more marked slowdown in consumption, the revision of the accounts also sheds light on movements within various expenditure categories, which alters the initial interpretation of household behaviour and is more in line with the latest developments on the supply side.

First, service consumption expenditure has slowed, as seen in a substantial revision of estimates for Q2 and Q3 2024.

Trend in consumption by expenditure item



Sources: Istat, Crédit Agricole S.A./ECO.

HOUSEHOLDS

CONSUMPTION: LOW GROWTH AND SERVICES GONE AWOL

Factoring in the timid increase in the fourth quarter (0.2%), spending on services increased by a lowly 0.4% in 2024. The overhang for 2025 in this expenditure category of expenditure is also modest, at +0.3%. Several factors can explain this slowdown. First, despite the decrease in inflation over the past year, services prices held fairly firm. The consumption deflator for services is still high (2.6% in Q4 2024) compared with those of durable and non-durable goods, in negative territory since the beginning of the year.

Second, spending on services is also slowing due to sector-specific trends. Despite record results in the financial sector, spending on insurance products and financial services posted the steepest decline, down 1.9% in 2024 after a 3.4% decline in 2023, as a direct consequence of the increase in the cost of credit and the slowdown in the real estate market.

Spending on leisure, which accounted for 6% of total spending in 2024, also fell over the year, down 1.6%, breaking with the sharp increase since COVID. A long-term analysis by expenditure item shows that spending on leisure services grew substantially between 2021 and 2022, by 9% and 22% respectively. This expenditure category made the second-largest contribution to consumption in 2022, at 1.3 percentage points, just behind hotel and restaurant spending, at 1.9 points.

In addition, at the end of the year, despite the decline in 2023 and 2024, this category reached a level 10% higher than before the pandemic. The decline thus appears to stem from a return to normal of consumer purchasing behaviour, which means that there is limited room for future growth. Healthcare spending followed the same downward trend. This expenditure item increased sharply during the pandemic period and is 6% higher than in 2019. However, other expenditure items have still not returned to pre-crisis levels. This is true for spending on catering and hospitality, which accounts for 9% of total household spending, and which remains 5% lower than in 2019.

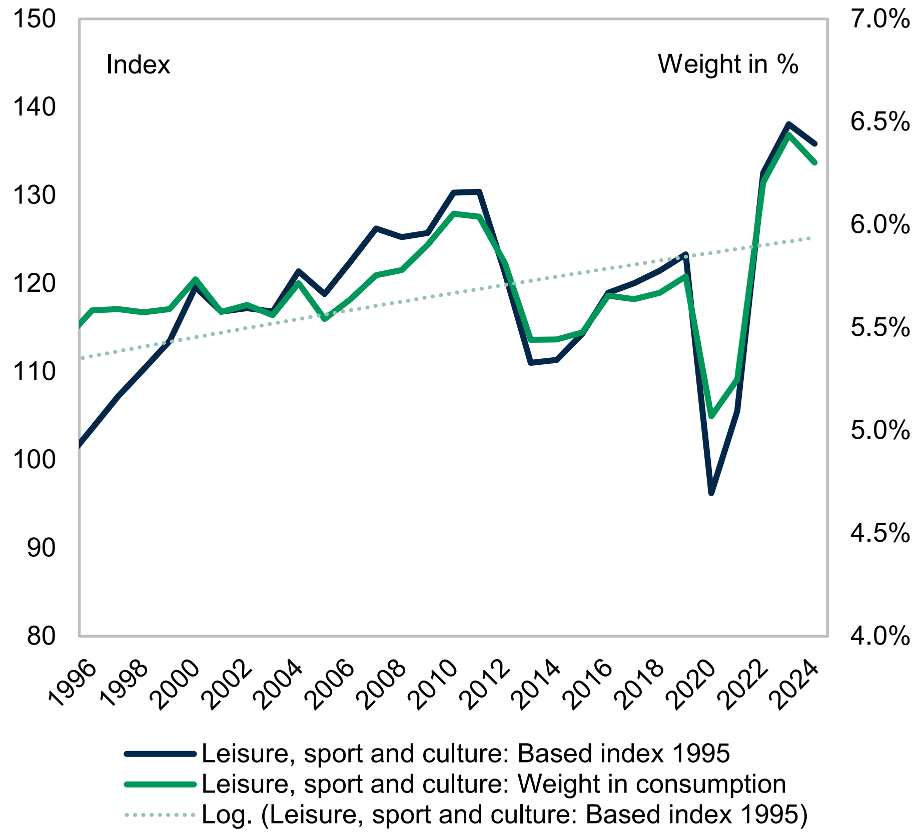
HOUSEHOLDS

CONSUMPTION: LOW GROWTH AND SERVICES GONE AWOL

Overall, despite sustained growth since 2021, household spending on services remains 0.8% lower than before the crisis.

But the consumption of goods appears to be picking up again. Although the revision of the national accounts shows a less buoyant trend in services, it show higher growth in the consumption of durable goods and, to a lesser extent, non-durable and semi-durable goods, with the former posting an increase of 2.2% (compared with an initial estimate of 0.5%). Over the year, goods purchases increased more than services purchases, up 0.6%, compared with a 1.7% decline in 2023. In addition to favourable price effects, with inflation on goods in negative territory for most of the year, households appear to be more inclined to purchase durable goods, with consumer surveys at the beginning of the year pointing to stronger purchasing intentions than in the previous quarter.

Long-term trend in spending on leisure, sport and culture



Sources: Istat, Crédit Agricole S.A./ECO.

