Based on quarterly outturn data, the Italian economy grew by 0.2% in 2019. After four quarters of slowly rising economic activity, real GDP in Italy fell by 0.3% in the final quarter, according to the preliminary estimate by Istat, the national statistical office. Both agriculture and industrial production declined, while the services sector remained stagnant. Economic sentiment has remained muted amid the fragile external environment, thus weighing on trade and investment activity.

Business surveys suggest a slow start into 2020. Industrial confidence improved in January but does not yet suggest an imminent rebound in industrial production. Services activity, though not unaffected by the weak industrial cycle, should support real GDP growth in the near term. The tentative stabilisation of manufacturing output associated with the turn of the inventory cycle, coupled with reduced domestic policy uncertainty and favourable financing conditions are likely to underpin domestic demand beyond the short term.

Graph 2.8: Italy - Real GDP growth and contributions

Private consumption propped up by the new minimum income is expected to support growth over the forecast period. However, real disposable incomes are forecast to rise only moderately, as households are likely to feel repercussions from the softening of the labour market, while precautionary savings are expected to remain high. Business investment is set to slow down in 2020, as indicated by recent investment surveys, before picking up pace slightly in 2021 on the back of improving demand prospects and favourable financing conditions. The projected rise in public investment is set to help stabilise aggregate investment growth over the forecast period. The external environment is likely to remain challenging but should gradually become more supportive to growth. Exports are expected to grow broadly in line with export market growth, which is forecast to pick up more meaningfully only towards the end of the forecast period.

Overall, real GDP growth is forecast to pick up only slightly to 0.3% in 2020, also due to a negative carry-over effect, and to 0.6% in 2021. Downside risks to the growth outlook remain pronounced.

HICP inflation averaged 0.6% in 2019 and is set to rise to only 0.8% in 2020 and to 1.0% in 2021, as price pressures are dampened by falling energy prices. Core inflation is expected to gradually increase over the forecast period, as firms’ profit margins are forecast to recover in line with accelerating economic activity, while wage growth is projected to remain moderate.