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EY Italian Macroeconomic Bulletin

N°15 | June 2026

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Index

Executive summary

- World economic growth is estimated at 3.2% in 2025; this is expected to be followed by more moderate growth in 2026 (2.9%), with a partial recovery in 2027 (3.1%). The global picture remains marked by strong heterogeneity among the major world economies, against a backdrop of elevated geopolitical uncertainty.
- The conflict in the Middle East continues to be the main risk factor for the global economy, with significant repercussions on the major maritime trade routes (in particular the Strait of Hormuz) and, consequently, on energy commodity prices and global supply chains. Added to this are US protectionist trade policies and the growing geopolitical fragmentation of world trade, which are keeping international trade in goods under pressure.
- The Eurozone is expected to experience subdued growth in 2026 (0.8%), improving slightly in 2027 (1.2%). The environment remains fragile and uneven across member countries, with the industrial sector still struggling. Other areas of concern relate to the level of public debt, the tightening of bank credit supply conditions, and pressure on foreign trade, with risks skewed mostly to the downside.
- The conflict in the Middle East has reversed the ongoing disinflation process, pushing *headline* inflation in the Eurozone to 3.2% in May 2026 (up from 1.9% in February). In response, on 11 June the European Central Bank decided to raise its key monetary policy interest rates, while maintaining a *data-dependent* stance with regard to developments in the macroeconomic environment.
- In Italy, industry shows only partially positive developments. Alongside dynamic segments such as pharmaceuticals, strong signs of weakness persist in sectors such as textiles and wood. In the services sector, turnover is growing modestly, driven mainly by the price component.
- The consumer price index recorded growth of 3.2% in May 2026, a sharp acceleration compared with the 2025 average (1.5%), mainly due to the energy component. The labour market remains healthy, with an unemployment rate just above 5% in the first part of the year, supporting household consumption.
- Against this backdrop, EY's forecasts point to real GDP growth for Italy of 0.6% in 2026 and 0.7% in 2027, while the inflation rate is expected at 2.6% in 2026 and 2.1% in 2027. These forecasts are subject to a high degree of uncertainty.
- Given the heterogeneity of sectoral responses to the external environment, EY-Parthenon's Economic Advisory team has developed a dedicated model for the sectoral analysis of the Italian economy (EY MAIOR). Forecasts for the 2025-2027 three-year period point to overall output growth of 1.6%, with considerable heterogeneity across sectors: the most dynamic segments are expected to be the manufacture of computers and electronic and optical products (+3.7%) and the food, beverage and tobacco industries (+3.5%), while the mining and quarrying industry (-1.8%), the manufacture of other transport equipment (-0.7%) and construction (-0.2%) are expected to contract.

Figure 1: Real GDP, Italy – % change

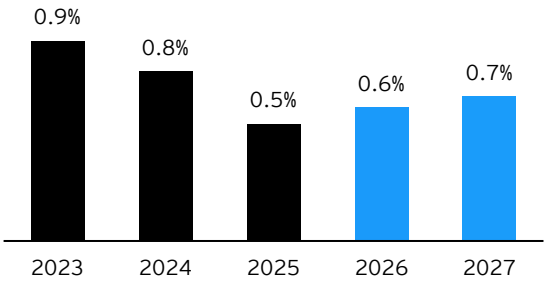
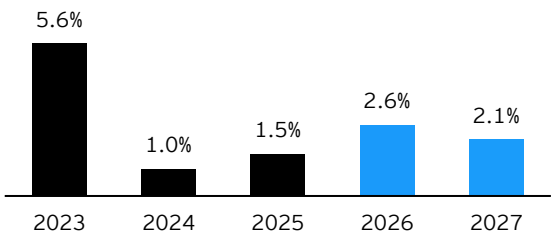


Figure 2: Consumer prices, Italy – % change



Lo scenario globale

The world economy

World economic growth stood at 3.2% in 2025; this is expected to be followed by more moderate growth in 2026 (2.9%) and a recovery in growth in 2027 (3.1%). This is according to the latest forecasts released by the Organisation for Economic Co-operation and Development (OECD) in late May 2026.[1]

This result conceals, as always, heterogeneous economic trends across the major world economies and country groups. Specifically, growth in the United States is expected at 2.1% in 2025, followed, according to OECD estimates, by growth of similar magnitude in 2026 (2.0%) and a slowdown in 2027 (1.8%).

Growth in the Eurozone appears more modest, at 0.8% in 2026 and 1.2% in 2027, figures in line with the March Interim Report.[2]

China and India are expected to close 2025 with growth of 5.0% and 7.6% respectively, followed by a slowdown in 2026 and 2027 (4.5% and 4.3% respectively for China, and 6.3% and 6.4% in the two years under review for India).

With regard to price developments, the conflict in the Middle East has temporarily reversed the global disinflation process: the OECD now expects the price level in OECD countries to rise from 4.0% in 2025 to 4.3% in 2026, before resuming its downward path towards 3.0% in 2027.

Inflation in the United States is expected to pick up in 2026 (rising from 2.7% in 2025 to 3.5% in 2026) before easing in 2027 (2.3%) to levels more consistent with price stability; in the Eurozone, price dynamics are expected to remain above the European Central Bank's target (2%), with inflation of 2.8% in 2026 and 2.4% in 2027.

Figure 3: Real GDP – % change

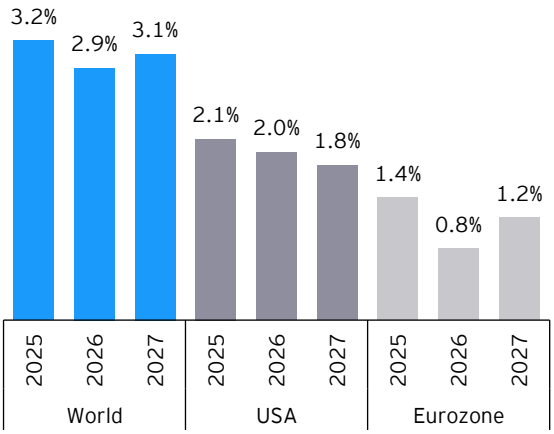
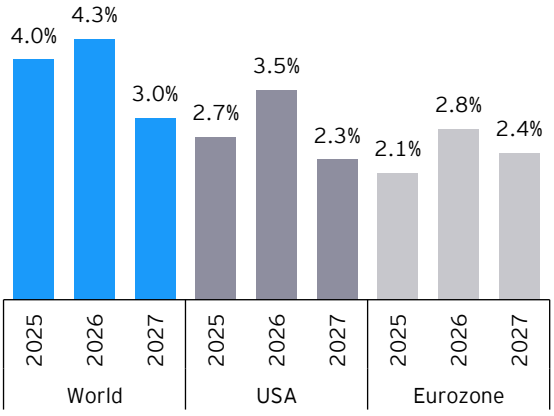


Figure 4: Consumer prices – % change



Source: EY-Parthenon analysis of IMF World Economic Outlook data, April 2026.

The IMF's GDP growth revisions in April 2026 relative to January are modest in aggregate, but conceal significant heterogeneity across countries. World growth for 2026 has been revised downward by 0.2 percentage points (from 3.3% to 3.1%), while forecasts for 2027 remain unchanged. The IMF notes that, absent the conflict in the Middle East, the revision would

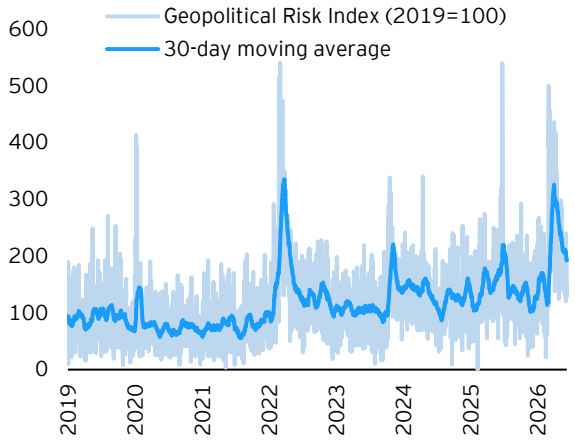
[1] OECD Economic Outlook, 3 June 2026, Under pressure, Volume 2026/1, No. 119.

[2] OECD Economic Outlook, Interim Report March 2026, Testing Resilience.

have been marginally upward: the improvement in data at the end of 2025 and the reduction in tariffs would have supported growth of around 3.4%, meaning the downward correction reflects almost entirely the disruptions caused by the war.

The OECD's estimates appear slightly more optimistic than the latest forecasts from the World Bank, whose latest Global Economic Prospects report presents lower global growth estimates than those just described. Specifically, global growth of 2.5% and 2.9% is expected in 2026 and 2027 respectively, while for the US and the Eurozone growth is expected to be broadly in line with the OECD's projections (2.2% and 2.1% for the US, and 0.8% and 1.3% for the Eurozone).[3]

Figure 5: Geopolitical Risk Index, World – daily values and 30-day moving average

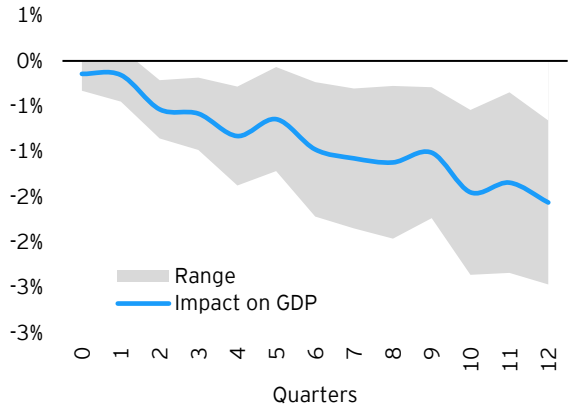


Source: EY-Parthenon analysis of Caldara et al. data (2019).[4] Last updated: 10 June 2026.

These results stem from an international environment marked by elevated geopolitical uncertainty, despite the slight decline recorded in recent months. This dynamic is well illustrated by the trend in the Geopolitical Risk Index, which, after reaching very high levels in March – comparable to those seen at the outbreak of the war between Russia and Ukraine (2022) or the inauguration of the new US administration – has eased over the past few months.

In this regard, it is interesting to note that a one standard-deviation increase in geopolitical risk has been estimated to be associated, on average, with a reduction in real GDP of around 0.8% over the course of a year, with effects that tend to be relatively short-lived. The expected contraction would be driven mainly by weaker private consumption and investment, as economic agents respond to uncertainty by cutting current spending and postponing capital allocation decisions. On the price side, the geopolitical shock is associated with a price level around 2.5% higher than the baseline scenario over a three-year horizon, with inflationary pressures further amplified by a roughly 1.8% depreciation of the nominal exchange rate.[5]

Figure 6: Impact on GDP of an increase in geopolitical risk



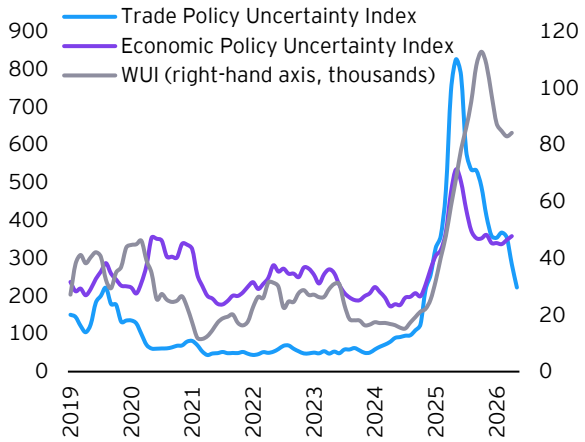
Source: International Monetary Fund. The result represents the effect of a shock corresponding to a one standard-deviation increase in the Geopolitical Risk Index. The shaded area represents the confidence interval (90%).

Overall uncertainty trends are also captured by other indicators, despite the lack of some data in recent months.

Consider, in this regard, the Economic Policy Uncertainty Index, a broader-based uncertainty index, which shows a general decline in recent months even though the overall level is still high. A further indicator is the World Uncertainty Index, which shows a trend broadly in line with the other two indicators.

[3] World Bank, Global Economic Prospects, June 2026.
[4] Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty", revised November 2019, Journal of Monetary Economics, forthcoming.
[5] IMF World Economic Outlook, Global Economy in the Shadow of War, April 2026.

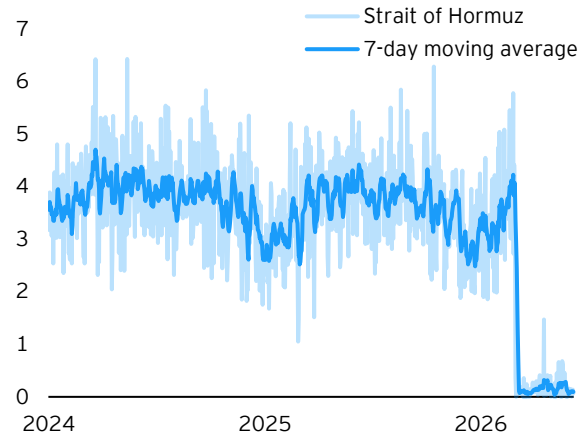
Figure 7: Indices of uncertainty, World – 3-month moving averages



Source: EY-Parthenon analysis of Caldara et al. (2019),[6] Economic Policy Uncertainty database. WUI: World Uncertainty Index. Last updated: 10 June 2026.

Much of the trend in global uncertainty is due to recent developments along the major maritime trade routes, with immediate and significant effects on global energy markets. The Strait of Hormuz – through which around 20 million barrels per day of crude oil and petroleum products transited, equivalent to 20% of global daily oil consumption – has seen a sharp decline in volumes following the escalation of the conflict in the Middle East. The most recent data on volumes transiting the strait show a broadly stable situation since the outbreak of the war in the Middle East, with the number of vessels transiting the strait's waters having fallen to almost zero.

Figure 8: Daily volume of goods transiting the Strait of Hormuz, in millions of metric tons



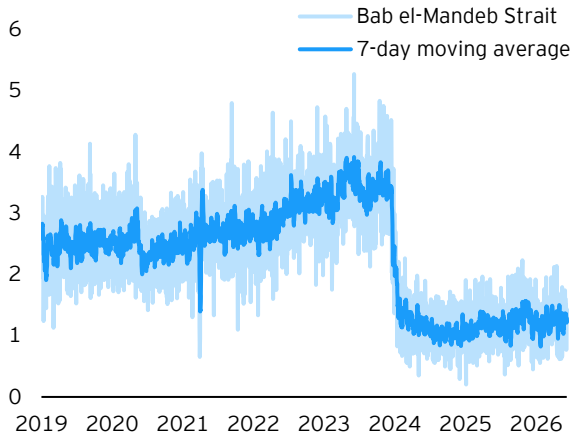
Source: EY-Parthenon analysis of IMF PortWatch data. Last updated: 10 June 2026.

Moreover, recent experience suggests that the normalisation of trade flows through critical maritime routes can take far longer than the end of hostilities. A possible example is the Bab el-Mandeb Strait, affected by attacks on commercial vessels since 2023: more than two years after the onset of disruption, transit volumes remain at around half (or less) of pre-conflict levels, despite a gradual improvement in security conditions. Should the recovery path of the Strait of Hormuz follow a similar trajectory, the drag on global growth could persist well beyond the end of hostilities, with lasting effects on transport costs, supply chains and energy commodity prices.[7]

[6] Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty," revised November 2019, Journal of Monetary Economics, forthcoming.

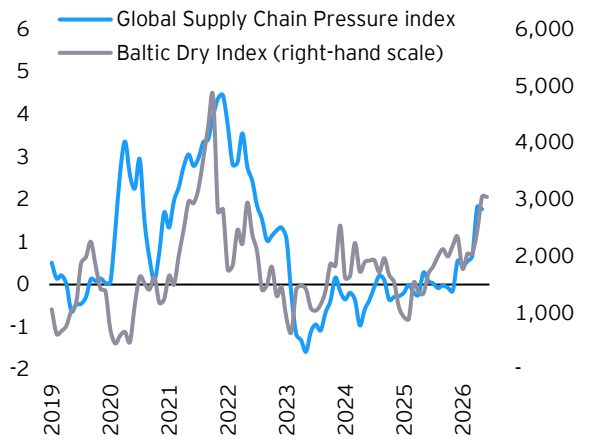
[7] IMF Blog post (2026) - Global Disruptions Are Testing How the World Moves Goods and People.

Figure 9: Daily volume of goods transiting the Bab el-Mandeb Strait, in millions of metric tons



Source: EY-Parthenon analysis of IMF PortWatch data. Last updated: 10 June 2026.

Figure 10: Global Supply Chain Pressure Index and Baltic Dry Index



Source: EY-Parthenon analysis of Federal Reserve Bank of New York and Baltic Dry Index data. The *Global Supply Chain Pressure Index* (GSCPI) – the index created by the NY Fed to monitor pressures along supply chains – combines a range of commonly used metrics with the aim of providing a summary measure of potential supply-chain disruptions (for further information, see https://www.newyorkfed.org/research/policy/gscpi#/overview). The Baltic Dry Index is an index of average prices paid for the transport of materials across more than 20 routes (for further information, see https://www.balticexchange.com/en/index.html). Last updated: 10 June 2026.

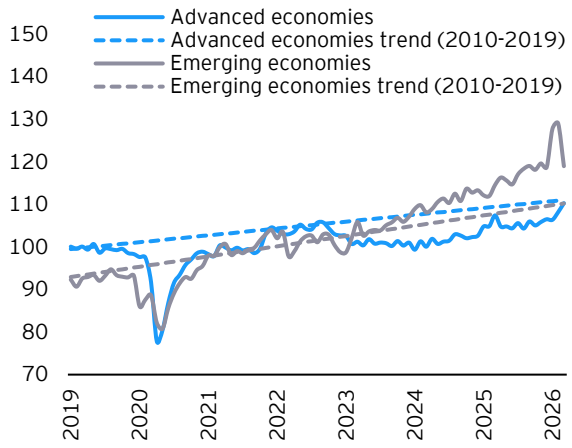
Disruption along the major trade routes is already being reflected in the state of global supply chains. The Federal Reserve Bank of New York's Global Supply Chain Pressure Index and the Baltic Dry Index, two indices representative of supply-chain tensions, both show a rebound from their 2023-2024 lows, signalling a deterioration in global transport and procurement conditions. Higher transport costs and longer delivery times are adding to price pressures, representing a further channel through which the conflict could push up inflation in the coming months and quarters.

These trade-route tensions come against a backdrop in which world trade in goods was showing moderate growth before the outbreak of the conflict, with substantially diverging dynamics between advanced and emerging economies. The latter continue to drive the expansion of global trade, with volumes consistently above their long-term trend and a particularly marked acceleration over the course of 2025-2026.

In the early months of 2026, moreover, there was a significant increase in goods trade among emerging economies, mainly driven by an increase in China's exports, which are now reverting towards previous levels. Advanced economies, by contrast, present a less dynamic picture: after the sharp contraction of 2020 and the subsequent recovery, trade volumes took around six years to return in line with the trend implied by trade developments between 2010 and 2019.

This subdued performance in advanced economies reflects a combination of structural and cyclical factors already at play before the conflict in the Middle East – including persistently weak domestic demand in Europe and a slowdown in manufacturing trade – to which are now added the disruptions caused by the closure of major maritime routes. The risk is that supply-chain disruptions and higher transport costs translate into further weakness in trade dynamics in advanced economies, which have only in recent months closed the gap relative to trend.

Figure 11: Volume of goods trade and linear trend (2010-2019), World – index, 2021=100

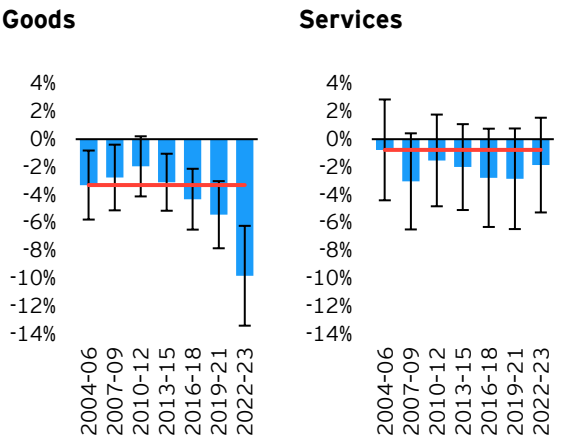


Source: EY analysis of CPB Netherlands Bureau for Economic Policy Analysis data. Refers to trade in goods. Latest available data: March 2026.