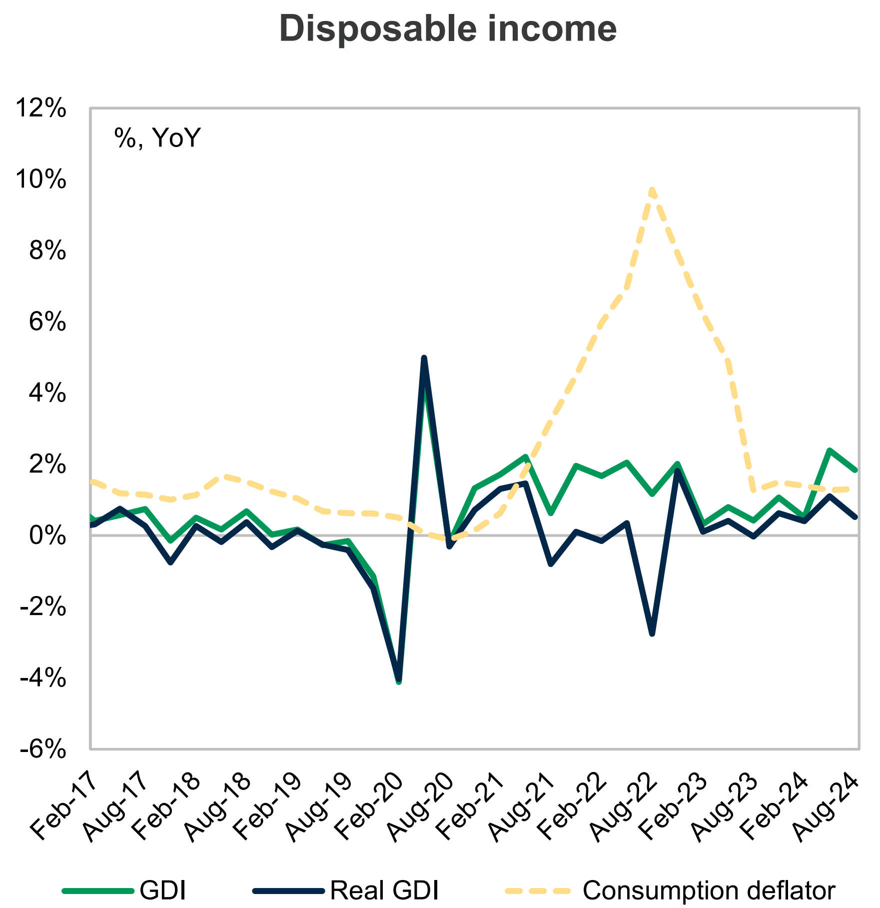
HOUSEHOLDS

DISPOSABLE INCOME: SAVINGS FUELLED BY COMING IMPROVEMENT

Though its declined in the fourth quarter, the purchasing power of Italian households improved in 2024, up 1.3%, while low inflation generated real disposable income growth of 2.7%.

Growth in disposable income was driven in part by primary household income (+3.4%), particularly employee remuneration. It was driven to a lesser extent by income from property, followed by income from entrepreneurial activity (+0.4%). Income from financial capital fell by 1.9% over the year. In parallel, social benefits increased by 5.1% in 2024, driven in particular by an increase in pensions and family allowances.

Weak consumption over the year was also reflected in an increase in savings in 2024, despite a slight fourth-quarter decline in the propensity to save. The annual savings rate rose from an average of 8.2% in 2023 to 9.0% in 2024, suggesting that the strategy to rebuild available savings is continuing.



Sources: Istat, Crédit Agricole S.A./ECO.

HOUSEHOLDS

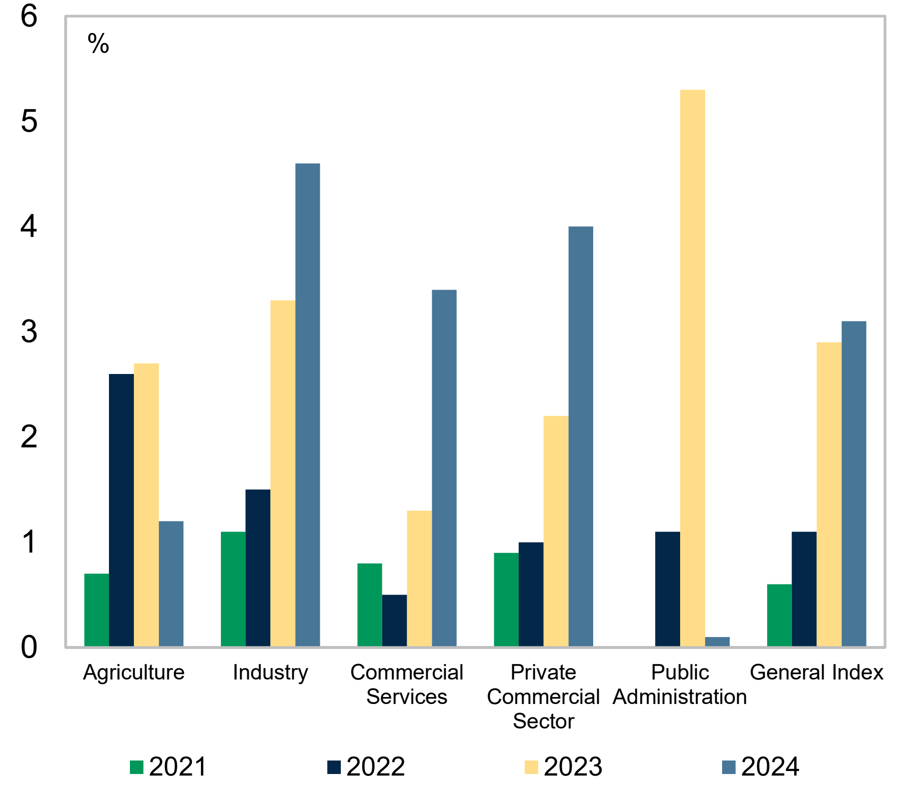
CHANGE IN REAL WAGES

Growth in disposable income was largely driven by growth in nominal wages during the year (income related to remuneration). For 2024 as a whole, contractual wages increased by 3.1%, the biggest rise since 2021. Growth in contractual wages was driven by the merchant sector, the index for which increased by 4% in 2024, after 2.2% in 2023. While most of the increases in the public sector were approved in 2023, public-sector wages rose by a modest 0.1% for the year. The industrial (+4.6%) and private services (+3.4%) sectors posted robust increases, while the increase in agricultural wages slowed to 1.2% in 2024.

After a strong decline for two consecutive years (-3.3% in 2022 and -3.2% in 2023), real wages are expected to rise again in Italy, with growth of 2.3% for the year. This increase is good news for household purchasing power but fails to offset accumulated losses. Besides the impact of the energy shock, which has driven wages down in real terms, the International Labour Organization in its latest Global Wage Report observed that the situation in Italy contrasts with that of the rest of the G20 countries. Between 2008 and 2024, real wages in Italy fell by nearly 8%, ahead of Japan (6.3%), Spain (4.5%) and the United Kingdom. In comparison, real wages in South Korea have increased by 20% overall in the same period.

Although the outlook for 2025 points to a gradual stabilisation, through better controlled inflation and a more favourable monetary environment, the fragility of the overall economic environment continues to weigh on wage momentum. Though the labour market continues to expand, signs of a slowdown are multiplying, both in terms of hours worked, which are falling, and short-time work, which is increasing slightly. Wage momentum itself slowed in the second half of the year after two quarters of sharp increases.

