No. 26/177 – 14 September 2026

ITALY – Growth holds steady, inflation picks up

- **GDP growth consolidated in Q2 at 0.2 per cent.**
- **Household consumption rose for a second consecutive quarter, driven by spending on durable goods.**
- **Rising gas and oil prices pushed inflation up again in August, whilst confidence continued to improve.**

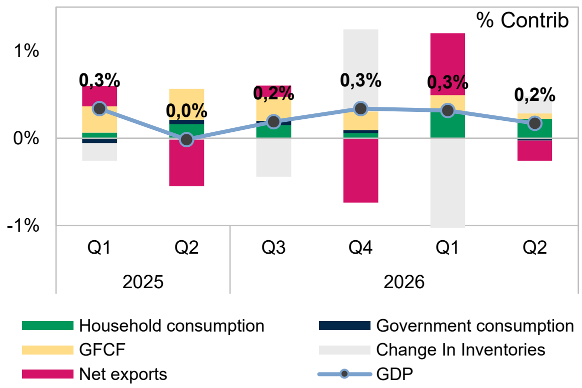
Sustained growth in Q2

Italian growth proved robust for the second consecutive quarter, posting a 0.2 per cent increase compared with the first quarter. With this latest performance, the annual carry-over has been revised upwards to 0.8 per cent for the year. [1]

Whilst the international environment remains disrupted by the fallout from the conflict in the Middle East, with annual inflation hovering around 3 per cent, economic activity remained solid in the second quarter. Domestic demand contributed 0.2 percentage points, while foreign trade detracted 0.2 percentage points from growth, entirely offset by a positive contribution from inventories.

Growth in consumption remains the main driver of this momentum. It rose by 0.4 per cent following a 0.5 per cent increase in the first quarter – a rate not seen since the end of 2024. Although growth in expenditure on services slowed compared with the previous quarter, it is expenditure on goods – and in particular on durable goods – that continues to fuel household demand. Expenditure on durable goods rose by 0.9 per cent, down from 1 per cent, contributing one-tenth of a percentage point. The recovery in durable goods is largely attributable to strong growth in car sales – new car registrations rose by 10 per cent in the second quarter compared with the second quarter of 2025 – following a year-on-year increase of 9 per cent in the previous quarter, driven by the electric vehicle subsidy launched last autumn.

GDP growth: a demand-side approach



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

At the same time, public expenditure fell over the quarter. As regards investment, the picture is more mixed. Gross fixed capital formation (GFCF), taken as a whole, virtually stagnated at 0.3 per cent over the quarter, breaking with the cycle of strong growth that had begun in early 2025. In line with what was reported in the surveys, productive investment was the first to lose momentum, falling by 2.3 per cent quarter-on-quarter, also weighed down by the transport component, which fell by 1.9 per cent over the quarter. While construction did increase, this rise was largely attributable to a rebound of more than 7 per cent in the buildings and civil engineering segment, fuelled by the acceleration of PNRR construction projects. This recovery more than offset the decline in housing construction, which fell by around 7 per cent over the quarter, marking two consecutive quarters of decline.

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[1] Moreover, 2026 has three more working days than 2025.

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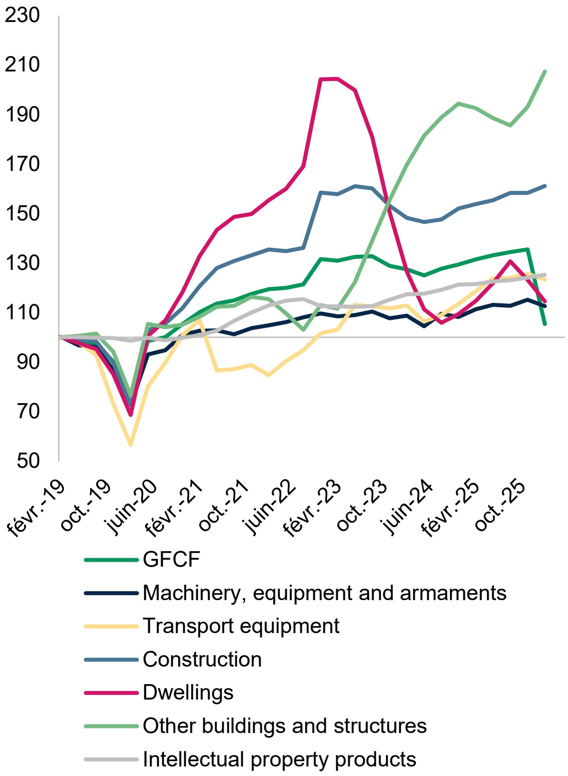
Trends in investment in the national accounts (base = 2019)



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

Finally, the negative contribution from foreign trade is largely due to an increase in imports compared with the previous quarter. Exports, meanwhile, continue to grow, but at a slower pace than in the previous quarter.

On the supply side, the agriculture and manufacturing sectors contracted over the quarter, offset by a rebound in the construction sector and continued strong growth in services. Within the services sector, growth in consumer spending also led to an acceleration in trade and distribution activity (+0.7 per cent). Growth in scientific and administrative activities, together with sustained growth in information and communication activities, contributed to this momentum. Meanwhile, financial and real estate activities have stalled following the rebound in the first quarter.