The subdued trend in trade can also be partly explained by US protectionist trade policies, which continue to affect the global economy despite a partial reduction in tariff rates. Some analyses show that a bilateral trade war between the United States and China generates large and asymmetric impacts for both economies — with consumption falling by around 1.5% in the United States and 1.2% in China — while the Eurozone would benefit only initially and marginally from the diversification of trade flows. This advantage proves fragile and short-lived: once tariffs are extended to European goods, the balance for the Eurozone turns negative, and retaliatory protectionist measures would yield only modest local improvements against further losses for trading partners. What emerges, therefore, is a picture in which the benefits for third countries under bilateral protectionist policies are contingent and transitory.[8]

Reinforcing this trend towards trade fragmentation is the progressive increase in geopolitical distance between countries, measured by the degree of disagreement in voting at the United Nations General Assembly. Greater geopolitical distance has a negative and statistically significant effect on the intensity of bilateral goods trade, with an impact that has progressively intensified since 2016. This phenomenon reflects the tendency of the global economy to fragment into distinct geopolitical blocs, with trade flows increasingly following lines of political alignment. Notably, this dynamic mainly affects trade in goods, while trade in services shows no similar pattern, suggesting a selective vulnerability of manufacturing value chains.[9]

Figure 12: Impact of geopolitical "distance" on bilateral trade



Source: EY-Parthenon analysis of Centre d'Études Prospectives et d'Informations Internationales and International Monetary Fund data. The red line represents the 2004-2006 value.

In this already fragile global scenario, the ultimate extent of the war's economic impact will depend critically on the duration of the conflict and the speed of normalisation of commodity supplies such as oil and gas. Should hostilities effectively come to an end following the agreement of 15 June, supplies could resume on a regular basis in the short to medium term, leading to a reduction in energy commodity costs. Should complications arise instead, it is useful to refer to the adverse and severe scenarios defined by the International Monetary Fund in order to quantify the possible effects of a rise in the price of crude oil. Specifically, in its latest World Economic Outlook, the IMF defines an adverse scenario characterised by (i) an oil price increase to around 100 $/bbl by mid-2026 and 75 $/bbl in 2027, (ii) a 160% increase in gas prices for Europe and Asia relative to the baseline, (iii) a rise in inflation expectations in advanced economies, and (iv) a moderate tightening of financial conditions; in this context, global growth would

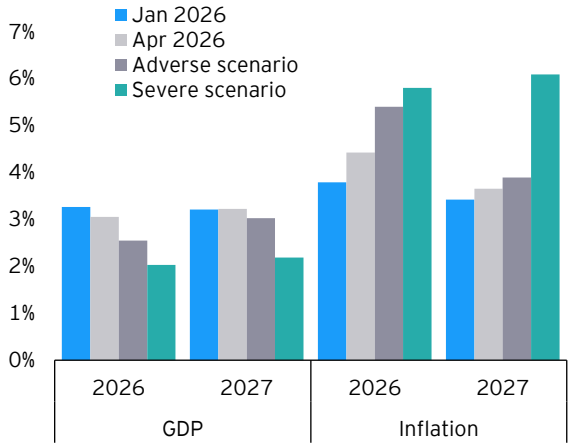
[8] Darracq Pariès, M., Eyquem, A., & Jouvanceau, V. (2026). The third-country effects of trade wars (ECB Working Paper No. 3213). European Central Bank.

[9] Li, R., et al. (2025). Geopolitical distance and bilateral trade, International Monetary Fund. (2026). World Economic Outlook, Box 1.2, Figure 1.2.3.

fall by 0.8 percentage points, settling at 2.5% in 2026, with inflation at 5.4%.

The severe scenario instead assumes (i) an increase in the price of oil to around 110 $/bbl in 2026 and 125 $/bbl in 2027, (ii) a 200% increase in gas prices for Europe and Asia relative to the baseline, (iii) a more pronounced rise in inflation expectations, and (iv) a significant tightening of financial conditions, including an increase in Federal Reserve rates of 50 basis points in 2026 and 100 in 2027; in this case, global growth would fall by 1.3 percentage points in 2026, coming close to the threshold of a global technical recession (below 2%), and by a further percentage point in 2027, with inflation reaching 5.8% in 2026 and 6.1% in 2027.[10]

Figure 13: World growth and inflation under different scenarios



Source: International Monetary Fund.

With specific reference to Europe, this severe scenario takes on particularly worrying contours given the region's structural energy dependence. In the presence of a persistent energy supply shock combined with a tightening of financial conditions, the EU could move closer to recession, with inflation near 5%. As noted earlier, the OECD's baseline forecasts already project Eurozone growth at 0.8% in 2026, broadly similar to the European Commission's expectations (0.9%).[11] Europe's structural vulnerability stemming from energy dependence represents the main transmission channel for the effects in Europe of a deeper crisis in the Middle East.[12]

The economic effects of the war differ across countries: while oil producers – including the United States, Canada, Brazil and Colombia – benefit from higher energy prices through a stronger balance of payments and improved public finances, economies heavily dependent on energy imports instead suffer a negative impact on economic activity. A common element across countries, however, remains the dynamics of the price level, given that energy commodity prices are set in global markets: the rise in the cost of fuel, transport and food is expected to translate into widespread inflationary pressures, with more significant effects on lower-income households.[13]

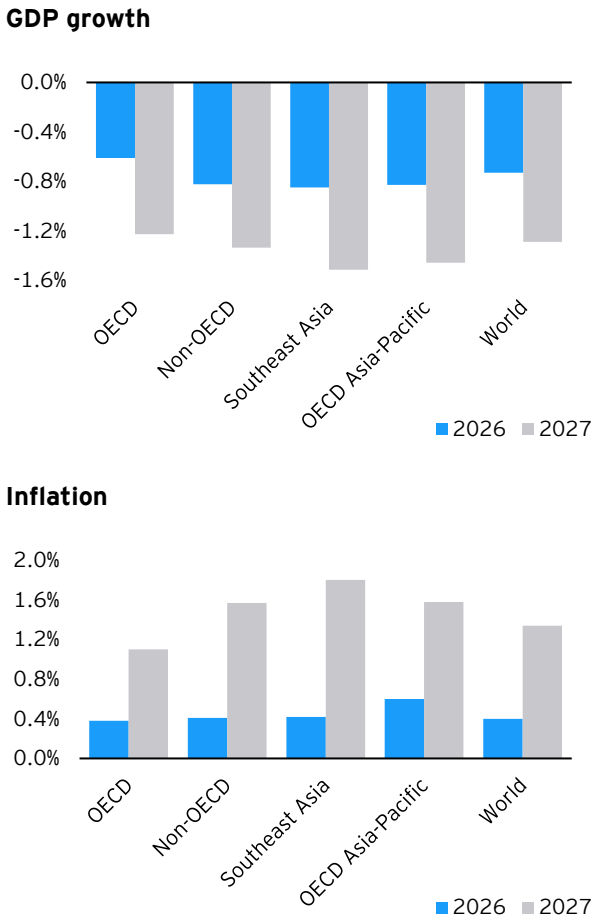
A further scenario analysis carried out by the OECD confirms that the effects of a prolonged war could be significant for the world economy. In the adverse scenario ("*prolonged disruption*"), the OECD assumes that disruptions to energy supply from Gulf countries persist until the second half of 2027, with oil, gas and fertiliser prices 50% higher than in the baseline scenario between the third quarter of 2026 and the third quarter of 2027. This price shock is accompanied by energy rationing and further supply-chain disruptions, a 1 percentage point increase in the household savings rate, a 15% fall in equity prices, an increase in investment risk premia of 75 basis points in advanced economies and 100 basis points in emerging economies, as well as a 50 basis point increase in the *term premium* on long-term government bonds.

Against this backdrop, world GDP growth is estimated to fall by 0.7 percentage points in 2026 and 1.3 percentage points in 2027 relative to the baseline scenario, bringing it to 2.1% in 2026 and 1.8% in 2027; at the same time, global inflation would rise by a further 0.4 percentage points in 2026 and 1.3 percentage points in 2027. The OECD also notes that business investment would be around 5% lower by the second half of 2027 relative to the baseline scenario, while potential output at the start of 2028 would be between 1% and 1.5% below the level associated with the

[10] Gourinchas, P.-O. (2026, 14 April). War darkens global economic outlook and reshapes policy priorities. IMF Blog. International Monetary Fund.
[11] European Commission, Spring 2026 Economic Forecast.
[12] Kammer, A. (2026, 17 April). Reforming Europe under pressure. IMF Blog. International Monetary Fund.
[13] Chalk, N. (2026, 17 April). The Middle East war will have an uneven impact on the Western Hemisphere. IMF Blog. International Monetary Fund.

baseline scenario. The effects would be particularly marked in many Asian economies.[14]

Figure 14: Effect on GDP growth and price-level growth under the "prolonged disruption" scenario



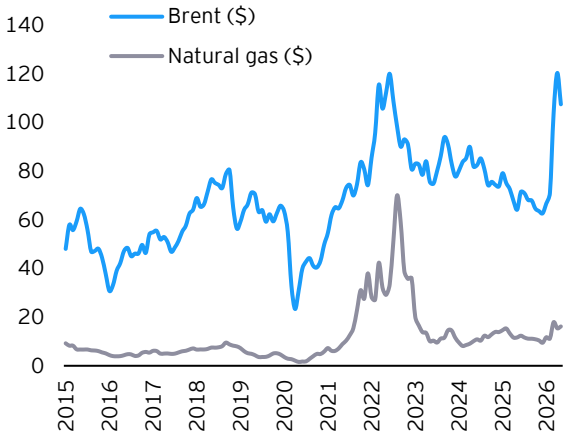
Source: Organisation for Economic Co-operation and Development (OECD).

Analysis of energy price data offers a picture of the current situation and of the effects of the Middle East crisis on the prices of major commodities.

The price of Brent crude averaged 67 $/bbl[15] in January 2026 and 71 $/bbl in February 2026. In March, following the escalation of the conflict, the average price rose to 104 $/bbl (+46% on the previous month), exceeding the 100 dollar-per-barrel threshold for the first time since the start of the year. The latest available data for April and May indicate a further rise followed by a slight pullback (120 $/bbl and 107 $/bbl respectively).

As for natural gas prices on the European market (TTF), these stood at 12 $/mmbtu in January 2026 and 11 $/mmbtu in February,[16] a slight decline. In March, prices reached 18 $/mmbtu (+59% on the previous month), reflecting the direct impact of energy-supply disruptions. In April and May, prices reached 15 $/mmbtu and 16 $/mmbtu respectively.

Figure 15: Energy commodity prices ($)

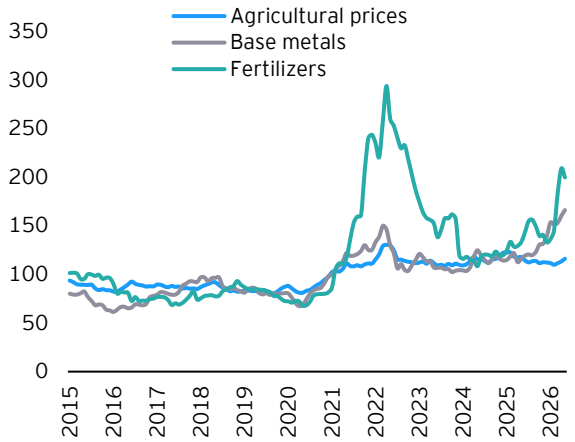


Source: EY-Parthenon analysis of World Bank data. Brent and natural gas prices are expressed in $/bbl and $/mmbtu respectively. The natural gas price refers to natural gas traded on the Title Transfer Facility (TTF). Futures data are calculated as a 15-day average of the quarterly value, in order to reduce daily volatility. Latest available data: May 2026.

Agricultural commodity prices showed an overall stable trend in the first quarter of 2026, with the World Bank's agricultural price index (2010=100) standing at around 111. In April and May, however, agricultural prices continued to rise (+1.6% in April month-on-month and +2.5% in May month-on-month). Agricultural price trends are also linked to fertiliser prices, which have likewise risen in recent months and only slightly contracted in May (-4.3% month-on-month). The World Bank estimates an overall increase in fertiliser prices of 31% in 2026, with urea up 60%, potentially weighing on future harvests and global food security.[17]

[14] OECD Economic Outlook, 3 June 2026, Under pressure, Volume 2026/1, No. 119.
[15] Dollars per barrel of oil. A barrel is equivalent to approximately 159 litres.
[16] Dollars per million British thermal units (MMBtu), a measure of the quantity of natural gas.
[17] UNCTAD (2026). Strait of Hormuz disruptions: Implications for global trade and development, https://unctad.org/publication/strait-hormuz-disruptions-implications-global-trade-and-development.

Figure 16: Agricultural, base metals and fertiliser price index (2010=100)



Source: EY-Parthenon analysis of World Bank data. Latest available data: May 2026.

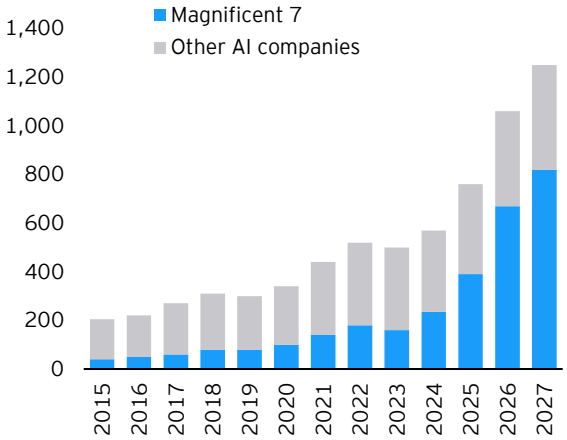
Lastly, base metal prices continue along a path of significant growth: in the first quarter of 2026 the index reached 152.5 (2010=100), up 29% on the same period of 2025, with a further +4.7% in April and +3.8% in May. The World Bank expects major base metals to exceed their record highs in 2026 (with reference to published historical series), supported by structural demand linked to the energy transition, the upgrading of electricity grids and the expansion of data centres driven by the development of artificial intelligence. On the supply side, the ban imposed by the United States and the United Kingdom on the trading of new Russian aluminium, copper and nickel production on major metal exchanges since April 2024, together with precautionary stockpiling in some countries, has contributed to relative scarcity in international markets.

A further inflationary risk factor is rare earths, strategic materials essential for the production of advanced components in sectors such as automotive, electronics, semiconductors and defence, whose supply chain is dominated by China at every critical stage of refining and production.

In 2025, China imposed export controls on rare earths on two separate occasions – in April and October – in response to escalating trade tensions with the United States, signalling its ability to use this lever as a geopolitical tool. Some simulations indicate that partial restrictions lasting 18 months would cause output losses in the United States of between 0.3% and 0.6%, with inflationary pressures in both the US and the Eurozone arising from higher upstream production costs and downstream input scarcity; in more extreme scenarios, with an almost total halt to exports and low substitutability, losses could reach 2%.[18]

The issue of rare earths is also linked to the development and spread of Artificial Intelligence (AI) and the infrastructure connected to it. Consider, in this regard, that US spending on *datacenters* alone exceeded 500 billion dollars in 2025, with plans to expand computing capacity pointing to further acceleration towards 2030; the leading global technology companies (the so-called "Magnificent Seven")[19] are expected to make capital expenditure that will reach 1,100 billion dollars in 2027, at growth rates exceeding operating earnings.[20],[21]

Figure 17: CAPEX of the "Magnificent 7" and other AI companies – billions of dollars



Source: Organisation for Economic Co-operation and Development. The "Magnificent 7" comprise Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla. The other "AI companies" are identified on the basis of iShares and Xtrackers exchange-traded funds focused on companies operating in the artificial intelligence sector as of December 2025. Projections for 2026 and 2027 are updated as of 20 May 2026.

[18] Aguilar, P., Darracq Pariès, M., Jouvanceau, V., Meunier, B., & Spital, T. (2025). Global implications of export controls on rare earths: A model-based assessment (ECB Occasional Paper Series No. 384). European Central Bank.
[19] Reference is made to NVIDIA, Microsoft, Alphabet, Amazon, Apple, Meta and Tesla.
[20] de Soyres, F., Haag, A., Liu, M., & Van Leemput, E. (2026, 13 February). *The global trade effects of the AI infrastructure boom*. FEDS Notes. Board of Governors of the Federal Reserve System.
[21] OECD. (2026). *OECD economic outlook, volume 2026, issue 1: Preliminary version*. OECD Publishing.

The build-out of this infrastructure is laying the groundwork for increased demand for electricity, semiconductors and rare earths, making the supply chains for these materials a critical factor for the sustainability of the AI investment cycle. This phenomenon is also significant in terms of the growth of economies adopting this technology over the medium to long term. World trade in AI-related products has already grown at a markedly faster pace than merchandise trade as a whole since 2023, with redistributive effects concentrated mainly in Asia – exports of AI-related goods from Taiwan to the United States reached around 14% of national GDP in the second quarter of 2025 – while Europe's contribution remains marginal.[22] AI is also expected to affect growth through higher productivity. Specifically, the World Bank has developed three illustrative scenarios quantifying possible trajectories for total factor productivity between 2026 and 2039. In an intermediate scenario, corresponding to the midpoint of estimates in the literature, TFP would grow by 0.6 percentage points a year relative to the baseline; a more optimistic scenario assumes an increase of 1.0 percentage points a year, with broad adoption and further advances in model capabilities; lastly, in the transformative scenario – which replicates the decade historically most favourable to global productivity – global TFP could grow by around 2.7% a year, reversing the slowdown of the past twenty years.[23]

Overall, the geopolitical and economic situation remains complex and potentially worsening due to the new conflict with Iran. Alongside strictly cyclical factors are longer-term trends, including investment in and the spread of Artificial Intelligence. The overall effects of these short- and long-term dynamics on the global economy are subject to a high degree of uncertainty, depending on commodity price movements, trade-distorting measures and possible future developments.

Growth in the major world economies: the latest data

The international picture is also characterised by heterogeneous developments among the major world economies when looking at the shorter-term data.

United States

US GDP grew at an annualised rate[24] of 1.6% in the first quarter of 2026, after quarter-on-quarter growth of 0.5% in the fourth quarter of the previous year. This growth was mainly driven by the positive contribution of private consumption and investment (1.0 and 1.2 percentage points respectively), while foreign demand made a negative contribution to overall growth (-1.3 percentage points).[25]

With regard to price developments, inflation in the United States continues to record values above the price-stability objective set by the Federal Reserve (2.0%), with an inflation rate of 4.2% in May 2026, a sharp acceleration from February (2.4%). A similar pattern is seen in the Personal Consumption Expenditure (PCE) Price Index, which has risen relative to February and March.[26]

[22] de Soyres, F., Haag, A., Liu, M., & Van Leemput, E. (2026, 13 February). *The global trade effects of the AI infrastructure boom*. FEDS Notes. Board of Governors of the Federal Reserve System.

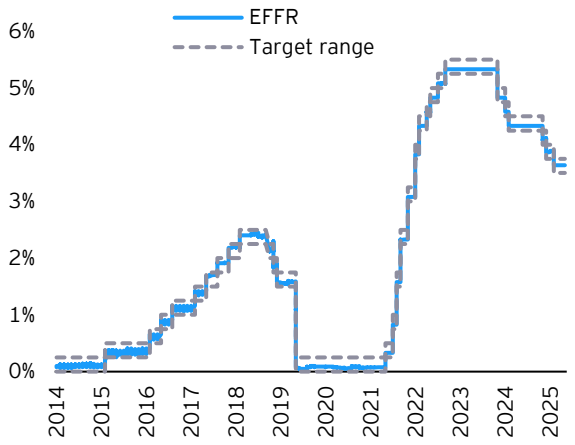
[23] World Bank. (2026, June). *Global economic prospects, June 2026*. International Bank for Reconstruction and Development / The World Bank.

[24] For further information, https://www.bea.gov/help/faq/463.

[25] GDP (Second Estimate) and Corporate Profits, 1st Quarter 2026, https://www.bea.gov/news/2026/gdp-second-estimate-and-corporate-profits-1st-quarter-2026.

[26] For further information, https://www.bea.gov/data/personal-consumption-expenditures-price-index.