Trend in contractual salaries



Sources: Istat, Crédit Agricole S.A./ECO.

INFLATION: THE SLIGHT INCREASE IN ENERGY PRICES IS WORRYING BUT SHOULD REMAIN LIMITED

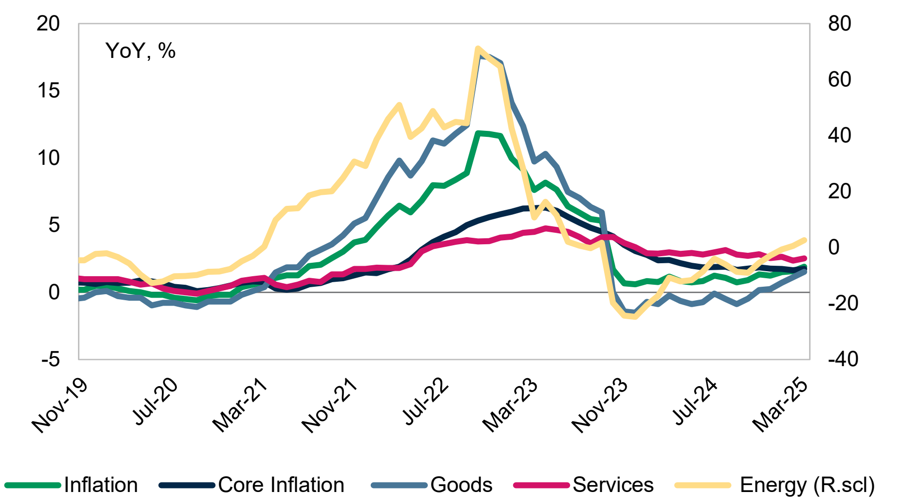
Inflation accelerated slightly in Italy in March 2025, with an annual rate of 1.9%, compared with 1.6% in February. Inflation increased by 1.7% in the first quarter, compared with a 1.2% rise in Q4 2024, mainly on energy price momentum, which has returned to positive territory. The regulated component of energy posted a particularly sharp increase, reaching more than 30% in February. Food prices are also showing signs of accelerating, both for processed and fresh products. The household basket increased by 2.1%, up from 1.7% in January.

However, core inflation (excluding energy and fresh food) held steady at 1.7%, as did inflation excluding energy products only. The prices of some services, including transport, communications and recreational and cultural activities, as well as those of goods, accelerated in March, breaking with previous momentum. Although limited in several sectors, inflation momentum continues to fuel economic uncertainty, with negative consequences on the outlook for consumption.

To address persistent inflationary pressures in the energy sector, the government has taken urgent measures to protect families and businesses. The “Energy Decree”, approved on 28 February 2025 by the Council of Ministers, provides for a budget of nearly €3 billion to reduce electricity and natural gas tariffs. Of this amount, €1.6 billion is allocated to households in the form of direct aid. An extraordinary contribution of €200 has been introduced for households with an ISEE of less than €25,000. This assistance can be increased to as much as €500 for beneficiaries of the social bonus.

However, the trends observed at the start of the year do not seem likely to last. The increase in gas costs results in part from seasonal effects, including a colder winter, and declining inventories, which have led to a temporary increase in demand. For now, forecasts for energy goods prices continue to trend downwards, influenced in particular by a slowdown in global trade as a direct result of the trade war waged by the Trump administration. The trend for the rest of the year should be more disinflationary, though less pronounced than in 2023. In addition, inflation forecasts for Italy have been revised downwards relative to the previous year, to 1.2% for 2025 and 1.3% for 2026.

Inflation



Sources: Istat, Crédit Agricole S.A./ECO.

LABOUR MARKET TRENDS IN 2024

Labour market resilience was confirmed in 2024, with employment growth continuing, though at a slower rate than in the previous year. The number of people in employment increased by 1.5% to 23.932 million, bringing the employment rate to 62.2%, up 0.7 points. Unemployment continued its downwards trend. The number of jobseekers fell by a sharp 14.6% to 1.664 million and the unemployment rate now stands at 6.5%, 1.1 points lower than in 2023. This is a record low, reflecting the strong performance of the Italian labour market despite moderate economic growth. Long-term unemployment also declined in 2024, accounting for only 50.2% of the unemployed, compared with 54.8% the previous year. After contracting sharply for three years, the number of economically inactive people picked up slightly (+0.5%).

Salaried employment increased by 2.3%, less than in 2023 and having slowed quarter by quarter. Services (+2.7%) outdid industry (+1.5%), with real estate (+12.3%), arts and sports (+6.6%) and hotels and restaurants (+5.1%) posting particularly buoyant performances.