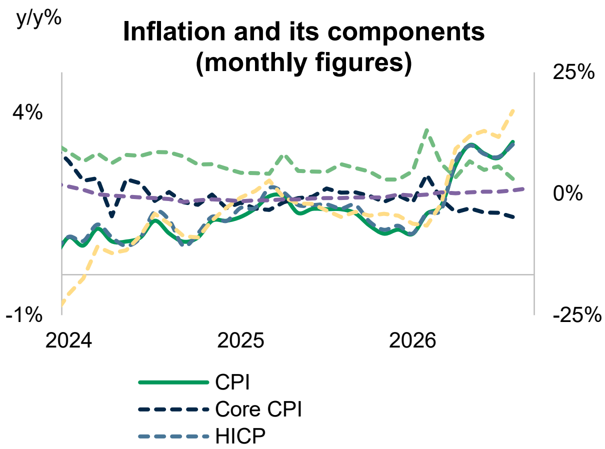
The GDP deflator's underlying growth rate of 1.2 per cent masks significant disparities among its components: the consumption deflator, at 2.8 per cent, is approaching the headline inflation rate, whilst that for imported goods rose above 5 per cent.

Hours worked remained stable compared with the previous quarter, rising by 0.3 per cent over the quarter. Although they fell in agriculture and industry, they rose in services, driven in particular by a rebound in financial activities and trade.

Inflation is rising, and so is confidence

Inflation rose again in August after moderating slightly in July, climbing from 2.9 per cent to 3.3 per cent – its highest level since the start of the conflict over the Strait of Hormuz. The rise remains attributable to higher energy prices, driven this time by the regulated component, which is itself linked to the rise in the cost of electricity (+18 per cent year-on-year). The latter remains heavily influenced by the rise in gas prices over the summer period, as well as by strong demand linked to increased use of air conditioning during the heatwave. Gas prices in Europe appear to be continuing this upward trend in September as well, having exceeded 70 euros per m^3after almost doubling in August compared with the summer of 2025 (from 33 to 62 euros per m^3). The surge in oil prices is simultaneously affecting the unregulated segment, which has seen a year-on-year increase of 17 per cent. This trend has not yet fed through to core inflation, which has slowed to 1.4 per cent thanks to moderating prices for both goods and services.

Inflation and its components (monthly figures)



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

Even as inflation is rising, this appears to have had little effect on household confidence, which continues to improve from its low in June, with households anticipating a slight improvement in the economic climate as well as in their future circumstances. They are also more optimistic in their view of the labour market, expecting unemployment to fall, and anticipate an improvement in their ability to save, though they remain more cautious about their ability to purchase durable goods, an indicator that had increased in previous months.

As regards the labour market, the unemployment rate stabilised at 5.8 per cent in July, following the previous month's rise in the unemployment rate, which was due mainly to an increase in the labour force, even as employment continued to grow. The employment rate, meanwhile, remained unchanged at 63.2 per cent.

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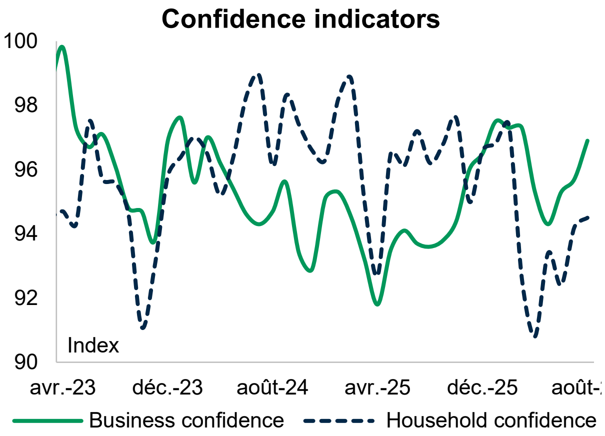

Sources: Istat, Crédit Agricole S.A./ECO

Business confidence recovered slightly during August. This improvement in the index was seen across all components, particularly in the construction sector, which recorded the strongest rebound, whilst confidence in the manufacturing sector remained almost stable. This picture appears quite different from that painted by the Purchasing Managers' Index, which having risen earlier in the year, fell in August to below the 50-point threshold, driven by a decline in orders affecting production. There are, however, positive signs on the production front, with industrial output rising in July after two months of decline, driven mainly by consumer goods, which rebounded by 2 per cent compared with the previous month.

☑ **Our opinion –** *The economy has performed well for the second consecutive quarter, even as the deteriorating international situation and its impact on inflation hang like a sword of Damocles; this is primarily due to domestic factors. Behind the overall growth of 0.2 per cent lie significant shifts among the components of GDP. Consumption, first and foremost, confirms that it has emerged from the sluggish phase that characterised it in 2025, but this is due to a one-off boost linked to vehicle sales, driven by government subsidies. As for investment, the main driver of this resilience remains, without a doubt, the recovery plan, which, in its final stages, continues to underpin public investment. Productive investment, meanwhile, confirms what was indicated by surveys and elaborated upon in our latest scenario, showing a marked decline. Finally, whilst the carry-over effects from the housing sector were driving the growth forecast for the construction sector, the post-'superbonus' effects are now beginning to materialise. However, it is difficult to say whether the short term indicator reflect a mere sectoral catch-up or a broader recovery. Growth in some neighbouring countries, however, appears to be keeping the industry's much-anticipated slump at bay with a 4 per cent rise in the value of manufacturing exports over the first six months of the year and a recovery in exports to Germany, which, in June alone, grew by 22 per cent month-on-month. If growth continues to surprise us, the* 'intra-European' *cycle could well explain the relative resilience of Italian economic activity to the wider global environment.*

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