Figure 18: Federal Reserve monetary policy reference rates, United States



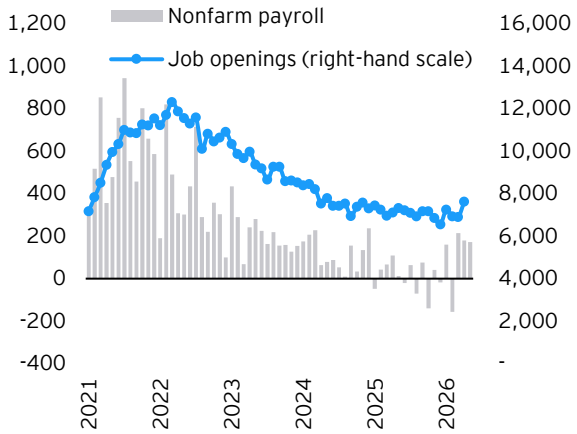
Source: EY-Parthenon analysis of Federal Reserve Bank of New York data. EFFR: Effective Federal Funds Rate; the EFFR is calculated as the volume-weighted median of reported overnight transactions. For further information, https://www.newyorkfed.org/markets/reference-rates/effr.

Against the current backdrop of broadly sustained growth in the country and the possible conclusion of an agreement ending the war between the US and Iran, the Federal Reserve decided, at its latest meeting on 17 June, to keep interest rates unchanged within a range of 3.50% to 3.75%.[27] Despite the acceleration in price growth, the economic projections released at the meeting point to PCE growth of 3.6% in 2026 and 2.3% in 2027, a level more in line with the central bank's target.[28] The 17 June meeting was the first since the swearing-in of the Federal Reserve's new Chair, Kevin Warsh, who is expected to steer US monetary policy in a different direction from that seen under the previous administration.

In any case, the Federal Reserve's monetary policy choice comes against a backdrop of economic conditions that appear to be developing positively. It is worth recalling, in this regard, that the US central bank has a statutory dual mandate requiring it to pursue full employment and manage price developments.

As for the labour market, conditions appear to be improving. In April, employment growth stood at 172,000, after growth of 179,000 in the previous month. Also relevant is the trend in *job openings*, although overall the figures are in line with those of previous months. The unemployment rate remains broadly stable at around 4%.[29]

Figure 19: Change in nonfarm payrolls and job openings – USA



Source: EY-Parthenon analysis of Bureau of Labor Statistics (BLS) data. With *nonfarm payroll* reference is made to the number of US workers in the economy excluding business owners, private household employees, unpaid volunteers, farm employees and unincorporated self-employed workers. This measure accounts for around 80% of workers contributing to Gross Domestic Product (GDP). For further information, https://fred.stlouisfed.org/series/PAYEMS.

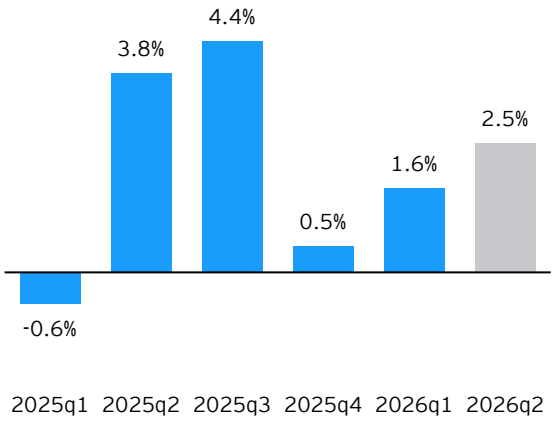
Regarding recent developments in the US economy in more detail, the latest data show that in March 2026 consumer spending accelerated month-on-month (1.0%), after positive but slightly more subdued growth (0.7%) in February.[30] Growth in March is attributable to a positive trend in goods consumption (2.2% month-on-month, contributing 0.7 percentage points to consumption growth) and weaker growth in services consumption (0.4%, contributing a positive 0.3 percentage points).

Activity in the industrial and manufacturing sectors is weak: industrial production recorded growth of 0.7% in April 2026 compared with the previous month (after a 0.3% contraction in March 2026 and growth of 0.6% in February); a similar pattern can be seen in manufacturing, which

[27] Federal Reserve issues FOMC statement, 17 June 2026, https://www.federalreserve.gov/newsevents/pressreleases/monetary20260617a.htm.
[28] Federal Reserve Board and Federal Open Market Committee release economic projections from the June 16-17 FOMC meeting. For further information, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20260617.pdf.
[29] Bureau of Labor Statistics, Employment Situation News Release. For further information, https://www.bls.gov/news.release/empsit.toc.htm.
[30] Personal Income and Outlays, April 2026. For further information, https://www.bea.gov/news/2026/personal-income-and-outlays-april-2026.

recorded growth of 0.6% in April after being essentially flat the previous month (0.1%). On a year-on-year basis, industrial and manufacturing production show an encouraging trend, growing by 1.4% and 1.3% respectively.[31]

Figure 20: GDP, USA – annualised QoQ % change

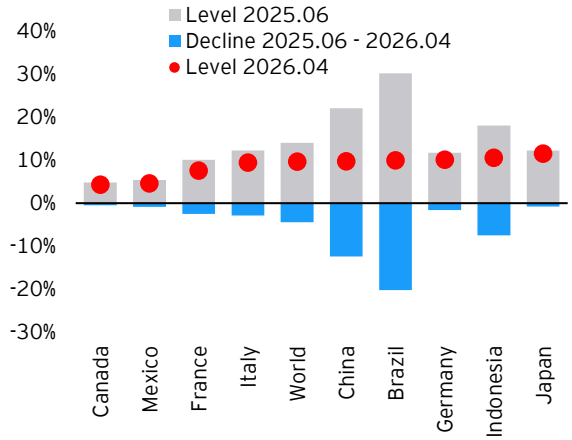


Source: EY-Parthenon analysis of Federal Reserve Bank of New York and U.S. Bureau of Economic Analysis (BEA) data. The grey bars represent available forecasts for the coming quarters (New York Fed Staff Nowcast). Growth rates are annualised. Last updated: 8 June 2026.

Regarding expectations for the coming quarters, the latest projections from the Federal Reserve Bank of New York, as of June 2026, indicate average GDP growth over the next four quarters ranging between 0.1% and 3.3%, with a median of 1.8%,[32] pointing to a generally dynamic economy.

Moreover, the Federal Reserve Bank of New York's short-term forecasts for the US economy indicate an annualised growth rate[33] of 2.5% for the second quarter of 2026.[34]

Figure 21: Change in the average effective tariff rate for major countries



Source: Organisation for Economic Co-operation and Development (OECD).

In assessing the US economy, it is important to consider recent trade-policy developments, which represent a further source of uncertainty for the US and global economies. In recent months, there has been a reduction in the average effective tariff rate applied by the new US administration to numerous countries, which could lead to a partial improvement and support for trade.

United Kingdom

The United Kingdom recorded growth of 0.6% in the first quarter of 2026, following growth of 0.2% in each of the two preceding quarters.

First-quarter 2026 performance was mainly driven by growth in private consumption (0.6%, after being essentially stagnant over the previous four quarters), and by a positive contribution from investment.[35]

Higher-frequency data show mixed signals: after growth in March and April 2026 (0.5% and 0.3% month-on-month respectively), the services sector contracted by -0.2% month-on-month in May.[36]

The construction sector was essentially flat in April, with growth of 0.1%, after growth of 1.5%

[31] Industrial Production and Capacity Utilization, April 2026. For further information, https://www.federalreserve.gov/releases/g17/current/default.htm.
[32] Federal Reserve Bank of New York, Outlook-at-Risk: Real GDP Growth, Unemployment, and Inflation, https://www.newyorkfed.org/research/policy/outlook-at-risk#root:growth-at-risk.
[33] For further information, https://www.bea.gov/help/faq/463.
[34] For further information, https://www.newyorkfed.org/research/policy/nowcast#/overview.
[35] GDP first quarterly estimate, UK: January to March 2026, https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2026.
[36] Office for National Statistics, Index of Services, UK: April 2026, https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/indexofservices/april2026.

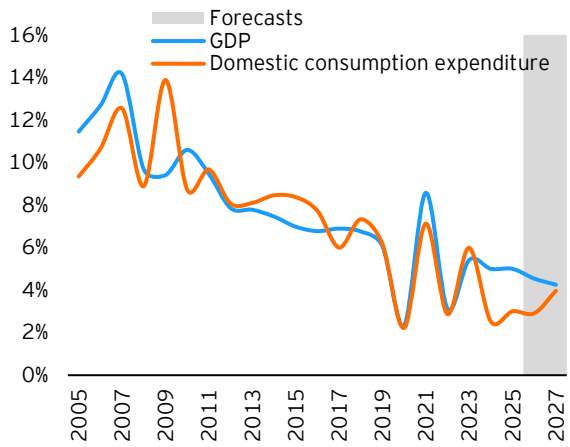
and 0.5% in March and February respectively.[37] Industry showed a similar pattern, recording flat output (0.0%) in April after a 0.2% contraction in March and growth of 0.3% in February.[38]

Lastly, with regard to prices, the inflation rate stood at 2.8% in May, in line with April and down from March (3.3%). Core inflation also remains elevated and broadly stable compared with the previous month (2.6% in May, after 2.5% in April and 3.1% in March).[39]

China

China's economy is showing signs of a slowdown. This is not just a matter of GDP growth in recent years or forecasts for 2027 (the OECD, in its latest Economic Outlook, estimates growth of 4.5% for 2026 and 4.3% for 2027), but reflects a longer-term trend underway since the period following the financial crisis (2008).

Figure 22: GDP, China – % change

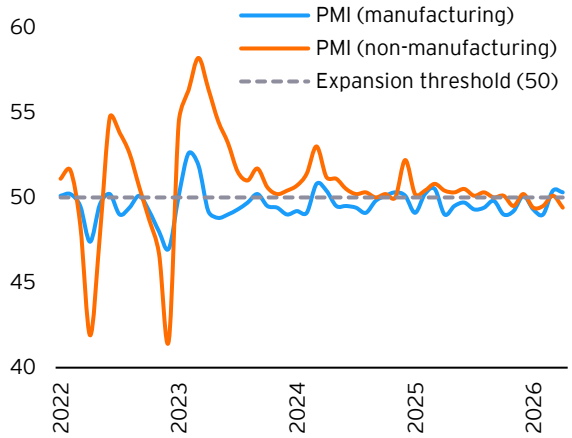


Source: EY-Parthenon analysis of OECD data and forecasts. Domestic consumption expenditure: spending on goods and services for final use.

Looking at the latest data, China's GDP grew by 5.0% year-on-year in the first quarter of 2026, after growth of 4.5% and 4.8% in the fourth and third quarters of the previous year respectively. On a quarter-on-quarter basis, GDP rose by 1.3% in the first quarter, after growth of 1.2% and 1.1% in the fourth and third quarters of 2025 respectively.[40]

The industrial sector is slowing compared with previous months: in April, industrial production rose 4.1% year-on-year, after growth of 5.7% in March. The growth recorded in April represents the lowest figure recorded in the past year, followed by the 4.8% recorded in November of the previous year.[41]

Figure 23: Purchasing Managers' Index (PMI), manufacturing and non-manufacturing activity, China



Source: EY-Parthenon analysis of National Bureau of Statistics of China data. Latest available data: May 2026.

Regarding expectations among manufacturing and non-manufacturing operators, the Purchasing Managers' Index (PMI) released by the National Bureau of Statistics of China shows a trend broadly in line with the expansion threshold (50), aside from some monthly fluctuations.[42]

The real estate sector continues to show signs of crisis, with investment contracting by 13.7% in the first four months of 2026 compared with the same period of the previous year, reflecting a sector still in considerable difficulty.[43]

[37] Office for National Statistics, Construction output in Great Britain: April 2026, https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/april2026.
[38] Office for National Statistics, Index of Production, UK: April 2026, https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/indexofproduction/april2026.
[39] Office for National Statistics, Consumer price inflation, UK: May 2026, https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2026.
[40] Preliminary Accounting Results of GDP for the First Quarter of 2026, https://www.stats.gov.cn/english/PressRelease/202604/t20260420_1963362.html.
[41] Industrial Production Operation in December 2025, https://www.stats.gov.cn/english/PressRelease/202601/t20260120_1962350.html.
[42] Purchasing Managers' Index for May 2026, https://www.stats.gov.cn/english/PressRelease/202606/t20260601_1963851.html.
[43] Investment in Real Estate Development from January to April 2026, https://www.stats.gov.cn/english/PressRelease/202605/t20260519_1963758.html.

Looking more broadly at overall investment, growth in the first four months of 2026 was negative, with a 1.6% contraction, worsening compared with the cumulative figures for January-February and January-March (year-on-year growth of 1.8% and 1.7% respectively).[44]

As for retail sales, April saw essentially flat growth (0.2%) after stronger growth in the previous month (1.7%); this represents the weakest figure in the past twelve months, reflecting a domestic market that is not particularly dynamic.[45]

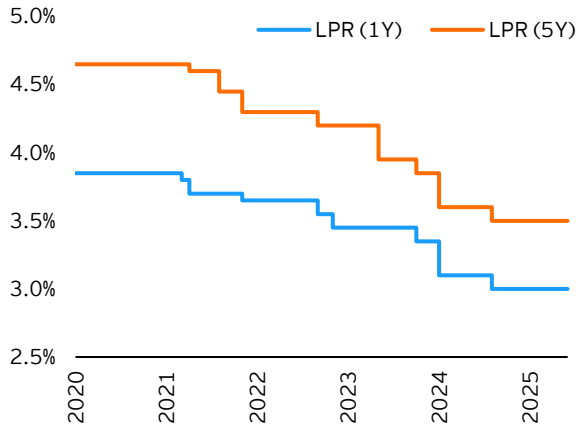
On the external trade front, exports grew 9.8% year-on-year in April 2026, against a 20.6% increase in imports.[46]

Based on the information presented, it can be said that the Chinese economy is experiencing a slowdown in economic growth that is becoming increasingly visible in the data.

From a monetary perspective, it should be noted that policy interest rates continue to remain low compared with previous years, a choice maintained even during the period in which the major global central banks were pursuing restrictive monetary policy to address rising prices. Specifically, the one-year and five-year Loan Prime Rate (LPR – the rate used as a reference by commercial banks in setting the cost of loans to their highest-credit-quality customers) stood at 3.00% and 3.50% respectively in May 2026. The MLF (Medium-term Lending Facility rate, the rate at which commercial banks and other banks – such as the China Development Bank – borrow from the central bank over the medium term) remains constant at 2.00%.[47]

China's economic slowdown is expected to continue, highlighting the need for a reform of the growth model. Among the main challenges to be considered are demographic factors (an ageing population will reduce the labour force),[48] the slowdown in productivity growth (given its transition towards advanced-economy status),[49] as well as diminishing returns on investment which, fuelled by savings (now at record highs), are being channelled into less productive sectors such as real estate.

Figure 24: Loan Prime Rate (LPR), 1-year and 5-year, China



Source: EY-Parthenon analysis of People's Bank of China data. Latest available data: May 2026.

The international backdrop is, overall, once again characterised by complex geopolitical dynamics, following the new conflict in the Middle East. Added to this are pre-existing sources of uncertainty, such as US protectionist trade policy, possible escalation on other geopolitical fronts, and the possibility of renewed global inflationary pressures.

[44] Investment in Fixed Assets from January to April 2026, https://www.stats.gov.cn/english/PressRelease/202605/t20260519_1963759.html.
[45] Total Retail Sales of Consumer Goods from January to April 2026, https://www.stats.gov.cn/english/PressRelease/202605/t20260519_1963757.html.
[46] For further information, http://english.customs.gov.cn/statics/report/preliminary.html. The year-on-year change in exports stands at +14.1% when exports are expressed in dollars, while that of imports stands at +25.3%.
[47] For further information, http://www.pbc.gov.cn/en/3688229/3688335/3883798/index.html.
[48] International Monetary Fund (IMF). 2017. "Asia: At Risk of Growing Old before Becoming Rich?" Chapter 2 in Asia and Pacific Regional Economic Outlook: Preparing for Choppy Seas. May 2017: Washington, DC.
[49] Madsen, Jakob B., Md. Rabiul Islam, and James B. Ang. 2010. "Catching Up to the Technology Frontier: The Dichotomy Between Innovation and Imitation." Canadian Journal of Economics 43(4): 389-1411.

The European Framework

The Eurozone economic outlook and cyclical indicators

In the first quarter of 2026, the Eurozone economy recorded quarter-on-quarter growth (compared with the previous quarter) of -0.2%, the first contraction since the fourth quarter of 2022. On a year-on-year basis (compared with the same quarter of the previous year), the Eurozone posted GDP growth of 0.3%, a sharp slowdown compared with previous quarters (average growth of 1.5% over the past year).

Looking in more detail at country contributions to growth, the four largest economies (Germany, France, Italy and Spain) all recorded positive year-on-year growth in the last quarter (ranging from 0.3% in Germany to 2.7% in Spain). The negative impact on growth therefore came from the other Eurozone economies, specifically Ireland, which recorded a 16.8% contraction, reducing GDP growth for the Monetary Union as a whole. This contraction is mainly due to the dynamics of the country's pharmaceutical exports to the US, which fell sharply and reverted towards levels more in line with historical data after the significant growth recorded following the new US administration taking office. Excluding Ireland, year-on-year growth (1.1%) would have been in line with that of previous quarters.

Figure 25: GDP and contributions by country, Eurozone – % YoY change and percentage points

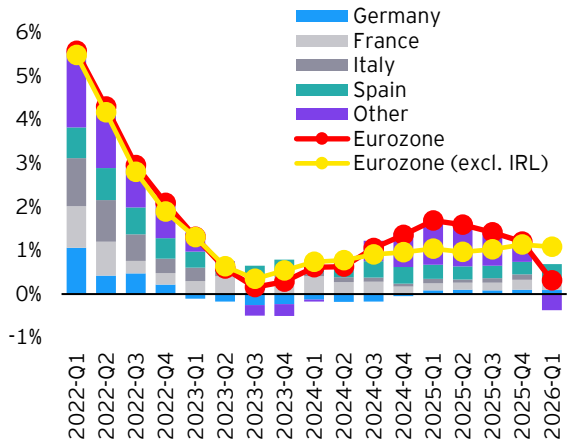
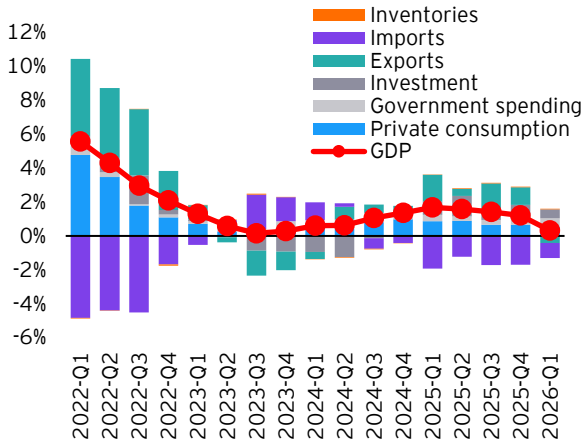


Figure 26: GDP and contributions by component, Eurozone – % YoY change and percentage points



Source: EY-Parthenon analysis of Eurostat data.

Looking at GDP components, the weak year-on-year growth was the result of a contraction in exports combined with growth in imports, with foreign demand contributing -1.3 percentage points to growth, while private consumption and investment played a positive role (year-on-year growth of 1.0% and 2.2% respectively).

Turning to the industrial sector, the index representing production recorded month-on-month growth of 0.3% in March, following growth of 0.2% in February and a contraction of 0.8% in January. Overall, the Eurozone industrial production index remains around 2 percentage points below the 2021 average, with an essentially flat trend since 2025. On a year-on-year basis, the index recorded a contraction of 2.7% compared with March 2025, after a contraction of 0.9% in February. The year-on-year contraction in the index appears, however, to be largely linked to the trend in industrial production in Ireland. In this regard, it is important to take into account Ireland's specific role within industrial production dynamics, given that it hosts numerous foreign manufacturing multinationals. Stripping out the trend in the Irish industrial sector,

the trend in industry as expressed by the index under review appears more positive, albeit still slightly contracting.