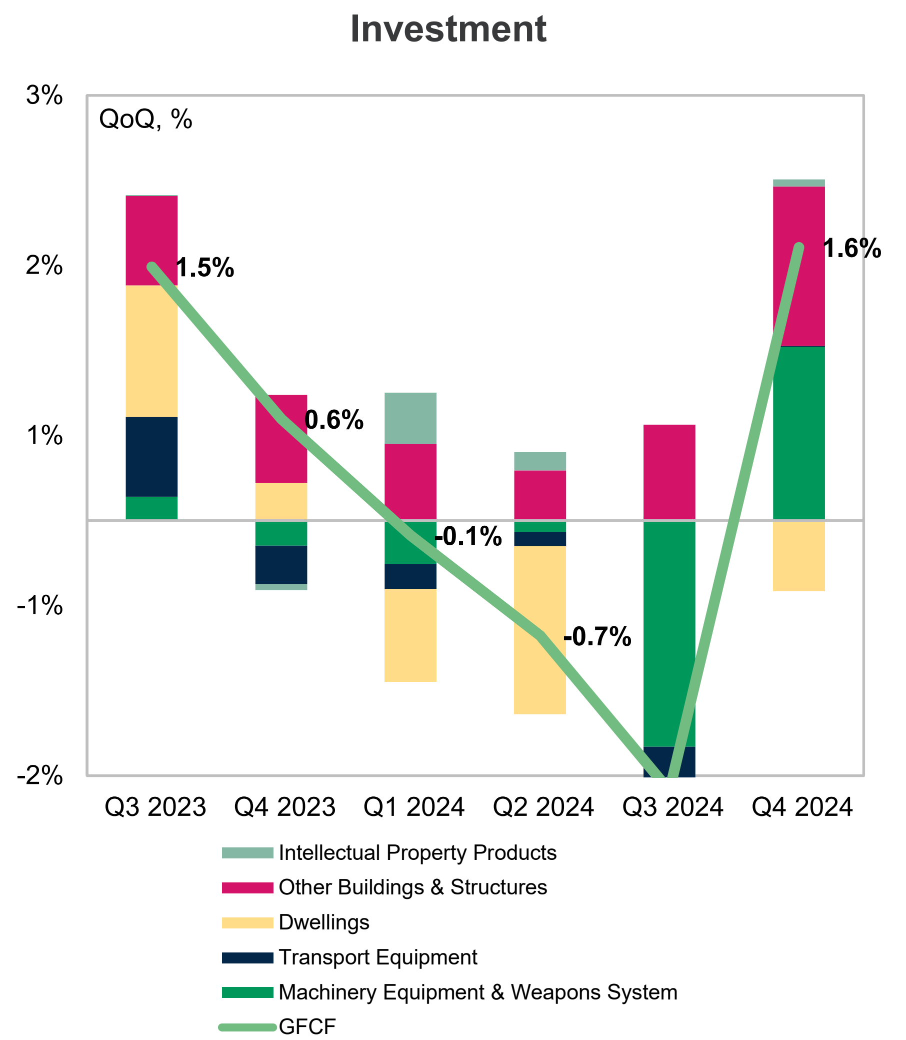
The quality of employment has also improved considerably. The positive momentum in both labour supply and demand is being driven primarily by permanent contracts, which rose by 3.3%, while temporary work contracts fell by 6.8%. In addition, full-time employment increased for the fourth consecutive year (+2.6%), at the expense of part-time employment, which contracted by 3.7%. **This positive development results from businesses looking to hold on to their qualified staff against the backdrop of a shrinking pool of available labour.** Labour market tensions also appear to be easing, with the vacancy rate falling 0.2 points to 2.1% on an annual average. This decline, more pronounced in industry (-0.3 points) than in services (-0.2 points), suggests a gradual rebalancing between the supply and demand of skills. But this rate remains relatively high in some sectors, pointing to persistent recruitment difficulties, particularly in fields requiring specific qualifications.

Signs of a slowdown are nevertheless emerging. Hours worked increased (+2.8%), but the hourly volume per employee decreased slightly (-0.3%), a sign that the market is adjusting through the quantity of work rather than the workforce. More worrying, the use of short-time work (*cassa integrazione guadagni*, or CIG) increased in industry, to 17.9 hours per 1,000 hours worked (+0.3 compared with 2023), while decreasing in services (-0.7). With non-growth employment now appearing to be the new normal, it is difficult to predict when the turnaround in the labour market will happen. For the second year in a row, growth in employment exceeded growth in activity.

INVESTMENT REBOUNDS IN Q4 2024

After falling for three consecutive quarters, investment rebounded by 1.6% at the end of the year. The recovery was mainly driven by spending on equipment, machinery and armaments (+3.2%) and non-residential buildings and other structures (+4.1%). However, investment in the residential sector declined (-1.4%), and rose only modestly in intellectual property products (+0.3%). The growth overhang for 2025 remains modest at +0.2%.

But for full-year 2024, investments rose only modestly, by 0.5%, much lower than the 9.0% in 2023. Several contrasting trends lie behind this anaemic growth. Up 2.0%, construction investment was driven by the effects of the stimulus plan and the effects of the "Superbonus" still present at the beginning of 2024. The policy on digitalising businesses linked to the objectives of the National Recovery and Resilience Plan also appears to be bolstering investment in intellectual property, up 2.6%. The crisis in the industrial sector, which continues to be impacted by past monetary tightening, resulted in a 1.8% decline in investment in machinery and equipment. Lastly, the slowdown affecting the automotive sector adversely impacted the transport component, down 6.3% in 2024.



Sources: Istat, Crédit Agricole S.A./ECO.

BUSINESSES

INDUSTRY: TIME TO CELEBRATE?

Does the recovery in machinery and equipment investment signal an end to Italy's two-year industrial crisis? It is too soon to answer this question; there are reasons for hope, but caution is also warranted. Manufacturing remained in the red in 2024, with a 0.7% dip in value added. But signs of improvement emerged at the start of the year. Industrial production rebounded sharply in January (+3.2%), offsetting the sharp decline in December (-2.7%). Growth in January was fuelled by a positive performance across all goods categories, with consumer goods up 2.6% and investment goods and intermediate goods both gaining 4.4%. The only category to decline was energy. This increase also left a positive overhang of 1.6% in first-quarter 2025.

However, industrial production has continued to slow in the past three months. Similarly, the year-on-year rise in the index was more contained, at 0.6%. But some sectors stood out with strong performances, including pharmaceutical production, up 21.7% year-on-year and coming out of a several-month decline cycle, as well as the wood, paper and printing industry (+4.2%) and chemical manufacturing (+4.3%). Sectors that are already struggling continue to suffer from the economic environment, with significant contractions in January in transport equipment manufacturing (-13.1%) and in the textile industry (-12.3%).

Despite the persistently lacklustre environment, positive developments are afoot. Industrial revenue increased in the last quarter, and surveys are showing signs of improvement. Business confidence in manufacturing improved in February on positive order intakes, while the PMI rose to 47.4, though still below the 50-point threshold between expansion and contraction.

But the situation calls for realism. Besides the unfavourable environment, production conditions are also a source of additional difficulties. The recent rise in energy prices is putting more pressure on industrial sectors already faced with a comparative disadvantage owing to their energy needs. Although inflation in import prices is moderate on average, the increase in producer prices of energy goods accelerated in January, both in cyclical terms (+1.6%, after +0.6% in December) and in trend terms (+4.4%, +1.1% in January), interrupting the series of negative values in place since April 2023. The government appears to have heard the call from companies, which also stand to benefit from the Energy Decree. The latter includes a reduction in system costs for SMEs, as well as a mechanism whereby up to €3.5 billion from the Social Climate Fund can be used to mitigate the impact of future fluctuations in energy prices.

