

Italy's economy stagnates in the third quarter

With net exports still volatile, a sustainable Italian GDP recovery would need a stable positive contribution from domestic demand. We haven't seen it yet, but it might, very gradually, start from the fourth quarter



Italy's peak tourism season doesn't seem to have worked its magic this summer

After posting a minor 0.1% contraction in the second quarter, the Italian economy stagnated in the third against a consensus expectation of a minor 0.1% expansion, according to preliminary estimates from Istat. On the year, GDP was up 0.4%.

As usual at the preliminary estimate stage, Istat did not provide a detailed demand breakdown. We just know that domestic demand (gross of inventories) acted as a drag, while net exports were growth supportive. The supply-side angle shows an increase in value added in agriculture, stability in services, and a contraction in industry — a pattern broadly consistent with confidence data published throughout the summer.

Today's release confirms a picture of stagnation, where the impact of US tariffs on trade flow data has yet to settle. We had expected some rebound in the external component, which had subtracted 0.7% from quarterly GDP growth in the second quarter, and it seemed sensible to

assume less of a push coming from inventories.

We suspect that at the heart of the flat reading, there's another flat quarter for private consumption and a small contraction in investments. Apparently, the peak tourism season did not work its magic this summer, notwithstanding solid international tourist flows. Domestic consumers still seem to be taking a prudent approach—the savings ratio in the third quarter remained above average. On the investment front, tariff-related uncertainty might have weighed on business decisions in the machinery domain, leaving the onus for growth on the infrastructure component, which is still driven by inflows of EU recovery funds.

All in all, today's GDP release shows that the Italian economy is stagnating. October confidence indicators were generally improving for both consumers and businesses, except for services, marking a decent start to the last quarter of 2025. Also, on a positive note, the labour market remained resilient in September, with employment posting a decent monthly gain and the unemployment rate at 6.1%, hovering around historical lows.

Fundamentals remain consistent with some improvement on the consumption front in a low-inflation environment. We thus stick to our forecast of a small positive GDP growth in the fourth quarter, leaving average GDP growth for 2025 at 0.5%.

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