Figure 27: Industrial production for major countries, Eurozone – index, 2021=100

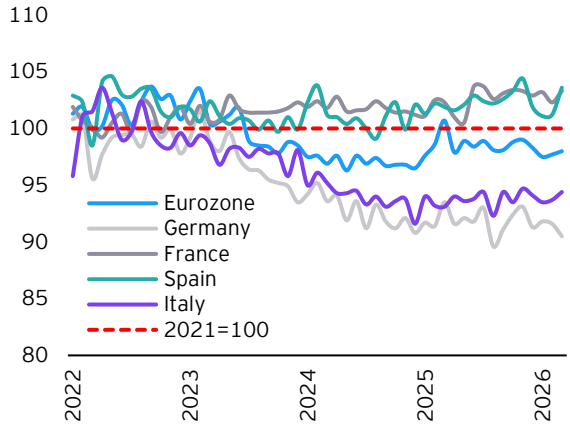
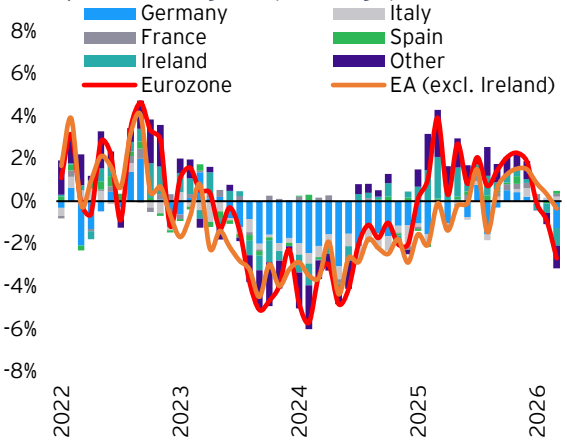


Figure 28: Industrial production and contribution by major country – YoY % change and percentage points



Source: EY-Parthenon analysis of Eurostat data. Industrial production refers to NACE Rev. 2 codes B-D (*Mining* and *quarrying; manufacturing; electricity, gas, steam and air conditioning supply*). Latest available data: March 2026.

Continuing to look at the year-on-year growth of the industrial production index, and breaking it down by major category of goods produced, the contraction experienced in the Eurozone is mainly due to a decline in the consumer goods component (-11.6%, after year-on-year contractions of 5.0% and 5.4% in February and January respectively) and to a decline in the production of intermediate goods (-1.5%, a contraction similar to that of the previous two months). Capital goods production, by contrast, is growing (growth of more than 2% over the past three months).

Turning to cyclical data, analysis of the PMI[50] indicators for manufacturing and services shows interesting and timely details on the trend in the main sectors of the economy. Starting with the manufacturing indices, overall sentiment among operators is improving in the four largest Eurozone economies, with Germany, France and Italy showing broadly positive sentiment (values close to or above the expansion threshold). The *sentiment* among services operators is different, however, having recorded a decline in overall confidence in recent months, with a slight improvement in May.

[50] The PMI (Purchasing Managers' Index) is one of the most widely used cyclical indices, representing the prevailing direction of economic trends in the manufacturing, construction and services sectors, obtained through timely surveys of the most representative companies in each sector. Values above 50 indicate an expansion in economic activity, while values below 50 indicate a contraction.

Figure 29: Purchasing Managers' Index (PMI), manufacturing

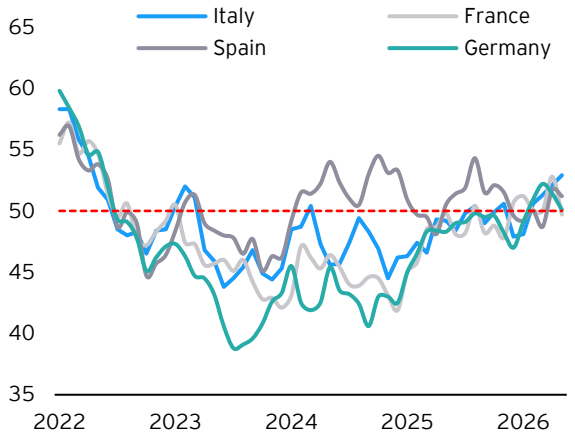
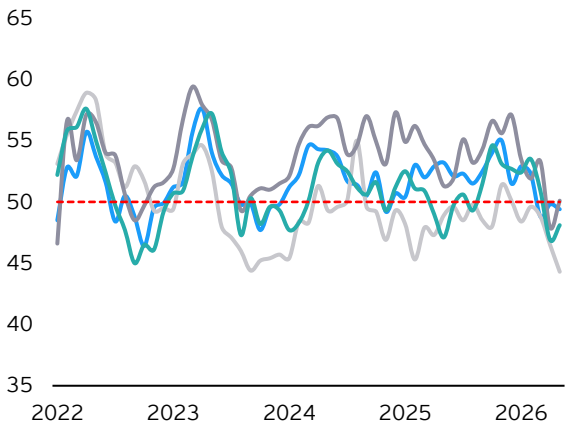


Figure 30: Purchasing Managers' Index (PMI), services



Source: EY-Parthenon analysis of S&P Global data. Latest available data: May 2026.

Despite the complexity of the geopolitical environment and the deterioration of some cyclical indicators, recession probabilities for the Eurozone remain contained. *Ad hoc*[51] models capable of integrating macroeconomic and financial conditions to estimate recession risk on a monthly basis do not currently signal a concrete risk of a contraction in economic activity in the Eurozone.

Figure 31: Recession probability in the USA

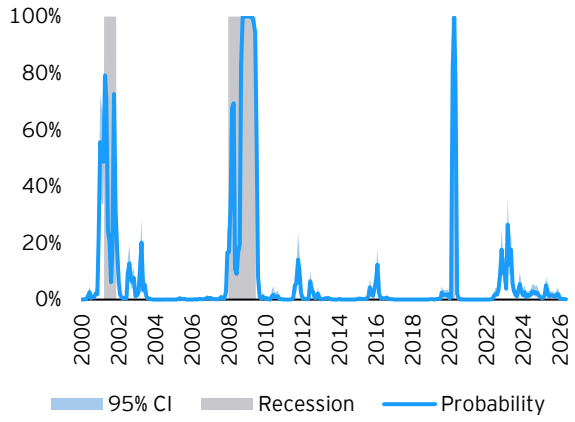
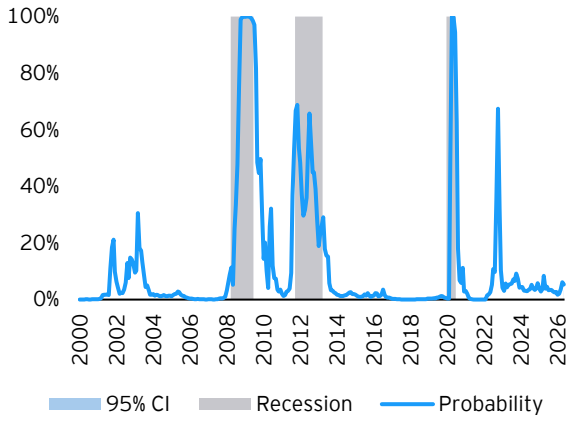


Figure 32: Recession probability in the Eurozone



Source: EY-Parthenon analysis based on Furno and Giannone (2024).

Monetary policy and prices in the Eurozone

The complexity and uncertainty of the current geopolitical environment are crucial factors for the conduct of monetary policy in the Eurozone and beyond. Developments in the Middle East conflict and their effects on oil prices and transport costs along strategic routes are indeed the first elements that *policy makers* need to assess. Specifically, three dimensions need to be considered: (i) the duration of the shock; (ii) the size of the shock; and (iii) the *pass-through* of higher energy costs to final consumer prices. While it is still difficult at this stage to have clear and well-defined information on these points, central banks are expected to

[51] Furno, Francesco and Giannone, Domenico, Nowcasting Recession Risk (January 22, 2024). Handbook of Research Methods and Applications in Macroeconomic Forecasting, Available at SSRN: https://ssrn.com/abstract=4706700 or http://dx.doi.org/10.2139/ssrn.4706700.

maintain a *data-dependent* approach, analysing developments in the external environment and reacting accordingly, including through the use of new tools and models.[52]

Against this backdrop, on 11 June 2026 the European Central Bank decided to raise its key monetary policy interest rates,[53] taking into account the overall macroeconomic picture and the rise in prices caused by the war in the Middle East; the new staff projections point to a change in the harmonised index of consumer prices of 3.0% in 2026, 2.3% in 2027 and 2.0% in 2028.[54] The interest rates on main refinancing operations, on the marginal lending facility and on deposits with the central bank[55] now stand at 2.40%, 2.65% and 2.25% respectively.

Figure 33: European Central Bank monetary policy reference rates

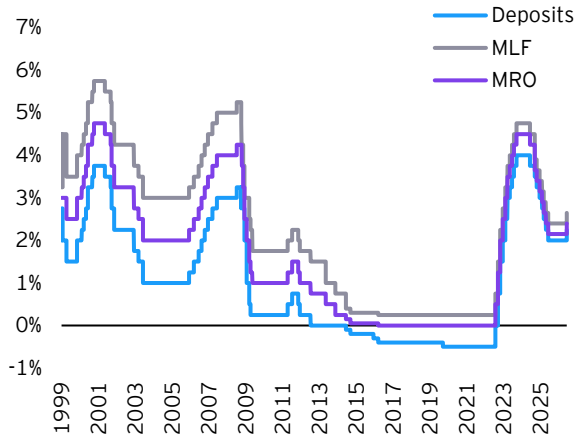
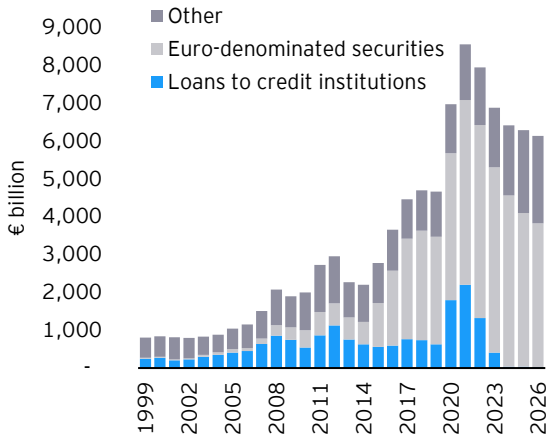


Figure 34: Main European Central Bank balance sheet items (€ billion)



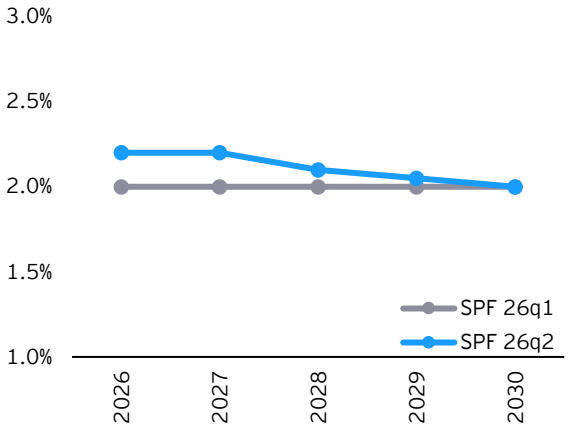
Source: EY-Parthenon analysis of European Central Bank (ECB) data. MLF = Marginal Lending Facility; MRO = Main Refinancing Operations. The deposit rate refers to deposits held with the central bank. Balance sheet items – loans to credit institutions: these refer to euro-denominated loans to euro area credit institutions related to monetary policy operations (including main refinancing operations and LTROs); euro-denominated securities: these refer to euro-denominated securities held by euro area residents (including assets acquired for monetary policy purposes); other: this includes gold and foreign-currency-denominated claims on residents and non-residents of the euro area. The latest available data for 2026 refers to the *weekly financial statement* of 9 June 2026.

This decision and the ECB's macroeconomic forecasts are slightly more pessimistic than the results of the latest ECB Survey of Professional Forecasters (May 2026), in which headline inflation was expected at 2.7% in 2026, before gradually converging towards the 2% target over the medium term. Regarding core inflation expectations, these also showed upward pressure in the short term, with *core* inflation expected at 2.2% in 2026-2027, before returning towards 2% in subsequent years. Survey respondents also expect a *pass-through* of the energy shock to core inflation to be partial and concentrated in services and transport, albeit with high uncertainty about its persistence, while also noting that long-term inflation expectations remain anchored to the ECB's price-stability objective (2%) in any case.[56]

[52] Arce, O., Klieber, K., Lenza, M., & Paredes, J. (2026, 21 April). Navigating uncertain times with the help of artificial intelligence. The ECB Blog. European Central Bank.
[53] ECB, Monetary policy decisions, 11 June 2026. For further information, https://www.ecb.europa.eu/press/pr/date/2026/html/ecb.mp260611~4d41bd5e83.en.html.
[54] ECB staff macroeconomic projections for the euro area, June 2026, https://www.ecb.europa.eu/press/projections/html/ecb.projections202606_eurosystemstaff~a495110f8d.en.html.
[55] The interest rate on deposits held with the central bank is one of the three key rates that the ECB sets every six weeks as part of its monetary policy decisions. This rate defines the interest banks earn on their overnight deposits (for the duration of one business day) with the central bank. The other two key rates are the rate on main refinancing operations (MRO) and the rate on the marginal lending facility (MLF). The MRO rate defines the cost at which banks can obtain credit from the central bank with a one-week maturity. If banks need overnight liquidity, they can use the marginal lending facility at a higher rate. For further information, see https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.it.html.
[56] ECB Survey of Professional Forecasters, second quarter of 2026, 4 May 2026.

Figure 35: Inflation forecasts according to the ECB Survey of Professional Forecasters, headline inflation

Figure 36: Inflation forecasts according to the ECB Survey of Professional Forecasters, core inflation



Source: EY-Parthenon analysis of European Central Bank (ECB) data.

It is worth recalling, in this regard, that monetary policy decisions affect the real economy differently depending on the phase of the economic cycle in which they are adopted. A recent ECB study showed that the transmission of monetary policy varies considerably depending on the combination of price and demand dynamics: restrictive measures are more effective during phases of rising prices and economic expansion, while their effect tends to weaken when the economy is in a slowdown accompanied by upward pressure on prices. In a context such as the current one, characterised by uncertainty over growth and price developments, this finding suggests that careful calibration of monetary policy decisions, sensitive to the specific features of the cyclical juncture, is necessary to ensure their effectiveness.[57] Moreover, the effects of monetary policy choices are expected to be greater the larger the shock (consider, for example, the rate-hiking cycle launched by the ECB between 2022 and 2023 in response to the sharp rise in inflation). This suggests that monetary policy choices cannot be made independently of detailed assessments of external dynamics and their scale.[58]

Figure 37: Headline inflation rate and components, Eurozone – % YoY change

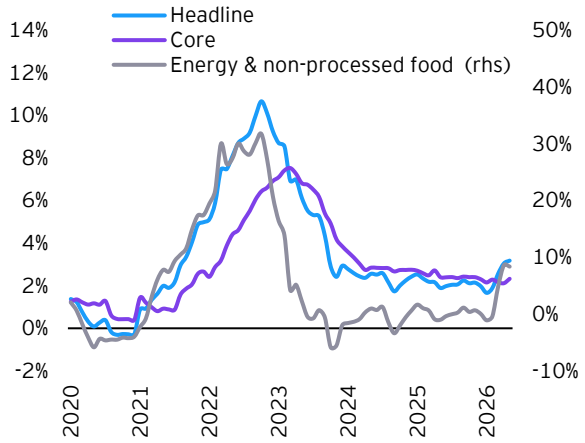
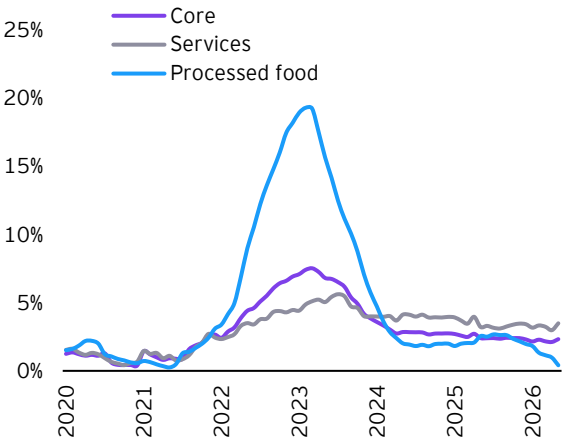


Figure 38: Core inflation rate and components, Eurozone – % YoY change



Source: EY-Parthenon analysis of Eurostat data. The *headline* measure considers all goods in the basket used to calculate price changes; the *core* measure considers the goods in the *headline* basket net of energy and fresh food. The rates refer to harmonised rates. Latest available data: May 2026.

[57] Cardamone, D., & De Santis, R. A. (2025). Understanding the inflation–output relationship across business cycle phases. ECB Working Paper Series, No. 3175. European Central Bank.
[58] Bobasu, A., Ciccarelli, M., Grimaud, A., Mandler, M., & Zlobins, A. (2026, 13 April). Why monetary policy hits harder after big shocks. The ECB Blog. European Central Bank.

The effects of the war in the Middle East are reflected in the trend of the harmonised index of consumer prices for the Eurozone. Headline inflation in May 2026 stood at 3.2%, up from 3.1% in the previous month, a dynamic almost entirely attributable to the rise in energy prices. The *core* component (i.e. net of energy and fresh food) also rose slightly.

The *core* component (2.3% in May, up from 2.1% in the previous month) rose mainly due to its services component, which continues to make a positive contribution to core inflation growth. It is worth noting that core inflation continues to show a high degree of persistence, given that average growth between 2024 and today has been 2.6%.

The persistence of certain components of the consumer price index is partly explained by positive labour market developments in the Eurozone. The labour market continues to be healthy, albeit showing signs of a partial cooling. After growth of 4.9% in the real wage bill in the third quarter of 2025 (corresponding to growth of 4.6% in real hourly wages), the wage bill subsequently grew by 4.3% (4.1% for real hourly wages), indicating a labour market that remains healthy.

In this regard, one tool that makes it possible to analyse this dynamic is the Beveridge curve, which examines the relationship between the unemployment rate and job vacancies in the economy (*job vacancy rate*[59]), thereby providing information on the health of the economy itself and the characteristics of the labour market.

Figure 39: Beveridge curve in Eurozone countries – 2019q1-2025q4

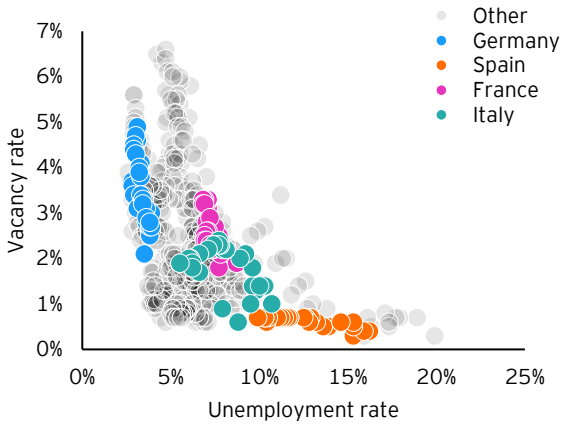
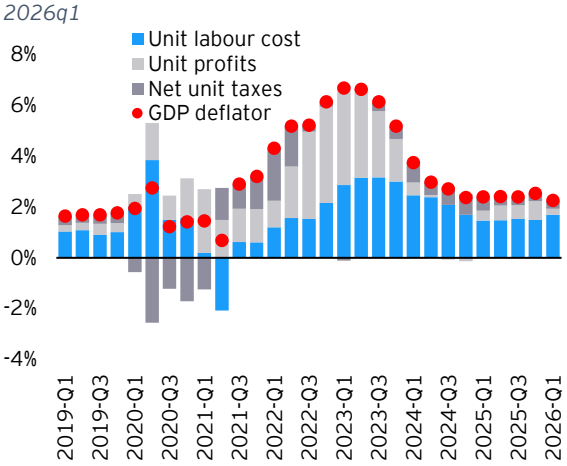


Figure 40: GDP deflator and contributions – 2019q1-2026q1



Source: EY-Parthenon analysis of Eurostat data.

Here, focusing on the main Eurozone economies, a degree of heterogeneity can be observed. Consider, for example, Spain, which shows *vacancy rate* levels that are not particularly high compared with the other major countries (Italy, France and Germany), combined however with a higher unemployment rate. These two factors describe a labour market that is not particularly dynamic at present, with potentially reduced price pressures from this channel. Germany's situation appears different, characterised by high *vacancy rate* levels combined with an unemployment rate below 5%. In this case, the labour market can indeed represent a source of price pressure, especially in its *core* component.