BUSINESSES

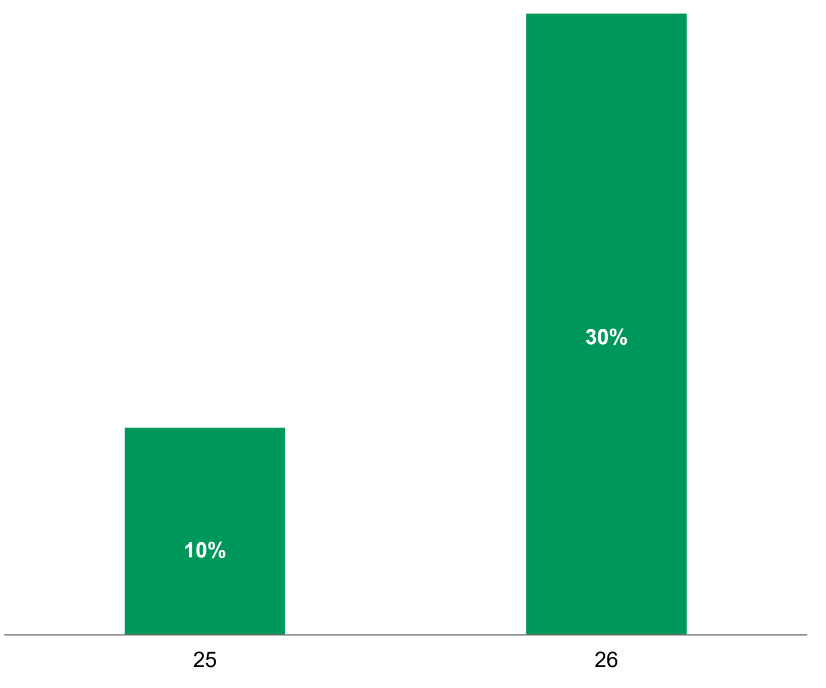
THE END OF ORDOLIBERALISM IN GERMANY: LIGHT AT THE END OF THE TUNNEL

The investment outlook is mixed. While economic sentiment has deteriorated across all sectors, companies are, paradoxically, projecting an expansion in their investments for the current year, particularly in construction and services. These projections are underpinned by expectations of easing credit conditions. Improving manufacturing sentiment relative to order books could also support a gradual recovery in productive investment intentions. Challenges also remain. Investment capacity could be limited by the continued decline in corporate margins, combined with an already declining investment rate and the general erosion of confidence, especially if the international environment deteriorates further and continues to be plagued by uncertainties. The trajectory of residential investments will also remain under watch, as the post-Superbonus adjustment is still to be completed, despite the relative resilience observed thus far.

However, the German plan to increase investment spending by one percentage point of GDP a year over the next ten years could be a turning point, especially in 2026. The literature remains rather pessimistic as to the fiscal knock-on effects of an increase in German spending on Italy, with an average estimate of +0.1 points of additional GDP, with the impacts of the German recession in the past two years having been felt particularly in the slowdown in industry and exports.

As such, even though we expect a slight recovery in productive investment in 2025, with growth of 0.8%, GFCF growth will remain negative, owing to the expected decline in residential construction. Barring a change in monetary conditions, the same should apply in 2026, with an acceleration in productive investment and a more sustained contraction in construction (with the end of the National Recovery and Resilience Plan) resulting in a modest increase in GFCF.

Impact of the German plan on growth in the Eurozone



Sources: Eurozone – Scenario 2025-2026: between new divides and new convergences, ECO/CASA.

REARM EUROPE: DO NOT EXPECT TOO MUCH

The aim of the European Commission's ReArm Europe plan is to strengthen the Union's collective defence capacity. It provides for increased investment in the arms industry and the modernisation of Member States' military equipment. Mobilising up to €800 billion, the plan enables Member States to finance the upscaling of European defence by partially lifting the constraints of the stability programme on military expenditure. Technically, ReArm Europe is good news for European industry since, in addition to meeting strategic challenges in international geopolitics, it would boost momentum in intra-European industry. However, out of the €800 billion, only €150 billion will come from European mutual funds in the form of loans, supplemented by the doubling of EIB financing for defence projects. The remainder will depend on the funding of Member States, which may exclude defence-related investment expenditure from the net expenditure overseen by the Commission.

As such, Italy appears to have scant room for manoeuvre to fully benefit from this investment dynamic. The Italian finance minister made one thing clear: it is not because spending on arms is excluded from the stability programme that it will not weigh on public finances.

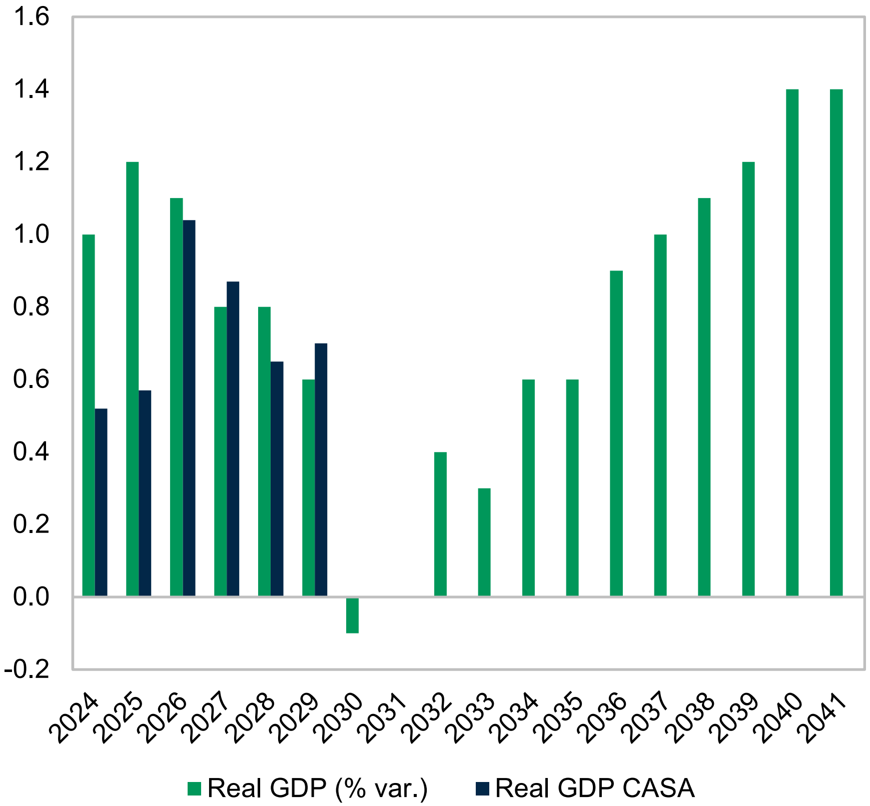
Italy is considered as fairly exemplary in terms of public finances, with, on first glance at least, a controlled budget trajectory. But that trajectory is based on extremely fragile assumptions. Higher revenues and controlled spending did indeed substantially reduce the public deficit in 2024 (to 3.2%) relative to the projection in the medium-term budget plan, despite an increase in the cost of debt.