The issue of the labour market and the role of wages in consumer price dynamics can also be analysed from a national accounts perspective. Breaking down the GDP deflator[60] into its main components on the

[59] The job vacancy rate is defined as the ratio between the number of vacant posts and the sum of occupied posts and vacant posts. A vacant post is defined as a paid post, newly created, unoccupied, or about to become vacant, (i) for which the employer is taking active steps and is prepared to take further steps to find a suitable candidate from outside the enterprise concerned; and (ii) which the employer intends to fill either immediately or within a specific period of time. For further information, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Job_vacancy_rate_(JVR).

[60] A deflator is a value expressing the change in prices over a period of time for a product or a basket of products, used to deflate (adjust for price changes) a measure of value changes over the same period (for example, sales of this product or basket), thereby removing price increases or decreases and leaving only volume changes. For further information, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Deflator.

income side,[61] it can be seen that the labour cost component was a crucial factor in the rise in prices between the fourth quarter of 2019 and the fourth quarter of 2025, especially in recent quarters. A further point of interest is the increase in the positive contribution of the profit component, which grew in 2025 compared with 2024.

The relationship between prices and the labour market, summarised by the Phillips curve, remains a fundamental reference point for macroeconomic analysis. In this regard, however, it should be noted that recent studies have scaled down its importance. An analysis based on regional data from eleven Eurozone countries over the period 1999-2023 shows that inflation does respond to demand and labour market conditions, but to a more limited extent than traditional models would suggest; the relationship is also strongly conditioned by the evolution of inflation expectations, which are in turn influenced by the nature of the shock.[62] It follows that monetary policies aimed at managing aggregate demand have more limited direct effects on inflation, and that managing expectations represents the most effective lever for ensuring the transmission of monetary policy.[63]

When discussing the labour market and its possible effects on price developments, it is also important to highlight the differences compared with the situation recorded in 2022, at the time of the shock caused by the Russia-Ukraine war. Specifically, data from the *Business and consumer survey*[64] conducted by the European Commission indicate a decline in the percentage of firms identifying a shortage of skilled labour as a factor slowing down business activity. This trend is observed in both the services sector and industry, and may translate into less significant labour-market-driven price pressure.

Figure 41: % of firms identifying labour shortages as a factor slowing down activity, Eurozone

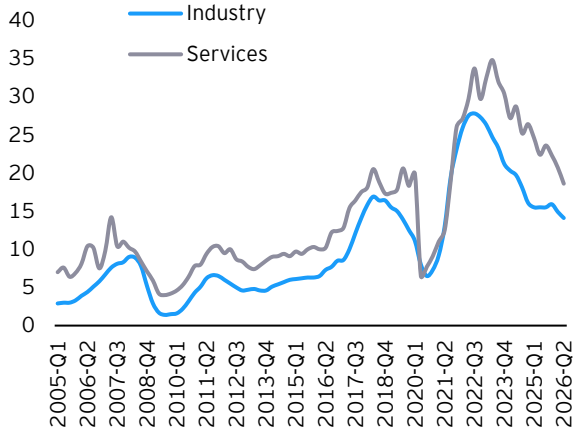
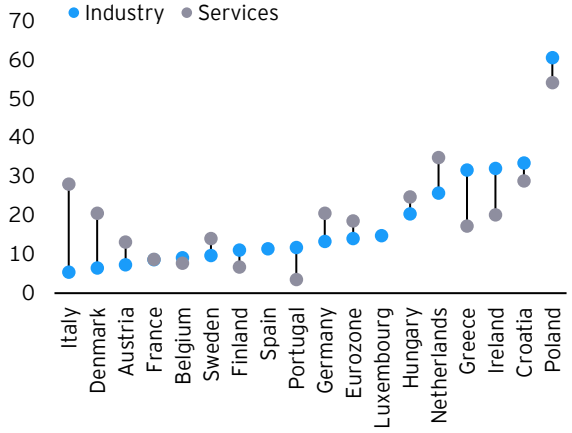


Figure 42: % of firms identifying labour shortages as a factor slowing down activity by country



Source: EY-Parthenon analysis of European Commission, Business and consumer survey data.

Eurozone-wide figures conceal, as always, important differences and heterogeneity across countries. While countries such as Italy, Denmark and Austria record a low percentage of industrial firms viewing labour shortages as a problem, countries such as Poland, Croatia and Ireland record a significantly higher percentage. Looking, however, at information relating to the services sector, the picture changes: Italy, for example, records a high number of firms struggling to find suitable labour, a higher number than countries such as France, Portugal or Ireland.

In addition to the labour market, price developments are also linked to public finance considerations. The experience of the pandemic offers an important example in this regard: an analysis of the underlying causes

[61] The analysis of gross domestic product (GDP) from the income side considers compensation of employees, taxes on production and imports less subsidies on production, gross operating surplus and other income. The income-based approach shows how GDP is distributed among the various participants in the production process. For further information, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Income_approach.
[62] Adolfsen, J. F., Lappe, M.-S., Manu, A.-S., Rõβler, D., Schupp, F., & Stalla-Bourdillon, A. (2025). Gas market shocks: tracing the effect on euro area inflation expectations. ECB Working Paper Series, No. 3227. European Central Bank.
[63] Beschin, A., et al. (2026, 23 February). What regional data tell us about the euro area Phillips curve. ECB Research Bulletin, No. 140. European Central Bank.
[64] For further information, https://ec.europa.eu/eurostat/web/euro-indicators/information-data/business-consumer-surveys.

of the rise in prices in the Eurozone during the pandemic crisis showed that inflation was driven not only by exogenous supply-side shocks – particularly those related to energy – but also by policy responses, both fiscal and monetary. Although the latter were not the dominant factor, their contribution was significant. In the current context, therefore, the evolution of prices will also depend on the fiscal policy response to the ongoing shock.[65]

Figure 43: Deficit-to-GDP ratio, Eurozone

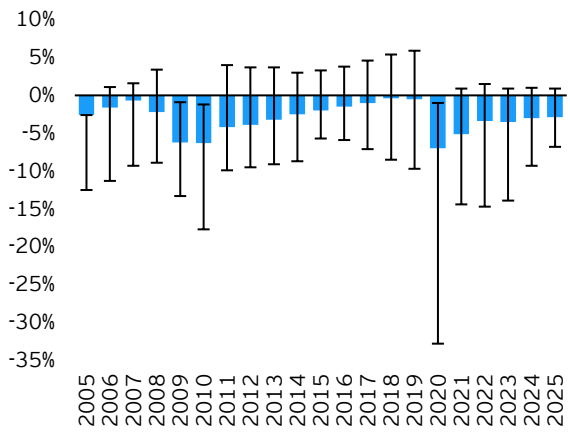
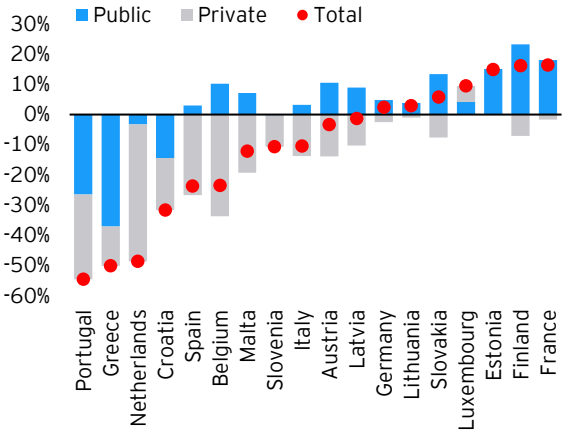


Figure 44: Change in public and private debt (2019q1-2025q4), Eurozone – percentage points



Source: EY-Parthenon analysis of Eurostat and European Central Bank data.

However, it should be considered that, with debt levels already high, a strong fiscal policy response would risk undermining a situation that is already not particularly favourable. Policymakers will therefore need to strike a balance between supporting the most vulnerable groups and ensuring debt sustainability,[66] especially in view of the resources that other structural challenges will require, including defence. EU defence spending is indeed growing rapidly: between 2021 and 2024, EU countries' military allocations rose by around 30%, reaching 1.9% of GDP, and the expected trajectory points to further expansion, with all NATO allies called upon to reach at least 2% of GDP and with proposals already on the table targeting 5% by 2035.

While a recent study has shown that an increase in defence spending generates a multiplier effect greater than one, boosting not only government consumption but also investment and private consumption, with positive effects on employment and capital, on the other hand the pressures on public finances and on consumer prices must also be considered.[67] The potential benefits of these spending programmes depend, however, on the "quality" and efficiency of resource allocation, as shown by a study conducted by the International Monetary Fund covering 174 economies.[68,69]

Returning to the topic of price developments, these are closely linked to the trend in bank credit. The effects of the current level of interest rates on bank credit can be inferred from the latest edition of the Bank Lending Survey[70] for the Eurozone, which offers some interesting insights.[71]

[65] Barauskaitė Griškevičienė, K., Brand, C., & Nguyen, A. D. M. (2025). Pandemic-era inflation dynamics in the euro area: the role of policy and non-policy demand and energy and non-energy supply factors. ECB Working Paper Series, No. 3201. European Central Bank.
[66] Bankowski, K., Che, N. X., & Dabla-Norris, E., & Valdés, R. (2026, 15 April). War shock requires disciplined fiscal reaction. IMF Blog. International Monetary Fund.
[67] Furceri, D., Juarros, P., Mishra, S., Nguyen, A. D. M., Pessoa, A. S., & Sollaci, A. (2026, March). Macroeconomic impacts of EU defense spending. IMF Working Paper, WP/26/53. International Monetary Fund.
[68] Dabla-Norris, E., Furceri, D., Munkacsi, Z., & Sher, G. (2025, 7 October). Spending smarter to boost growth. IMF Blog. International Monetary Fund.
[69] Antolin-Diaz, J., & Surico, P. (2025). The long-run effects of government spending. *American Economic Review*, *115*(7), 2376-2413.
[70] The Bank Lending Survey (BLS) has been conducted since January 2003 by the national central banks of the countries that have adopted the single currency, in collaboration with the European Central Bank. It is addressed to the credit policy officers of the area's main banks (around 150). The survey makes it possible to separately highlight, on the one hand, the factors influencing credit supply as well as the terms and conditions applied to customers, and, on the other, the trend in credit demand and its determinants.
[71] The euro area bank lending survey – Third quarter of 2025.

Figure 45: Bank lending conditions for firms, Eurozone – net percentage of respondents

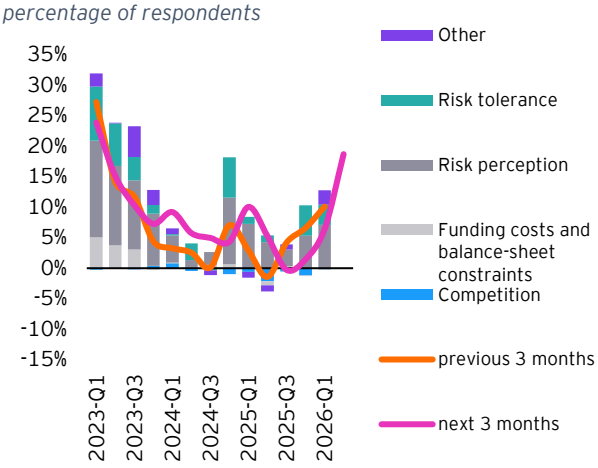
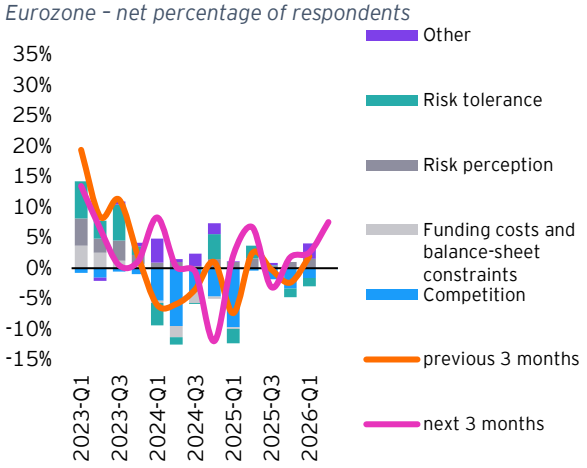


Figure 46: Bank lending conditions for households, Eurozone – net percentage of respondents



Source: EY-Parthenon analysis of European Central Bank (Bank Lending Survey) data. For households, reference is made to lending conditions for loans for house purchase. Net percentages are defined as the difference between the sum of the percentages of banks reporting "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks reporting "eased somewhat" and "eased considerably", with regard to changes in credit conditions. Net percentages for responses to questions on contributing factors are defined as the difference between the percentage of banks stating that a given factor contributed to a tightening and the percentage of banks stating that it contributed to an easing.

Eurozone banks reported a further net tightening of lending criteria for firms in the first quarter of 2026 (net percentage of 10%). This result was more pronounced than the expectations expressed by the same banks in the previous quarter (6%) and represents the sharpest tightening since the third quarter of 2023, continuing a restrictive trend that began in mid-2025. Among the four largest Eurozone economies, banks in Spain, France and Germany reported stricter criteria, while in Italy criteria remained unchanged.

The tightening observed was greater than both the historical average since 2003 (8%) and the average since 2014 (3%). By firm size, the tightening was more pronounced for SMEs than for large firms (net percentages of 10% and 6% respectively). By maturity, banks reported stronger tightening for long-term loans than for short-term loans (10% and 5% respectively). The factors underlying the tightening include a worsening perception of risks related to the economic outlook and reduced risk tolerance on the part of banks, in a context consistent with high risk aversion and an increasingly cautious approach to lending. Specifically, the overall macroeconomic outlook (12%) and sector/firm-specific risks (9%) were the main contributing factors. In the first quarter of 2026, funding costs, balance-sheet constraints and competitive pressure had a broadly neutral impact on criteria. In addition, banks reported that geopolitical and energy-related developments exerted further restrictive pressure on credit standards. By country, in Germany, France and Spain the tightening was mainly driven by higher perceived risks; in Germany and Spain, lower risk tolerance also played a role, while in Italy no single predominant factor emerges.

Eurozone banks expect a further and more pronounced tightening of lending criteria for firms (net percentage of 19%) in the second quarter of 2026. The expected tightening would be of similar magnitude for large firms and for small and medium-sized enterprises (15% and 16% respectively), as well as for long-term and short-term maturities (16% and 15% respectively). Consistent with this picture, banks in all four major countries in the area – Germany, France, Spain and Italy – expect a tightening of criteria. With regard to household credit, Eurozone banks reported a slight net tightening of lending criteria for home purchase mortgages in the first quarter of 2026 (net percentage of 2%), broadly in line with expectations formulated in the previous quarter (3%). Among the four major Eurozone countries, a tightening of conditions was recorded in Germany and Spain, while criteria remained broadly unchanged in France and Italy.

Regarding the main factors driving this trend, increased risk perception had a tightening effect on credit criteria, while competition had a slight easing effect. Eurozone banks expect a further tightening of residential mortgage criteria (net percentage of 8%) for the second quarter of 2026. Among the major countries, a tightening is expected in Germany and Spain, while in France and Italy lending criteria are expected to remain broadly unchanged. The response of bank credit volumes (and interest rates) to

monetary policy decisions represents a key channel for the transmission of monetary policy, influencing the investment, consumption and savings decisions of economic agents and, consequently, the path of the real economy and inflation.

Turning to foreign trade, the effects of US trade policy are visible in the Eurozone, where the last months of 2025 and the first months of 2026 were, overall, characterised by a contraction in exports to the United States.

Moreover, while hostile US trade policy is an important factor to bear in mind, it is also important to consider the growing pressure and competition facing Eurozone manufacturing. In this regard, consider that, between 2002 and 2025, the share of Chinese goods imports in the total rose from 3.1% to 8.6%, with significant differences across sectors. This long-run phenomenon generates competitive pressure for Eurozone firms, compounded with short-to-medium-term dynamics that are not favorable (such as the protectionist policies currently in place).

Figure 47: Goods exports by destination, Eurozone – % YoY change and percentage points

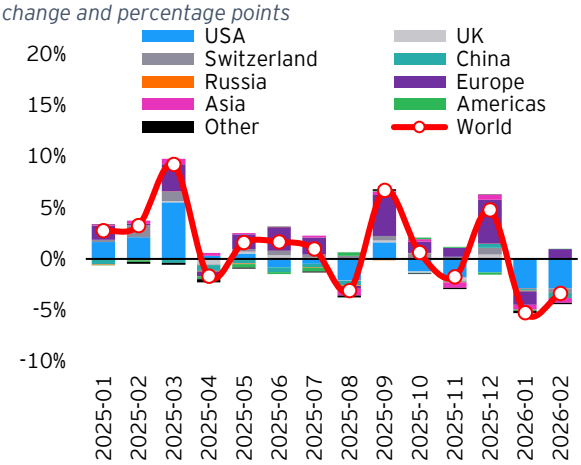
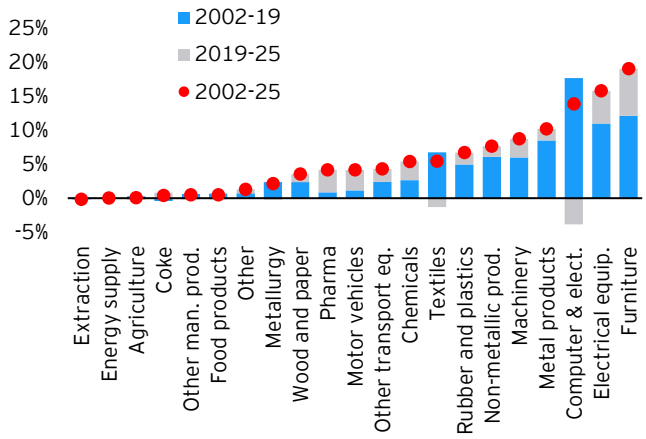


Figure 48: Growth in sectoral exposure to imports from China, Eurozone



Source: EY-Parthenon analysis of Eurostat Comext data. Sectoral exposure is calculated as the % of imports from China of a given product relative to total world imports of that product; growth is calculated as the difference in this percentage between the periods under review.

Overall, the picture for the Eurozone in the first half of 2026 is fragile and subject to risks tilted mainly to the downside. Economic growth remains weak and uneven across member countries, with the industrial sector still struggling and private consumption providing only partial support to aggregate demand. The conflict in the Middle East has interrupted the disinflation process that began over the previous two years, pushing headline inflation back above the ECB's target and making the calibration of monetary policy particularly complex. Added to this are pressures stemming from the international trade environment, with US protectionist policies and growing Chinese competition weighing on the area's manufacturing competitiveness. In this scenario, growth will depend crucially on how the geopolitical conflict evolves, on governments' ability to balance fiscal support with debt sustainability, and on the *ad hoc* response that combines exogenous inflationary pressures with still-sluggish domestic demand.

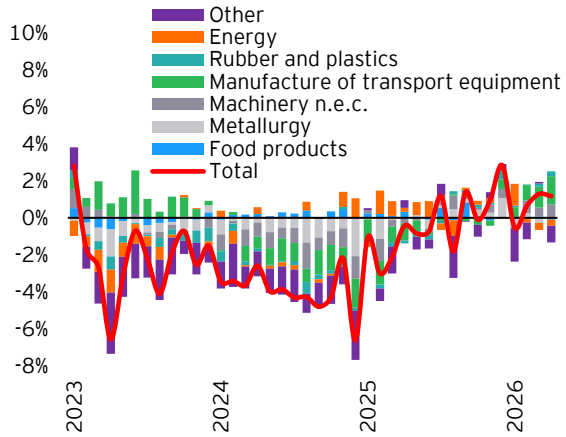
The Italian Economy

Trends in the real economy

In April 2026, the industrial production index rose by 1.2% year-on-year, following growth of a similar magnitude in the previous month (1.3%) and more modest growth in February (0.6%).

April's growth was driven mainly by the manufacture of machinery and equipment and the manufacture of transport equipment; the overall industrial production index, however, remains around 5 percentage points below the 2021 average, demonstrating a sector that is still struggling and recovering slowly.

Figure 49: Industrial production index and components – % YoY change and percentage points, Italy

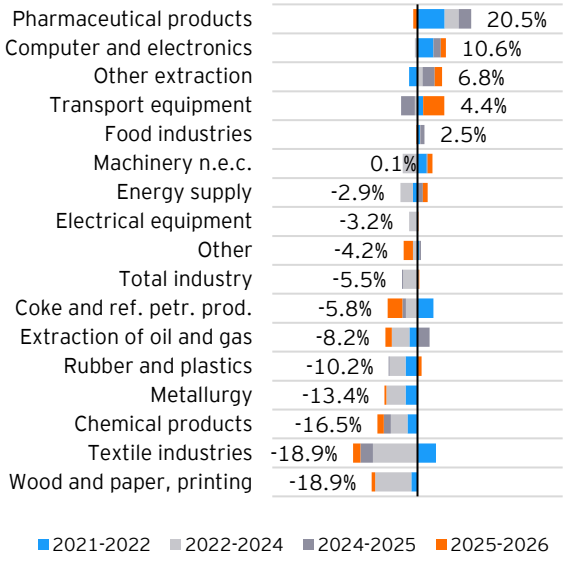


Source: EY-Parthenon analysis of ISTAT data. Latest available data: April 2026.

Taking a longer-term perspective, a heterogeneous trend emerges across the different industrial sectors.

Specifically, between 2021 and the latest 2026 data (April), the sectors that recorded the strongest growth in the industrial production index were pharmaceuticals (20.5%), the manufacture of computers and electronic products (10.6%), and the mining and quarrying and transport equipment manufacturing sectors (6.8% and 4.4% respectively).

Figure 50: Industrial production index by industrial sector, Italy – % change relative to 2019 and contributions by year under review



Source: EY-Parthenon analysis of ISTAT data. Machinery n.e.c.: Manufacture of machinery and equipment not elsewhere classified.

By contrast, the most struggling industrial sectors are wood, paper and printed products (-18.9%), on a par with the textile sector, followed by chemical products manufacturing (-16.5%) and metallurgy (-13.4%). This trend is partly explained by the fact that these sectors are also those with the highest energy consumption among the various industrial segments. Specifically, energy costs accounted for around 8% of the value of

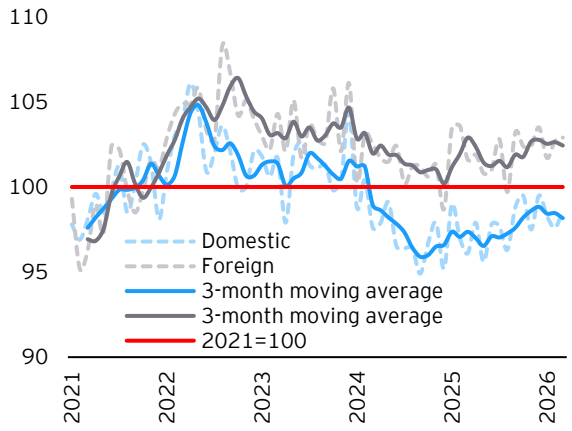
intermediate inputs for the wood, paper and printing industry in 2022, 6.6% for metallurgy and 5.5% for the chemical industry (the average figure for manufacturing as a whole is 3.6%).

The unfavourable trend in Italian industry is also reflected in the dynamics of the industrial turnover volume index. The latter recorded a similar trend in its two components – turnover volume in the domestic market and in foreign markets – although the overall picture appears different.

Specifically, turnover volume generated in the domestic market is growing compared with end-2024 levels, but remains below the 2021 average; the picture in foreign markets is different, where turnover also declined in late 2024 but did not fall (except very briefly) below 2021 levels.

In recent months, a downward trend compared with previous months has also been observed, consistent with an overall picture of weakness in industry.

Figure 51: Industrial turnover volume (excl. construction), Italy – index, 2021=100

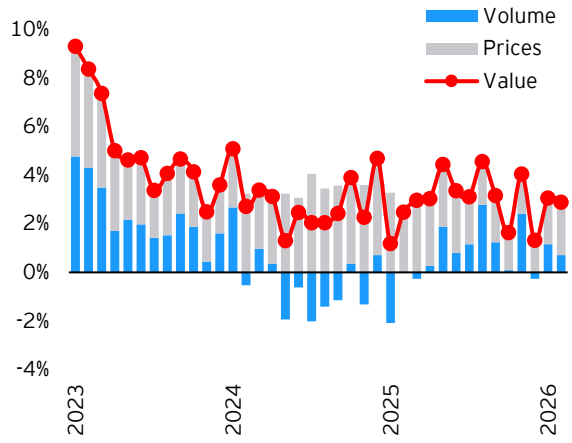


Source: EY-Parthenon analysis of ISTAT data. Latest available data: March 2026.

Turning to the services sector, here too an overall picture emerges that is not particularly positive.

Indeed, analysing the trend in the turnover value and volume indices, it can be seen that turnover grew mainly due to an increase in the price component, given that the turnover volume index remained broadly stable or recorded modest growth in recent months.

Figure 52: Growth in services turnover value and components, Italy – % YoY change and percentage points

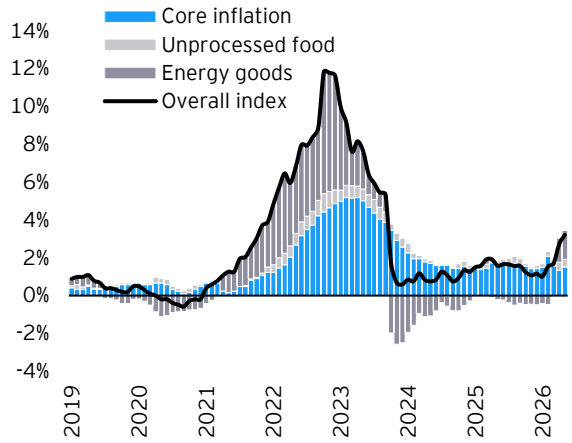


Source: EY-Parthenon analysis of ISTAT data. Latest available data: March 2026.

Price trends and the labour market in Italy

In May, the inflation rate stood at 3.2%, up from previous months (2.7% in April, 1.7% in March, 1.5% in February).

Figure 53: Inflation and components, Italy – % YoY change and percentage points



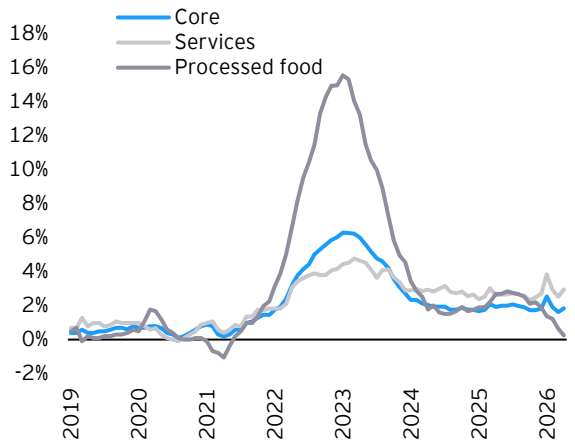
Source: EY-Parthenon analysis of ISTAT data. Latest available data: May 2026.

The acceleration in price growth compared with the 2025 average (1.5%) is mainly due to the increased contribution of the energy component, combined with a persistent contribution from the core component.

Specifically, in May 2026 the energy goods price index recorded growth of 14.5% year-on-year. This increase, driven by price pressures linked to the conflict in the Middle East, comes on

top of a rising services component (2.9% in May, 2.5% in April), keeping the positive contribution of *core* inflation to overall inflation elevated.

Figure 54: Core inflation and components, Italy – % YoY change and percentage points



Source: EY-Parthenon analysis of ISTAT data. Latest available data: May 2026.

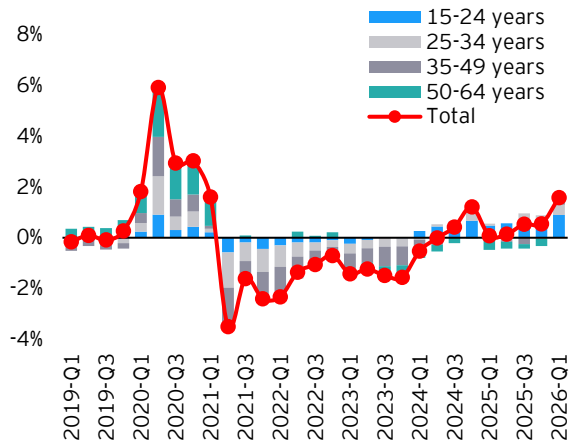
The trend in the price index is therefore due, in these months, primarily to the rise in energy goods costs, and secondly to the trend in the *core* component. The latter is also linked to labour market developments, which continue to show a degree of resilience. The number of employed people is indeed close to record highs (above 24.1 million), combined with a low unemployment rate (around 5%).

In this context, however, it is important to note that the positive trend in the unemployment rate is partly due to an increase in the number of inactive individuals, i.e. those who are not looking for work and who, for statistical reasons, are therefore not included in the unemployment measure.

Data analysis shows that the number of inactive individuals has been rising in recent quarters, following a period of decline between 2021 and 2024. The increase in recent quarters is mainly linked to a rise in inactivity among the 15-24 and 25-34 age groups.

It is worth recalling, in this regard, that people engaged in education or training who are not working fall within the definition of inactive individuals.

Figure 55: Growth in the number of inactive individuals by age, Italy – % YoY change and percentage points

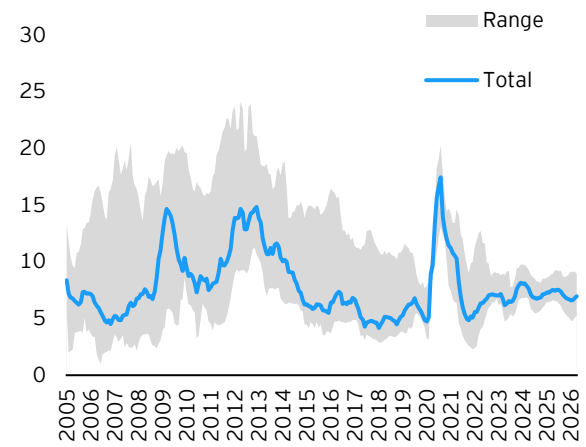


Source: EY-Parthenon analysis of ISTAT data.

The overall positive trend in employment is reflected in the growth of the wage bill (up 1.7% in the first quarter of 2026 year-on-year), but it is important to note that real wages per hour worked continue to remain below the level recorded in 2021, despite the positive trend in recent quarters.

In commenting on the positive labour market trend, it is also worth focusing on firms' willingness to keep employment stable, despite a not particularly favourable economic climate, in order to avoid losing skilled staff. This phenomenon was very pronounced during the post-pandemic period and has since eased. Current values are around the average recorded since 2015, demonstrating that the health of the Italian labour market is not attributable to phenomena of this type, and that the labour market is less rigid than during the 2020-2021 period.

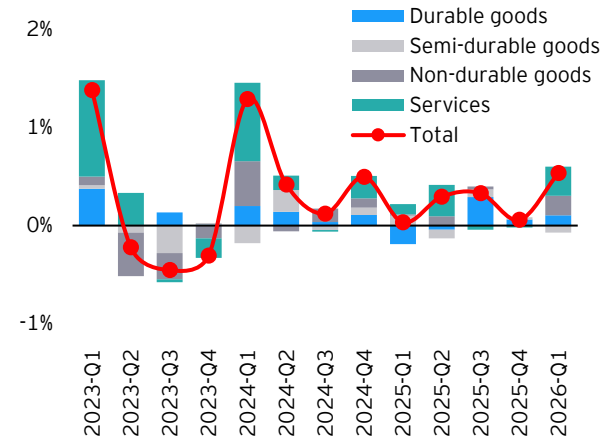
Figure 56: Labour hoarding, Italy – % of firms expecting a reduction in output and an increase/stable level of employment



Source: EY-Parthenon analysis of European Commission, Business and Consumer Surveys data.

The positive labour market trend has, in recent quarters, translated into support for household consumption. With the exception of the last quarter of 2025, household consumption has recorded positive quarter-on-quarter growth (0.3% in the second and third quarters of 2025, 0.5% in the first quarter of 2026), supported in large part by spending on services.

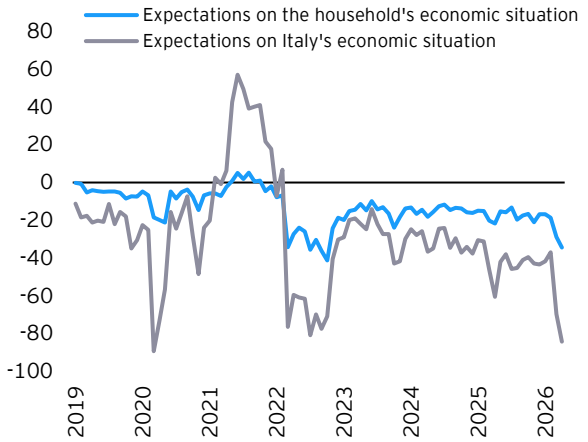
Figure 57: Household final consumption expenditure by spending category, Italy – % QoQ change and percentage points



Source: EY-Parthenon analysis of ISTAT data.

The latest monthly consumer confidence data, however, show a negative trend in household expectations regarding both Italy's economic outlook and their own, which could translate into a slowdown in consumption in the coming months and quarters.

Figure 58: Consumer household expectations regarding the economic situation of the household and of Italy, Italy

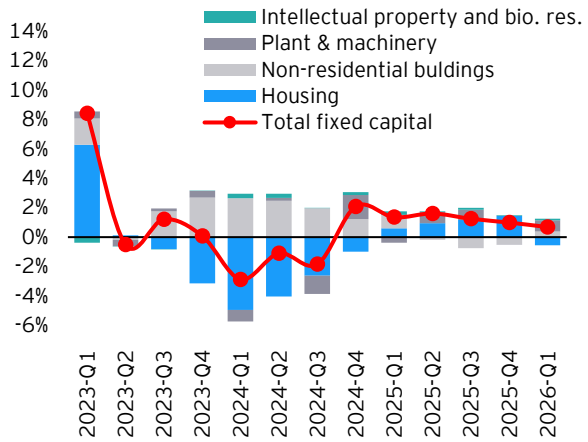


Source: EY-Parthenon analysis of ISTAT data. The figure represents the percentage difference between households reporting that the economic situation has improved and households reporting that it has worsened.

Turning to the other GDP components, investment continues to show a positive trend, growing 0.7% quarter-on-quarter, after more dynamic growth in the fourth and third quarters of 2025 (1.0% and 1.3% respectively).

This growth was mainly driven by an increase in investment in plant and machinery (a positive contribution of 0.8 percentage points, with growth potentially due to certain *ad hoc* measures such as the "Iperammortamento" enhanced depreciation scheme) and by growth in the non-residential buildings component (0.4 percentage points). By contrast, investment in housing contracted (-2.7% quarter-on-quarter, corresponding to a negative contribution to investment growth of -0.6 percentage points), a result potentially attributable to the gradual phasing-out of tax incentives.

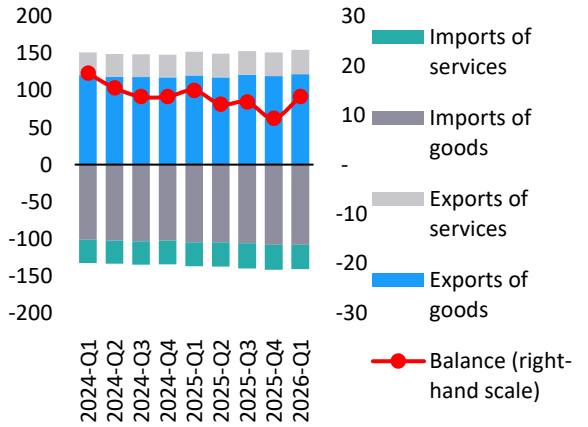
Figure 59: Investment and components, Italy – % QoQ change and percentage points



Source: EY-Parthenon analysis of ISTAT data.

Lastly, with regard to foreign trade, in the first quarter of 2026 Italy continued to record a trade surplus (€14 billion), up from the previous quarter (€9 billion) and more in line with the levels recorded in the first part of 2025.

Figure 60: Exports and imports, Italy – € billion



Source: EY-Parthenon analysis of ISTAT data.

Overall, the Italian economy has recently shown a degree of resilience unexpected by most observers, helped by a labour market that is supporting consumption and an industrial sector showing a slight recovery compared with previous months. Investment continues to grow, albeit at a decelerating pace, and foreign trade is making a positive contribution to growth. The complex geopolitical backdrop, reflected in the rise in producer prices, risks undermining the country's fragile growth balance.

The Italian economy: GDP and EY forecasts

In the first quarter of 2026, Italian GDP rose by 0.3% quarter-on-quarter, confirming the pace already observed in the fourth quarter of 2025. This dynamic was mainly supported by net foreign demand: exports grew by 2.2%, while imports fell by 0.7%. Domestic demand also made a positive contribution, thanks to the rise in household consumption (+0.5%, contributing 0.3 percentage points to growth) and investment (+0.7%). On a year-on-year basis, looking at developments relative to the same quarter of the previous year, investment was the most dynamic GDP component, increasing by 4.6%, a slight slowdown compared with the previous quarter (+5.3%). Private consumption grew by 1.3%, while on the foreign trade front exports rose by 1.6%, less than imports (+2.7%).

Figure 61: GDP components, Italy – % QoQ change and contributions to growth

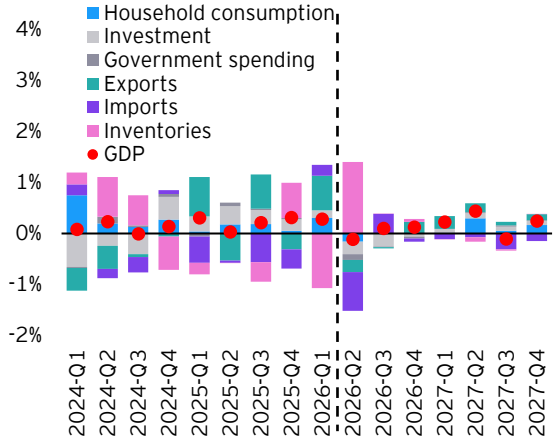
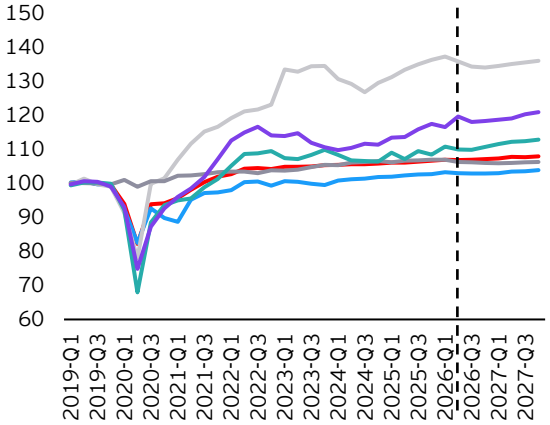


Figure 62: GDP components, Italy – index, quarterly average 2019 = 100



Source: EY-Parthenon analysis of ISTAT data and EY forecasts. The dashed line represents the forecast horizon. EY forecasts begin in the second quarter of 2026. The "Investment" item refers to public and private investment, and includes gross fixed capital formation, acquisitions less disposals of valuables, and depreciation.

Considering the evidence presented in the previous sections and the latest available data, it is possible to outline EY's outlook for the Italian economy.

For the second quarter of 2026, a slight contraction in GDP is expected compared with the previous quarter (-0.1%) after the strong growth seen in the first quarter. This decline would be mainly attributable to an increase in imports (+2.7%) and a reduction in household consumption and investment (-0.3% and -1.1% respectively). The slowdown in exports, together with the positive momentum in imports, would translate into a negative contribution from net foreign demand. In the third and fourth quarters of 2026, GDP is expected to return to moderate growth (+0.1% in both quarters), supported by a less negative trend in consumption and a recovery in the contribution of net foreign demand. Overall, 2026 is expected to close with GDP growth of 0.6%, driven by growth in household consumption and investment (0.6% and 1.0% respectively, corresponding to an overall positive contribution to growth of 0.5 percentage points). The resilience of the labour market, with the unemployment rate expected at 5.6%, and the still-positive contribution from housing investment should support domestic demand. Net foreign demand will make a negative contribution to GDP growth (-0.2 percentage points), against a backdrop of high uncertainty and still-restrictive trade policies.