Also, the primary balance moved into positive territory one year earlier than provided for in the medium-term budget plan. But these positive factors fail to hide the fact that the budgetary trajectory is highly tenuous, based on extremely optimistic growth forecasts given the current context, with an average 1% in 2025 and 2026 before a slowdown in 2028 resulting from structural factors (demographic change and a decline in productivity) that are difficult to circumvent. In addition, to stabilise or even reduce the public debt ratio, the government is forced to generate substantial primary surpluses of around 2.7%.

BUSINESSES

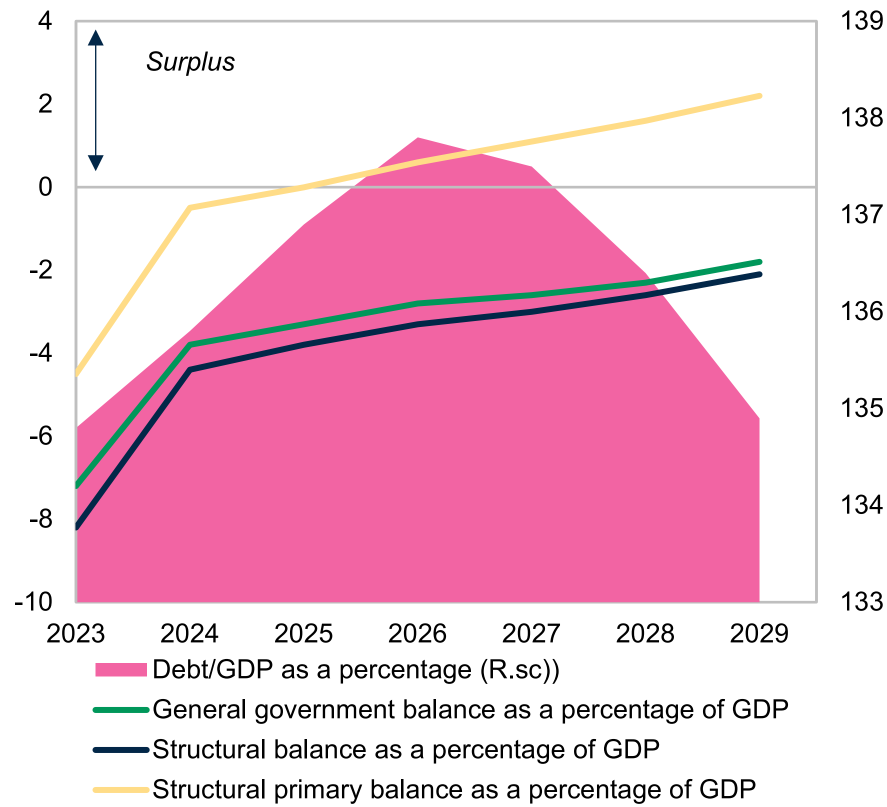
REARM EUROPE: DO NOT EXPECT TOO MUCH

Long-term growth forecast



Sources: MEF, Crédit Agricole S.A./ECO.

Trend in government debt



Sources: MEF, Crédit Agricole S.A./ECO.

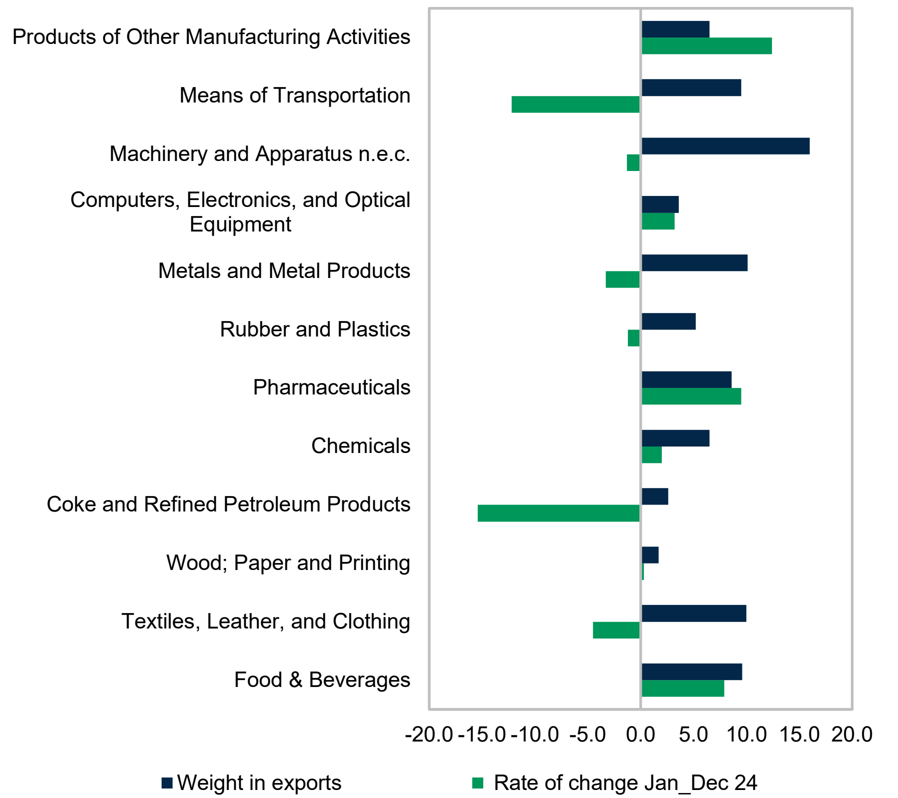
TREND IN FOREIGN TRADE IN 2024: A MIXED BAG

Italian exports contracted by a slight 0.4% in 2024 after holding stable in 2023. Exports decreases because the increase in average unit values (+2.1%) failed to offset the dip in exported volumes (-2.4%). Excluding energy, however, exports increased by 0.3%, reflecting relative resilience in a difficult global context.

Performances varied considerably from one economic sector to the next. Sharp increases were posted in durable consumer goods (+11.1%), sporting goods and games (+19.6%), pharmaceuticals (+9.5%) and agrifood (+7.9%). But sharp decreases were reported in energy (-18.7%), automotive (-16.7%), refined petroleum products (-15.4%) and intermediate goods (-1.1%) as headwinds remained in traditional industrial sectors.

The geographical trend in exports reflects economic difficulties in Europe, with a decrease in exports to the EU (-1.9%) and a particularly sharp drop in exports to Germany (-5.0%), Italy's largest trading partner. Exports to China (-20.0%) and the US (-3.6%) also deteriorated, undermining Italy's position in two strategic non-EU markets. Given these issues, exports to Turkey (+23.9%), OPEC (+6.6%) and ASEAN (+10.3%) are welcome growth drivers but still insufficient to fully offset losses in traditional markets.

Trend in exports in 2024



Sources: Istat, Crédit Agricole S.A./ECO.

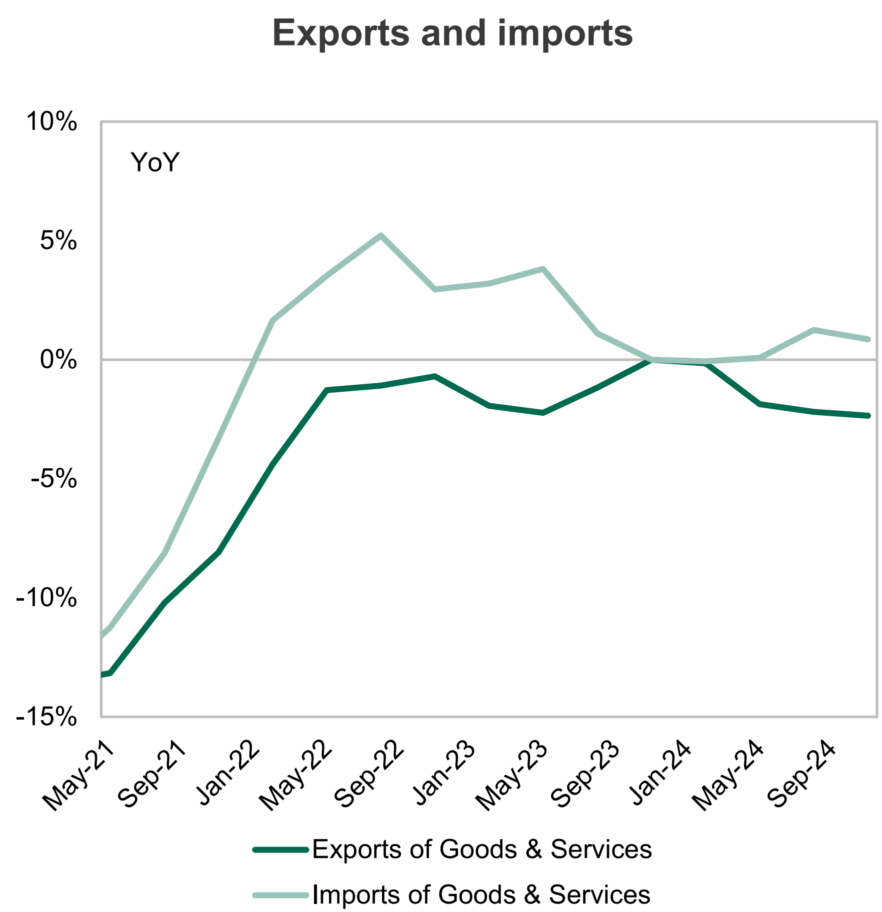
INTERNATIONAL TRADE

IMPORTS DOWN, TRADE BALANCE IMPROVING

Imports decreased more than exports, falling by 3.9% largely due to the sharp reduction in energy purchases (-22.6%). This decline is explained by a decrease in imported volumes (-2.8%) and unit prices (-1.2%), with notable decreases for crude oil (-25.4%) and natural gas (-24.4%). In contrast, imports of pharmaceutical (+10.7%), food (+7.0%) and agricultural (+7.7%) products increased, confirming Italy's dependence on these categories of goods.

Combined with lower imports from Germany (-3.4%) and Switzerland (-12.6%), this trend contributed to a substantial improvement in the Italian trade balance, which rose to +€54.9 billion after +€34.0 billion in 2023. This increase was mainly due to the reduction in the energy deficit (-€49.6 billion vs. -€65.1 billion in 2023) and the improvement in the balance of intermediate goods (-€7.8 billion vs. -€14.3 billion).

However, the trade surplus results from a mismatch between a persistent deficit with the EU (-€10.2 billion) and a comfortable surplus with non-EU countries (+€65.1 billion), illustrating the structural difficulties of the Italian economy in relation to its most competitive European partners.



Sources: Istat, Crédit Agricole S.A./ECO.

INTERNATIONAL TRADE

PROTECTIONIST RISKS AND OPPORTUNITIES OF THE GERMAN PLAN: CONTRADICTORY FACTORS

US protectionist policies are a major risk for Italy, for which the US accounts for more than 10% of total exports and over 20% of non-European sales. The large trade surplus with the United States (+€38.9 billion in 2024) could be significantly affected by tariff increases, weakening a key pillar of Italian trade performance.

The most exposed sectors are pharmaceuticals, beverages (notably wine), ships and boats, cars, mechanics, textile-clothing-leather and agrifood, which represent a substantial share of high value-added exports and Italian know-how. According to impact studies, US tariffs of 10% to 20% could reduce Italian exports by 4.3% to 8.6%, with potential losses of between €3 billion and €7 billion.

As a counterpoint to these risks, Germany's recent fiscal shift could create opportunities for the Italian economy. The German stimulus package, including the easing of the constitutional debt brake and a public investment programme of €500 billion over 12 years, breaks with the dogma of budgetary rigour. This shift could help to reduce macro-economic imbalances in the Eurozone, including the gap between the trade surpluses of Germany and the deficits of peripheral partners.

But the knock-on effect on the Italian economy will hinge on the real-life effectiveness of the package on German domestic demand and on Italy's ability to increase its competitiveness. The latter continues to be hindered by wages, which have already been squeezed for 30 years, and calls most of all for productivity gains through productive public investment, which is currently limited by European budgetary constraints.