Subsequently, in 2027 GDP growth of 0.7% is expected, a slight acceleration compared with the previous year. This would be mainly driven by a recovery in world trade and Italian exports (+1.8%), against less

dynamic import growth (+1.4%). Private consumption would continue to make a positive, albeit moderate, contribution to growth (+0.4%, equivalent to 0.3 percentage points), while investment would record a slight contraction (-0.1%), reflecting the decline in housing investment (-0.4%) and machinery investment (-0.9%).

Table 1: Forecasts for the Italian economy

	2022	2023	2024	2025	2026	2027
GDP, % change	4.8%	0.9%	0.8%	0.5%	0.6%	0.7%
Household consumption, % change	5.3%	0.5%	1.2%	1.1%	0.6%	0.4%
Investment, % change	7.4%	10.1%	-3.1%	3.5%	1.0%	-0.1%
Exports, % change	9.9%	-0.2%	-0.4%	1.2%	1.6%	1.8%
Imports, % change	12.9%	-1.9%	-1.0%	3.6%	2.6%	1.4%
Unemployment rate	8.1%	7.7%	6.6%	6.1%	5.6%	6.0%
Consumer price index, % change	8.2%	5.6%	1.0%	1.5%	2.6%	2.1%
Deficit, % of GDP	-8.1%	-7.2%	-3.4%	-3.2%	-3.2%	-3.0%
Public debt, % of GDP	138.4%	133.9%	134.9%	137.1%	137.5%	136.2%

Source: forecasts from EY Italy's Macroeconometric Model, "HEY-MoM". The shaded area represents the forecast horizon. Changes in GDP and its components are calculated on real-term values. The "Investment" item refers to public and private investment, and includes gross fixed capital formation, acquisitions less disposals of valuables, and depreciation.

Looking in more detail at investment, as noted above, growth expected for 2026 will be supported by growth in housing investment (+4.0%), machinery (+1.8%) and intangibles (+1.4%), while investment in non-residential buildings is expected to contract (-1.9%), mainly due to the expected decline in the private investment component (-2.4%). The contraction in private investment in non-residential buildings is also expected in 2027, albeit to a lesser extent (-1.4%); this is accompanied by a contraction in housing investment (-0.4%) and a contraction in machinery investment (-0.9%). Investment in intangibles, by contrast, will continue to grow (+1.9%), demonstrating the importance this type of investment has assumed in supporting growth, helping to keep firms competitive on the national and international stage.

Inflation is expected at 2.6% in 2026, mainly driven by higher energy goods prices, and is expected to fall in 2027 (to 2.1%). The public deficit is projected at 3.2% of GDP in 2026 and 3.0% in 2027, while the public debt-to-GDP ratio is set to decline (from 137.5% in 2026 to 136.2% in 2027), also due by higher inflation. These forecasts remain subject to a highly uncertain scenario and therefore present significant risks, both on the downside and the upside, mainly related to the overall global macroeconomic context.

Focus: The new EY MAIOR macroeconometric model for sectoral analysis, with a closer look at four sectors

Key messages:

1. *The sectors of the Italian economy are exposed in heterogeneous ways to external geopolitical and macroeconomic dynamics. This means that a model analysing the economy as a whole is not sufficient to capture sector-specific features, thereby losing an important set of information on the country's potential risks and opportunities.*
2. *To capture sectoral differences, EY-Parthenon's Italian Economic Advisory team has developed EY MAIOR (Model for the Analysis of Input-Output Relations), a satellite model of HEY-MoM (Hybrid EY MOdel for the Macroeconomy). EY MAIOR makes it possible to analyse the growth drivers of the main sectors of the Italian economy, with a breakdown into 63 sectors.*
3. *The EY MAIOR framework integrates the approach of the HEY-MoM macroeconometric model with sectoral information from the Input-Output tables. Starting from the macroeconomic scenario, EY MAIOR makes it possible to analyse the main growth drivers of the 63 sectors of the Italian economy. The model was developed in collaboration with the Department of Economics of the University of Bologna.*
4. *Forecasts for 2025-2027 point to uneven growth across the sectors of the Italian economy. Against overall output growth of 1.6%, the most dynamic segments are the manufacture of computers and electronics, food production, and the manufacture of machinery and equipment. By contrast, the extractive sector, the manufacture of other transport equipment and construction show negative dynamics.*
5. *Over the 2025-2027 three-year period, the outlook for the two main macro-sectors remains differentiated. Agriculture and industry are expected to continue growing, but with a contribution increasingly concentrated in foreign demand and value-chain consumption. In services, by contrast, expansion is expected to continue at a moderate pace, supported mainly by the B2B segment and, to a lesser extent, by household consumption.*
6. *Looking at some of the main manufacturing segments, high heterogeneity is confirmed over the same review period (2026-27). Food production and machinery production are expected to maintain moderate growth, driven by exports; the textile-apparel sector is expected to follow a path of cautious stabilisation, while the automotive sector shows weaker prospects, with marginal growth and risks that remain significant, related to the transition to electric vehicles and a possible downsizing of domestic production capacity.*

The macroeconomic scenario and the forecasts for the main aggregate indicators have the limitation of not providing detailed information on the various sectoral dynamics. This represents a significant limitation in analysing a country's economic performance, since sectoral contexts respond heterogeneously to global shocks.

The EY MAIOR model[72] was developed to address this gap, acting as a bridge between the national macroeconomic scenario and sectoral analysis. Following a *top-down* logic, the model makes it possible to translate the aggregate picture into sectoral implications consistent with the overall macroeconomic forecasts, while at the same time capturing the specific features of each sector's response.

[72] Golinelli, Butiniello, Caruso, Montana, Rocco (2026), *MAIOR: A Framework for Sectoral Output Forecasting from Aggregate Predictions Using Input-Output Linkages and Short-Run Indicators*, *mimeo*.

EY MAIOR's forecast performance for output value was compared both with that of the industrial production index for the manufacturing and construction sectors, and with that of the turnover volume index for the services sector. In this context, EY MAIOR shows forecasting performance similar to that of the industrial production index, while providing a greater level of detail; with regard to the services sector, by contrast, EY MAIOR shows better performance than that obtainable using the turnover volume index.[73]

Figure 63: % change in output value, Italy - industry

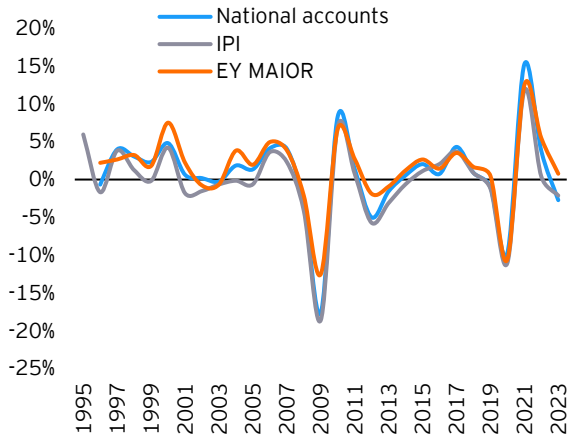
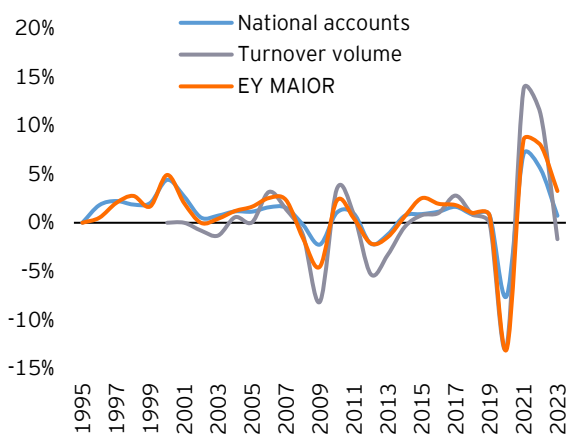


Figure 64: % change in output value, Italy - services



Source: EY-Parthenon analysis using the proprietary EY MAIOR macroeconometric model (*Model for the Analysis of Input-Output Relations*).

EY MAIOR therefore represents an additional tool for exploring sectoral themes, growth drivers and short-to-medium-term forecasts, while ensuring a view consistent with the macroeconomic picture outlined by the HEY-MoM macroeconometric model (Hybrid EY MOdel for the Macroeconomy).

The data analysis and the forecasts provided by the model point to heterogeneous growth dynamics across the various sectors of the Italian economy. Specifically, total output volume growth is forecast at 1.6% between 2025 and 2027, in line with the trend in the main services sectors, such as wholesale and retail trade (+1.6%), professional activities (+1.6%), other services (+1.6%), and financial activities (+1.4%).

Among the sectors expected to record the most dynamic growth are the manufacture of computers and electronic and optical products (+3.7%), the food, beverage and tobacco industries (+3.5%), and the manufacture of machinery and equipment n.e.c. (+3.2%). The accommodation and food services sector (+3.1%) and the ICT sector (information and communication services, +3.1%) also show strong dynamism.

By contrast, the mining and quarrying industry (-1.8%), the manufacture of other transport equipment (-0.7%), and the construction sector (-0.2%) are in contraction, the latter mainly affected by the progressive phasing-out of tax incentives supporting the sector's output (the "Superbonus 110%" scheme).

[73] One- and two-step-ahead forecast accuracy tests were also conducted (for the forecast years), and in this respect too EY MAIOR confirmed strong forecasting performance, outperforming the benchmark of a *random walk*.

Figure 65: % change in output volume 2025-27 by sector, Italy (1/2)

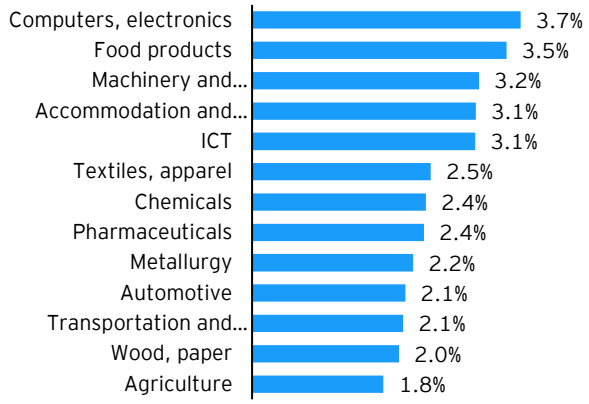
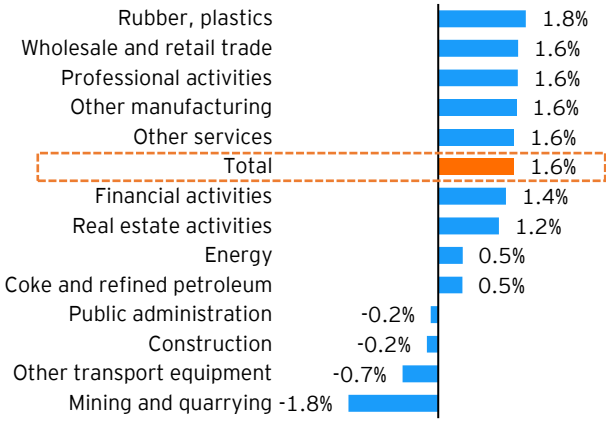


Figure 66: % change in output volume 2025-27 by sector, Italy (2/2)



Source: EY-Parthenon analysis using the proprietary EY MAIOR macroeconometric model (*Model for the Analysis of Input-Output Relations*).

Looking in more detail at the sectoral analysis, it is possible to break down the trend in the Italian economy into its two macro-sectors, namely agriculture and industry, and services.

The first macro-sector (agriculture and industry), after the sharp contraction of 2020, experienced three years of expansion, driven by the recovery in investment, growth in foreign demand, and the reactivation of domestic production chains (B2B demand). 2024 was a year of contraction (-1.6%), due to a slowdown in investment (a negative contribution of -0.9 percentage points) and stagnation in foreign markets. 2025, by contrast, marked a return to growth (+1.6%), thanks to a recovery in investment, growth in exports, and positive value-chain effects. For 2026 and 2027, we expect output to continue expanding (+1.0% and +0.7% respectively), driven mainly by foreign markets (contributing +0.5 and +0.6 percentage points respectively in the two years under review). A positive contribution also comes from growth in value-chain demand (+0.4 percentage points in 2026 and +0.2 percentage points in 2027), while the contribution from domestic demand is weak: the domestic market reflects, on the one hand, a nil contribution from household consumption, and on the other, heterogeneous dynamics in total investment.

The services sector also benefited, after the sharp decline in 2020, from sustained growth. In 2021, 2022 and 2023, output was supported mainly by the reactivation of value chains (consider professional, legal, technical and logistics activities supporting industrial production), to which was added a marked positive contribution from household consumption. 2024 was a year of general moderation across all demand components, leading to a slowdown in output, which nonetheless remained positive (+1.3%). In 2025, the slowdown in demand became more pronounced, except for the activation of the B2B segment (a contribution to output volume growth of +0.6 percentage points); the result was growth broadly in line with the previous year (+1.4%). For 2026 and 2027, the outlook is for continued, albeit moderate, expansion (+0.9% and +0.6%), driven by growth in B2B demand (a contribution of +0.4 and +0.3 percentage points in the two years) as well as household consumption (a contribution of +0.3 percentage points in 2026 and +0.1 percentage points in 2027).

Figure 67: Output volume in industry and contributions, Italy – % change

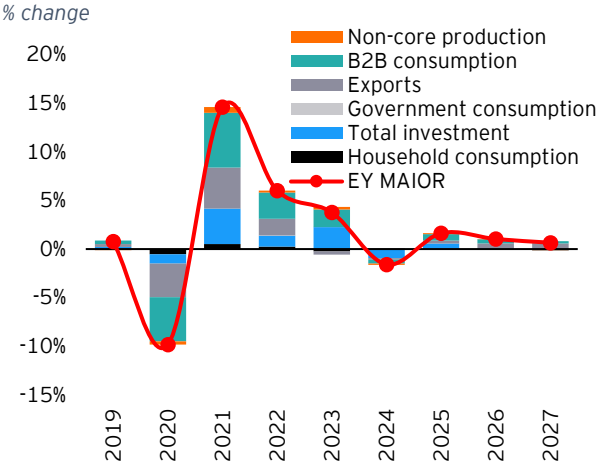
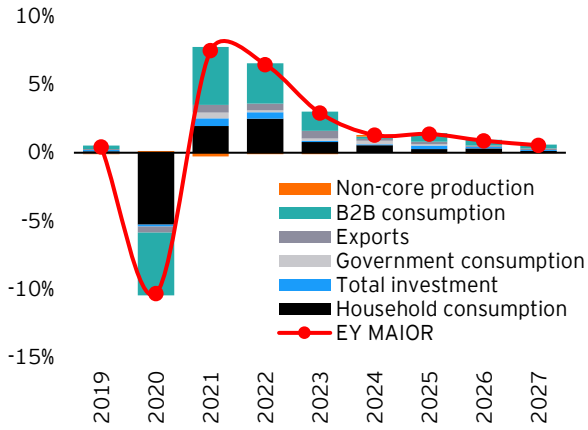


Figure 68: Output volume in services and contributions, Italy – % change



Source: EY-Parthenon analysis using the proprietary EY MAIOR macroeconometric model (*Model for the Analysis of Input-Output Relations*).

Going into even more detail, this in-depth analysis focuses on some of the main sectors of Italian manufacturing, namely the food industry, the production of textiles, apparel and leather, the manufacture of machinery and mechanical equipment, and the manufacture of motor vehicles, trailers and semi-trailers. Interest in these sectors stems both from their size (representing, as of 2023, around 40% of manufacturing value added, equivalent to around 7% of total value added, and employing more than 1.6 million workers, around 6% of total employment), and from their importance in representing *made in Italy* around the world.

Food industry: gradual but steady growth, looking abroad

Following the contraction in 2020, the sector benefited in 2021 and 2022 from the recovery in international markets, with growth driven by exports and value-chain spillovers. 2023 was a year of substantial stagnation (-0.2%), due to the slowdown in foreign demand and the erosion of household purchasing power, the effects of which had already begun to be felt the previous year. 2024 and 2025 saw growth in output (+2.4% and +1.0% respectively), thanks to a recovery in orders from abroad (exports contributed +1.9 and +0.6 percentage points respectively).

Figure 69: Output volume in the food industry (NACE 10-12) and contributions, Italy – % change

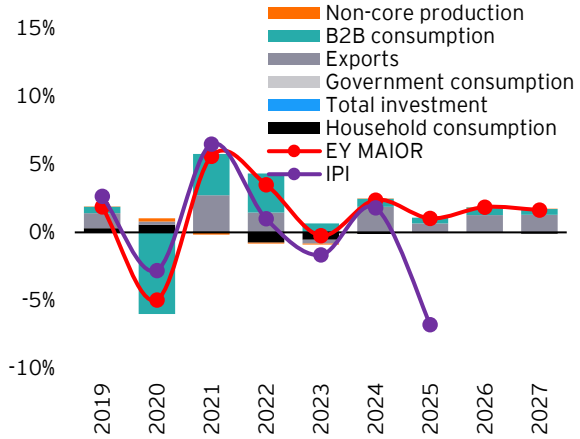
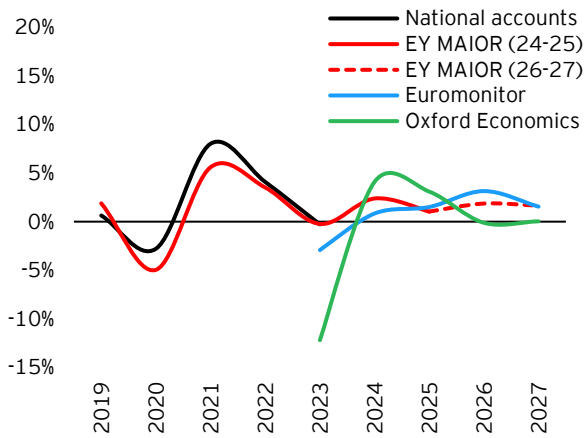


Figure 70: Output volume in the food industry (NACE 10-12) – growth forecasts



Source: EY-Parthenon analysis using the proprietary EY MAIOR macroeconometric model (*Model for the Analysis of Input-Output Relations*), Euromonitor, Oxford Economics.

The outlook for 2026 and 2027 is for a recovery in output growth (+1.9% in 2026 and +1.6% in 2027), again driven by foreign demand (a contribution of +1.3 percentage points in both years). Domestic consumption is flat, with a non-negligible contribution instead coming from B2B demand (+0.6 and +0.4 percentage points in the two years under review). The negative effects of the trade war were more pronounced in 2025 and are expected to ease in 2026 and 2027; weak domestic consumption is pushing the sector onto a growth path led by foreign demand.

Textiles and apparel: between international pressure and opportunities for recovery

After two years of strong recovery (+15.5% in 2021 and +12.6% in 2022), driven by exports, household consumption and B2B demand, 2023 marked a sharp reversal (output -2.8%). Among the causes of this reversal were the cooling of domestic demand due to the erosion of household purchasing power, and the contraction in foreign demand following growing Asian competition and a slowdown in the luxury segment. 2024 saw a further deterioration (-4.0%), again due to the contraction in foreign demand (a contribution of -2.8 percentage points) and stagnant domestic demand. 2025 showed a slight contraction in output (-0.3%), with heterogeneous effects across the various demand components: household spending contributed positively to growth (+0.3 percentage points), unlike exports (-0.5 percentage points).

For 2026 and 2027, a return to growth in foreign demand is expected (a contribution of +0.8 percentage points in 2026 and +0.9 percentage points in 2027), along with a recovery in value-chain demand (a contribution of +0.4 percentage points in 2026, +0.3 percentage points in 2027). Output should therefore settle onto a path of cautious stabilisation (+1.3% in 2026, +1.2% in 2027). The export recovery remains exposed to the international environment, where pressure from Asian producers in third markets could lead to a reduction in Italian market share in Asia and the Middle East.