INTERNATIONAL TRADE

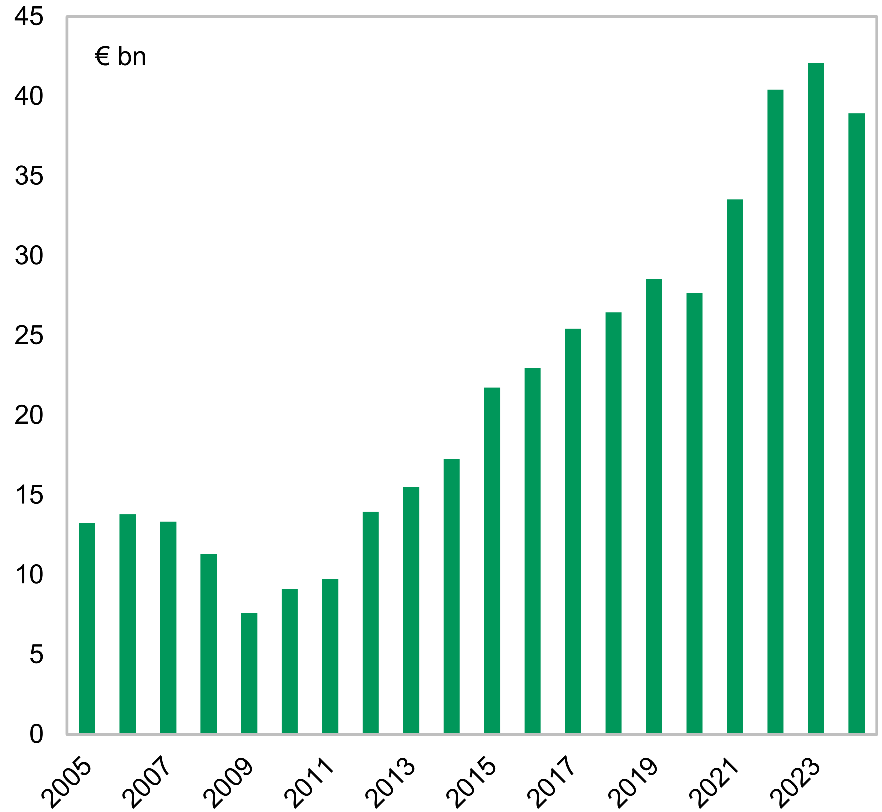
BETWEEN A ROCK AND A HARD PLACE

2025 is expected to be the third consecutive year of weak growth since the strong post-COVID recovery. Italian exports will remain fragile, impacted by high energy costs and sluggish demand in key sectors such as metals and automotive, which will continue to weigh on an industrial cycle that is just starting to show signs of stabilisation.

This situation is part of a global environment characterised by a slowdown in international trade (+3.4% in 2024 according to the IMF), persistent geopolitical tensions and the rise of protectionist policies. The structural vulnerability of the Italian economy to external supply, though reduced in recent years relative to Germany, remains a factor of fragility with the reconfiguration of global value chains.

However, Germany's expansionary shift could be a positive factor for the Eurozone as a whole, especially if the shift is structural rather than merely cyclical. The crucial issue remains the possible introduction of a "golden rule" for investment within the regulatory framework of the Stability and Growth Pact. This would allow Eurozone governments to make productive investments outside strict budgetary constraints, particularly in research and development, education and health.

Italy: trade balance with the United States



Sources: Istat, Crédit Agricole S.A./ECO.

RISKS

A SCENARIO WITH DOWNSIDE RISKS

No recession

Suspension of US tariffs

Higher tax spill-over from the German stimulus package

Recession

Tariffs of 20%
for the entire Eurozone

Escalation of the trade war with Europe

Confidence shock

THE SCENARIO IN FIGURES

QUARTERLY SCENARIO SUMMARY TABLE

	2024	2025	2026	2027	2024				2025				2026				2027			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP y/y, q/q, %	0,5	0,6	1,0	0,9	0,3	0,1	0,0	0,1	0,0	0,3	0,3	0,3	0,2	0,3	0,2	0,2	0,3	0,2	0,1	0,2
Domestic demand contribution to GDP, pps	0,4	0,6	0,6	0,6	0,5	-0,2	0,1	0,5	0,0	0,2	0,2	0,2	0,1	0,2	0,1	0,1	0,2	0,2	0,1	0,2
Private consumption y/y, q/q, %	0,4	0,9	0,9	0,8	1,0	-0,3	0,6	0,2	0,1	0,2	0,3	0,3	0,2	0,2	0,2	0,2	0,2	0,3	0,1	0,2
Public consumption y/y, q/q, %	1,1	0,9	0,3	-0,3	-0,2	0,5	0,3	0,2	0,3	0,2	0,1	0,1	0,1	0,1	-0,1	-0,1	-0,1	-0,1	-0,1	-0,1
Investment y/y, q/q, %	0,0	-0,2	0,2	1,0	-0,1	-0,7	-1,6	1,6	-0,5	0,1	0,1	-0,1	-0,1	0,1	0,2	0,2	0,3	0,3	0,3	0,3
Stockbuilding contribution to GDP, pps	-0,2	0,3	0,4	0,3	-0,1	0,9	0,4	-0,4	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,0	0,0	0,0
Net exports contribution to GDP, pps	0,3	-0,4	0,0	0,0	0,0	-0,6	-0,4	0,1	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Exports y/y, q/q, %	-0,3	-0,5	1,3	1,3	-0,1	-1,7	-0,3	-0,2	-0,2	0,3	0,3	0,3	0,3	0,4	0,4	0,3	0,3	0,3	0,3	0,5
Imports y/y, q/q, %	-1,5	0,9	1,4	1,5	-0,1	0,2	1,2	-0,4	0,1	0,3	0,4	0,3	0,3	0,4	0,4	0,4	0,3	0,3	0,5	0,5
Inflation y/y, q/q, %	1,1	1,7	1,2	1,2	1,0	0,9	1,2	1,3	1,8	1,9	1,7	1,3	1,0	1,4	1,2	1,2	1,2	1,2	1,2	1,2
Core inflation y/y, q/q, %	2,3	1,8	-	-	2,6	2,2	2,3	2,2	1,9	1,9	1,8	1,8	-	-	-	-	-	-	-	-
Unemployment rate %	6,6	6,5	6,7	6,7	8,4	8,1	8,1	7,8	7,9	7,7	7,6	7,4	7,2	7,2	7,2	7,2	7,3	7,4	7,4	7,4
Current account balance % of GDP	1,5	2,2	2,2	2,1	0,3	1,6	1,9	2,3	2,2	2,2	2,2	2,2	2,2	2,2	2,2	2,1	2,1	2,1	2,1	2,1
Fiscal balance % of GDP	-3,2	-3,3	-3,0	-2,8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt % of GDP	135,6	137,1	139,4	140,2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Crédit Agricole S.A./ECO.

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Sofia TOZY
+33 1 43 23 23 37
sofia.tozy@credit-agricole-sa.fr

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Crédit Agricole S.A. — Group Economic Research
12 place des Etats-Unis – 92127 Montrouge Cedex

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Information centre: Elisabeth Serreau - **Statistics:** Datalab ECO
Editor: Fabienne Pesty
Contact: *publication.eco@credit-agricole-sa.fr*