Figure 71: Output volume in the textile and apparel industry (NACE 13-15) and contributions, Italy – % change

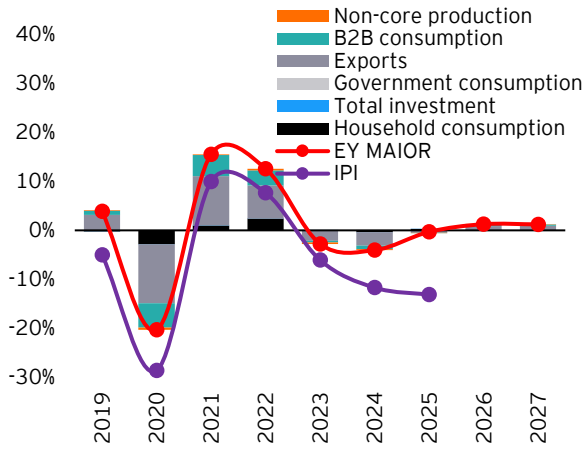
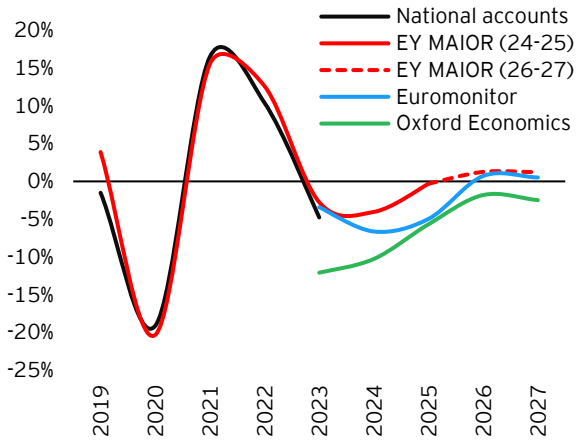


Figure 72: Output volume in the textile and apparel industry (NACE 13-15) – growth forecasts



Source: EY-Parthenon analysis using the proprietary EY MAIOR macroeconometric model (*Model for the Analysis of Input-Output Relations*), Euromonitor, Oxford Economics.

Machinery and equipment n.e.c.: an orderly recovery geared towards international markets

The post-Covid recovery years saw sustained growth, driven by global demand for capital goods and public incentives stimulating domestic investment. 2024 marked a setback (-1.4%), due to a contraction in investment (a contribution of -0.4 percentage points), caused by delays in implementing public incentives, and a contraction in foreign demand (a contribution of -1.1 percentage points). 2025 was essentially flat (+0.0%), with offsetting effects from a recovery in domestic spending on machinery (investment contribution: +0.3 percentage points), against a decline in exports (a contribution of -0.5 percentage points); B2B demand shows moderate expansion (a contribution of +0.2 percentage points).

2026 and 2027 should see the start of a growth recovery (+1.7% and +1.4% respectively), mainly thanks to the expansion of foreign demand (a contribution of +1.2 and +1.3 percentage points respectively). Investment shows slight expansion in 2026 (a contribution to output growth of +0.3 percentage points), while it is expected to contract in 2027 (-0.2 percentage points). The contribution from B2B demand, by contrast, is expected to be positive (+0.2 percentage points in both years). Competition from Asian producers, particularly Chinese ones, represents the main risk to sustained growth in 2027, mainly due to increased price pressure.

Figure 73: Output volume in the manufacture of machinery and mechanical equipment n.e.c. (NACE 28) and contributions, Italy – % change

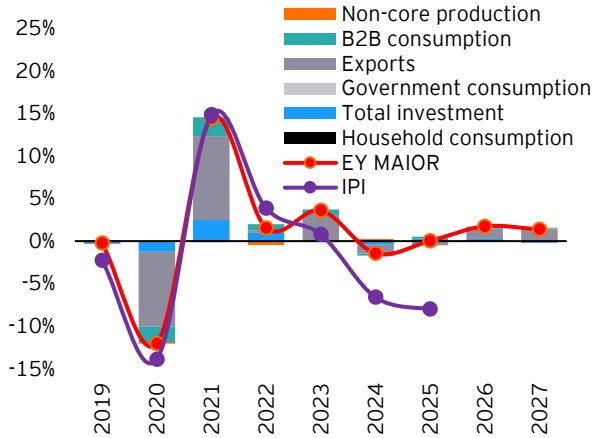
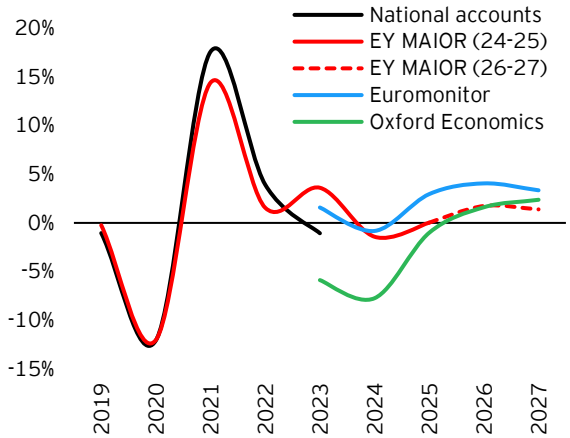


Figure 74: Output volume in the manufacture of machinery and mechanical equipment n.e.c. (NACE 28) – growth forecasts



Source: EY-Parthenon analysis using the proprietary EY MAIOR macroeconometric model (*Model for the Analysis of Input-Output Relations*), Euromonitor, Oxford Economics.

Motor vehicles, trailers and semi-trailers: the crises and opportunities of the transition

After the significant rebound of 2021 (+18.9%), growth continued in 2022 (+5.8%) and 2023 (+11.1%), mainly thanks to the expansion of foreign demand. 2024 represented a sharp setback for growth (-10.3%), due to a reversal in export dynamics (a contribution of -8.9 percentage points). In 2025, output recorded a further decline (-3.2%), due to a further contraction in exports (a contribution of -3.6 percentage points).

Figure 75: Output volume in the manufacture of motor vehicles, trailers and semi-trailers (NACE 29) and contributions, Italy – % change

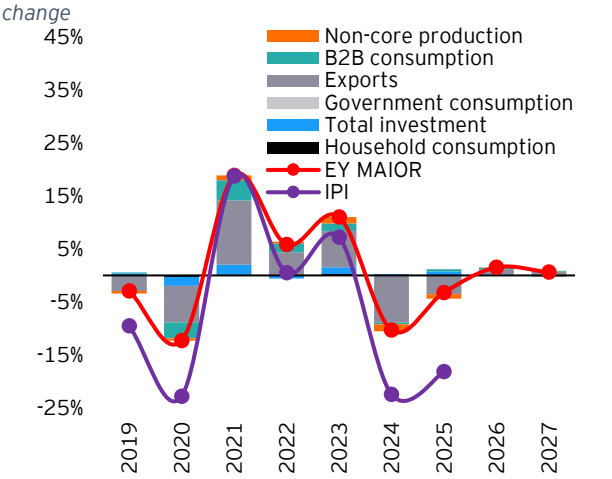
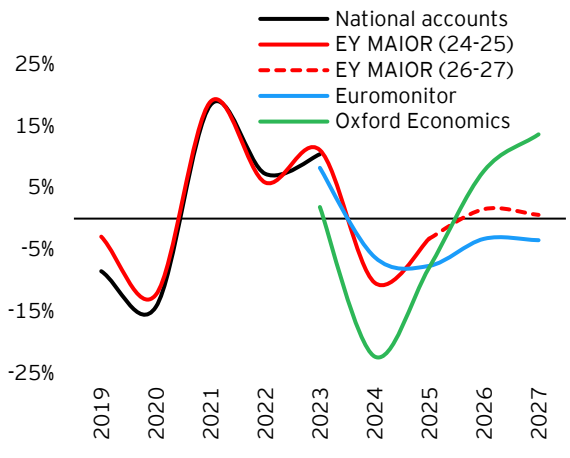


Figure 76: Output volume in the manufacture of motor vehicles, trailers and semi-trailers (NACE 29) – growth forecasts



Source: EY-Parthenon analysis using the proprietary EY MAIOR macroeconometric model (*Model for the Analysis of Input-Output Relations*), Euromonitor, Oxford Economics.

For 2026 and 2027 we expect a growth recovery (+1.5% and +0.6%), partially offsetting what was experienced in the previous two years. Exports make a positive contribution (+1.0 and +0.7 percentage points respectively), as does B2B demand (a contribution of +0.3 and +0.2 percentage points), while investment plays a different role (a contribution of +0.1 and -0.2 percentage points). A crucial issue remains the transition to sustainable mobility: Italian component manufacturing is indeed focused mainly on traditional engines, which is why, without a targeted industrial relaunch, 2027 risks consolidating a long-term downsizing of production. There also remains the difficulty of capturing domestic demand which, even when expanding, risks remaining mainly directed towards imported products.

Conclusions

As shown, the strong sectoral heterogeneity makes it necessary to adopt an approach that takes into account the unique characteristics of each production context. EY MAIOR addresses this need by identifying the growth drivers of each sector, while ensuring consistency between sectoral analysis and the national and international macroeconomic scenario.

Understanding and analysing sectoral dynamics makes it possible to identify the industrial and services segments most exposed to external dynamics, thereby allowing a more detailed assessment of the potential repercussions of any shocks on the Italian economy.

Assumptions underlying the forecasts

The forecasts and analyses are based on data available as of 16 June 2026.

The forecasts described above are based on a series of assumptions that define the reference scenario. Specifically, the following assumptions have been considered:

- **Foreign demand for Italian goods**: overall growth of around 1.8% is assumed for 2026, followed by more dynamic growth in 2027 (2.5%);
- **Natural gas**: the natural gas price (referring to the Dutch Title Transfer Facility) is assumed to stand at around $15/mmbtu in 2026; for 2027, an average price of $12/mmbtu is assumed;
- **Oil**: an average oil price of around $91/bbl in 2026 and $80/bbl in 2027 is assumed;
- **Exchange rate**: the euro/dollar exchange rate is assumed to stand at 1.17;
- **Government spending**: information contained in the Documento di Finanza Pubblica (Public Finance Document) of April 2026 has been taken into account,[74] together with the latest public-sector data from ISTAT national accounts;
- **Monetary policy and interest rates**: a further 25 basis point increase in key monetary policy interest rates is assumed in September 2026, with monetary policy rates then held constant for the first nine months of 2027; between September and December 2027, two 25 basis point rate cuts are expected.

Lastly, given the current scenario characterised by high uncertainty, some downside and upside risks are listed below to provide a more complete picture of what could happen over the forecast period.

Upside risks

- Resolution of the war in the Middle East: the early-June agreement between the US and Iran could represent the definitive agreement for resolving the conflict in the Middle East, leading to a normalisation of oil and gas prices and a reduction in inflationary risks;
- Reduction in trade tensions: trade tensions could ease, leading to a recovery in trade and supporting the Italian economy and that of its main trading partners;
- Decline in commodity prices: a faster-than-expected decline in commodity prices would translate into easier inflation management and a loosening of monetary policy, with positive effects on growth;
- Labour market: lower wage-related pressure on prices could reduce the risk of persistent inflation;
- Monetary policy: the resolution of the conflict in the Middle East and a reduction in geopolitical tensions could lead to possible rate cuts supporting growth in Eurozone economies;
- Acceleration in foreign demand: stronger economic growth for major trading partners such as China, Germany and the United States, helped also by the end of trade-policy uncertainty, would translate into a greater contribution from foreign trade to Italian growth;
- Technology: the adoption of new technological solutions could support growth more than expected through various channels, for example through productivity gains.

[74] Documento di Finanza Pubblica (Public Finance Document), April 2026. For further information, https://www.senato.it/service/PDF/PDFServer/BGT/001505177.pdf.

Downside risks

- Rising geopolitical tensions: open geopolitical fronts at the international level (mainly the conflict in the Middle East) could worsen and fail to find a solution in the short-to-medium term, adding uncertainty to an already precarious global context. Were other countries to become involved, the humanitarian and economic repercussions would be even more significant, with potential negative consequences for energy prices and other *commodity* prices;
- Greater trade tensions: trade tensions could increase, with negative consequences for world trade;
- More restrictive monetary policy: the ECB and other major central banks could move back towards a more restrictive monetary policy. This could translate into a risk of prolonged low growth, due to lower consumption and investment discouraged by high interest rates;
- Stress in the financial system: any increases in interest rates could translate into greater stress for financial institutions, with a consequent impact on savers and a tightening of credit conditions, both in the United States and in the Eurozone;
- High public debt: the rise in public debt following the pandemic, together with higher interest rates compared with the pre-pandemic period and numerous challenges of various kinds (such as the energy transition and increased military spending), represents a critical issue for fiscal sustainability in Eurozone economies, especially the most heavily indebted ones such as Italy. This could ultimately translate into greater risks of stress in financial markets;
- Weaker growth in China, Germany and the United States: weaker future growth in China, Germany and the United States could lead to slower growth in foreign demand for Italian goods;
- Technology: the adoption of new technological solutions might not support growth as expected, with smaller benefits for the economies adopting them.

Technical Appendix

HEY-MoM: Hybrid EY MOdel for the Macroeconomy[75]

Building a new macroeconometric model required optimising an inevitable trade-off between constructing a model that emphasises data information (such as ARIMA and VAR models, which make no use of economic theory at all) and a model focused solely on the foundations underlying its relationships (in the extreme case, calibrated RBC-DSGE models that pay no attention to the data of their variables).[76] This trade-off has been highlighted repeatedly in the literature; see, for example, the discussions in Granger (1999) and Pagan (2003).

In building HEY-MoM, an effort was made not to neglect either of the two ingredients mentioned above (economic theory and data), in an attempt to produce a hybrid model with a careful balance in the specification of relationships that are (a) based on micro-founded economic behaviour, while also (b) attentive to the application of rigorous statistical information evaluation techniques. An example of a hybrid model is MARTIN, the model currently used by the Reserve Bank of Australia (see Cusbert and Kendall, 2018).

In short, the role of HEY-MoM is to unify the analytical structure of macroeconomics at EY. To this end, the model refers to the main aggregates of the Italian economy, is grounded in empirical, non-monetary data, features explicit long-run relationships between the variables it studies, and is oriented mainly towards generating short-term forecasts (over a two-year horizon).

The economic foundations

Rigidity in the movement of prices and wages implies rigidity in the speed at which macroeconomic systems adjust following unexpected shocks. Consequently, on the one hand, market demand drives short-term fluctuations in the model, as outlined by Keynesian theories, while in the long run supply-side determinants drive the state of the economy.

Long-run output (the potential of the economy) depends on the joint effect of trends in total factor productivity, in the supply and duration of hours worked and, lastly, in the capital stock. These factors are combined through a "Cobb-Douglas" technology with constant returns to scale. The demand for factors of production is the one that minimises cost given a planned level of output, in the context of an economy characterised by forms of oligopolistic competition, in which firms are free to set prices based on a mark-up over labour costs and, at those prices, are willing to collectively meet any level of market demand. Wages are determined on the basis of a "Phillips curve" driven by inflation inertia, labour productivity, and the gap between the actual and natural unemployment rate (defined by the long-run state of the labour market). Actual output is made up of the following domestic and foreign demand items: private (household) and government consumption; private and public investment by type of asset (residential and non-residential buildings, machinery and plant, and research and development spending); imports and exports.

In each period, the gap between actual and potential output feeds back into prices (through changes in mark-ups), which in turn interact with the demand components. In this way, equilibrium between demand and supply is achieved.

Data evaluation techniques

[75] The model was developed in collaboration with the Department of Economics of the University of Bologna.
[76] "ARIMA" stands for "Autoregressive integrated moving average", "VAR" for "Vector autoregression", "RBC-DSGE" for "Real Business Cycle - Dynamic. Stochastic General Equilibrium".

The speed at which the economic dynamics outlined above evolve over time is estimated using econometric methods based on the actual historical time series of the model's variables of interest.

To this end, the model uses a combination of the London School of Economics approach and Fair's (2004) revisiting of Yale's Cowles Commission approach. The synthesis implemented in HEY-MoM uses cointegration methods (Engle and Granger, 1987, and Johansen, 1995) to estimate long-run relationships between non-stationary variables (Dickey and Fuller, 1979), interpretable in light of economic theory and identified by state relationships whose parameters are estimated on the basis of error-correction models (Hendry et al., 1984, and Pesaran et al., 2001). In the absence of exogeneity for some of the model's explanatory variables, the relationships are first examined following the instrumental-variables estimation approach, and then finally estimated using a three-stage method (Hsiao, 1997).

The overall result is a model made up of 74 equations, of which 29 are stochastic and 45 are accounting identities. The forecasts and analyses carried out are conditional on the definition of scenarios for 65 exogenous variables, which can be classified into: fiscal and monetary policy instruments, the foreign block, and cyclical indicators.

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EY MAIOR (Model for the Analysis of Input-Output Relations)

Modern quarterly macroeconometric models represent a practical and well-established tool for generating consistent and timely projections for the main aggregate demand components. Their main limitation, however, lies in the limited ability to attribute aggregate dynamics to specific sectors. At the same time, Input-Output tables and the associated analytical tradition, dating back to Leontief (1936, 1986), offer a natural framework for quantifying intersectoral production linkages, and for reconstructing the transmission of demand shocks across sectors. However, Input-Output tables are not forecasting tools in themselves, as they require integration with an external macroeconomic scenario. A fully integrated macro-sectoral approach would, by contrast, introduce high costs associated with estimating large disaggregated models.

In this context, and in the spirit of Eckstein et al. (1971), MAIOR fits in as a data-driven framework, built with the aim of translating aggregate macroeconomic projections into annual sectoral forecasts, within a top-down structure. MAIOR combines the aggregate consistency of macroeconometric models with the sectoral linkages typical of the input-output system, while also making it possible to incorporate monthly sectoral indicators as soon as they become available.

The framework

MAIOR complements the aggregate macroeconomic projection through two distinct "blocks", in the spirit of Adams (1986). The first block is a system of bridge equations, which disaggregates the main demand components across sectors. The second block uses input-output linkages to transform disaggregated final demand into consistent forecasts of output, imports, and intermediate demand, exploiting the coefficients derived from the tables.

In the first block, the bridge equations allocate the aggregates provided by the macroeconomic model into highly detailed demand components. The bridge equations are therefore specified as reduced-form relationships, in which the disaggregated variables are calculated taking into account their respective aggregates. In addition to the macro projections, the bridge equations are enriched with a further 12 indicators (e.g. consumer confidence, vehicle registrations, the VIX, etc.). Lastly, MIDAS models make it possible to include monthly-frequency data. The MIDAS forecast complements the forecast from the bridge models, following the method indicated by Diebold (2024b).

The disaggregated forecasts provided by the bridge block are not, however, homogeneous in terms of classification: household consumption is expressed by spending category, investment by non-financial asset, while exports and government consumption already present sectoral detail. Therefore, within the input-output block, the final demand components are converted into a common format, namely demand vectors by sector, measured at constant basic prices. The conversion procedure also takes into account the need to allocate trade margins, transport margins, and to strip out net taxes on products. In this way, the final demand components are expressed consistently with the accounting principles of the input-output tables.

Lastly, the disaggregated demand components are "cleaned" of imports, so that only the domestic component of demand activates output. MAIOR is demand-driven: the intersectoral linkages, activated by domestic final demand, return estimates of output and intermediate demand.

Forecast performance evaluation

MAIOR's forecasting accuracy is assessed by comparing forecasts of output value by branch for years t+1 and t+2, produced using information available in March of year t+1, with the corresponding national accounts results. The exercise aims to distinguish the different sources of the final forecast error.

A first source ("Layer 1") relates to the input-output "block". Since input-output tables are available with a lag, the technical coefficients, conversion coefficients and import shares used refer, for Italy, to year t−3. The error therefore reflects the discrepancy between these lagged coefficients and the actual relationships in the forecast years. This block also includes the treatment of the inventories component, which in MAIOR is not forecast separately but is implicitly taken into account within the input-output mechanism. The second source ("Layer 2") derives from the "bridge" allocation systems, which distribute the aggregate macroeconomic scenario across detailed final demand components. The related errors therefore measure the model's ability to correctly allocate aggregate developments before sectoral propagation.

The "Layer 1" error identifies the errors arising from the first source (input-output block). The "Layer 2" error, by contrast, cumulates the errors from the first and second sources, and identifies EY MAIOR's performance starting from an "exact" macro scenario, i.e. without forecast errors. "Layer 2" therefore identifies the model's "pure" performance, with the macroeconomic scenario treated as an exogenous variable. EY MAIOR was subjected to the Diebold and Mariano (1995) test, across three groups: all sectors, manufacturing sectors only, and services sectors only. The null hypothesis is rejected at the 1% level for all three groups and for both error Layers, except for the two-step-ahead Layer 2 case for services, for which the null hypothesis is rejected at the 10% level.

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