



Macroeconomic Outlook

Research Department

September 2026



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The resilience of the global economy is still being put to the test

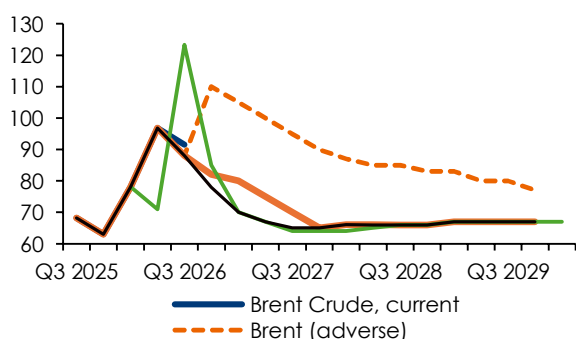
The rebalancing of the energy market is slipping further out of reach, worsening the outlook for growth and inflation. Assuming the situation improves in 2027, the fall in inflation should lead to less aggressive rate rises than those currently priced in by the markets, and growth would pick up again. However, a failure to restore oil supply would lead to a more stagflationary scenario.

Luca Mezzomo

Last June, we celebrated the truce between the United States and Iran a little too hastily, optimistically assuming that it marked the start of a gradual normalisation of the energy market. In reality, the agreement quickly fell apart, even though the conflict never resumed with the intensity seen in March and April. In addition to the dual blockade of the Strait of Hormuz (by Iran and the US), compounded by the intensification of the civil war in Yemen – which has seen the Houthis achieve significant successes on the ground – Saudi Arabia has also had to temporarily scale back its use of ports on the Red Sea. In the absence of a diplomatic agreement, the resumption of oil exports from the Gulf is taking place solely thanks to the protection of the US Navy. All things considered, the global market deficit has been reduced compared with May, but not eliminated; furthermore, the situation has also worsened in the gas market. Consequently, current projections for oil and gas prices factor in a much slower return to normality and, indeed, higher prices compared with pre-war levels, even in the long term for natural gas (see Figs. 1 and 2 on this page).

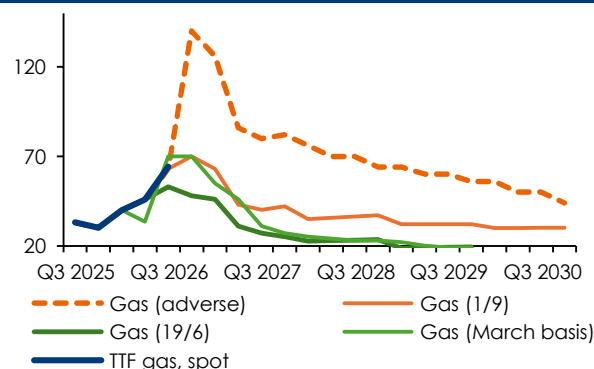
June's optimism regarding the energy market proved to be excessive

Fig. 1 – Evolution of internal scenarios for the price of oil (Brent, USD/b)



Note: quarterly averages. Source: LSEG Datastream for historical data, Intesa Sanpaolo Research projections

Fig. 2 – Evolution of internal scenarios for the price of natural gas (EUR/MWh)



Note: quarterly averages. Source: LSEG Datastream for historical data, Intesa Sanpaolo Research projections

The ongoing energy crisis has left its mark on inflation figures, economic growth projections and the direction of monetary policy. **Inflation** is on the rise almost everywhere, driven by pressures on energy goods and services. Differences in demand conditions compared with the 2022 shock (and, perhaps, greater use of hedging instruments or fixed-price contracts) have so far limited the spread of price rises. However, core price pressures are evident in the United States. In Europe, persistently high oil and gas prices will sooner or later feed through to retail prices: inflation is set to approach 4% in the coming months.

As regards **real economic activity**, consensus estimates were revised downwards between February and September, but without even coming close to recessionary scenarios. Overall, we assess the slowdown in the global economy as modest and temporary, assuming that oil prices fall back below USD 80 from mid-2027: average annual growth falls to 2.8% this year, but rebounds to 3.3% in 2027. The figures published in the report do not show a significant deterioration compared with June. The resilience of the economic cycle could also reflect the more accommodative stance of fiscal policies, particularly in the United States, and the dynamism of technological investment (which also partly explains the resilience of international trade).

Finally, the resilience of aggregate demand in the face of moderate but persistent inflationary pressures has led to a **marked shift in monetary policy stance**: the general trend is towards an increase in official interest rates, even where cuts were previously expected, such as in the United

Developments observed over the summer months have led to an upward revision of the 2027 inflation forecast, whilst the growth outlook has deteriorated (albeit only slightly)

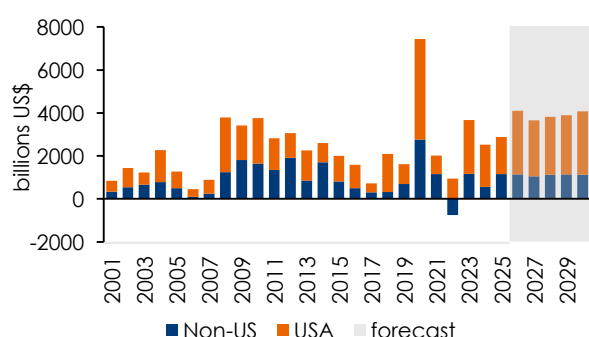
We expect fewer rate rises than the markets are currently pricing in...

States. However, in the base-case scenario, the change of course is temporary, the adjustment is modest (the global average for 2027 is just 16 basis points higher) and rates are expected to fall in the medium term. The scenario still envisages only one rate rise by the Fed and the ECB in the coming months.

Another area where the scenario shows a significant revision compared with June is that of **long-term rates**. The global average for 10-year rates in 2027 is 22 basis points higher than in the June scenario; the gap narrows in 2028 (+7 basis points) and then further in 2029 (+3 basis points). As with official rates, we do not believe that the movement seen in recent months represents a further structural rise following that which already occurred during the post-pandemic rebound and the shift by central banks from a QE regime to one of QT. However, the risk posed by **the unsustainability of fiscal policies in the United States** cannot be ignored. The growth in US public debt will contribute to the aggregate increase across advanced economies to a much greater extent (72%) than would be justified by its weight as a proportion of GDP (around 55% of the aggregate). Although this phenomenon is not new (it had already surged in 2020, and before that following the global financial crisis), in the past the rise in public debt occurred in a context where central banks did not perceive any threats to price stability and could therefore support fiscal stimulus (for example, through asset purchase programmes). This is no longer the case: as Figure 4 shows, we are now in an era of *quantitative tightening*, and the burden of absorbing the new supply falls on investors, whose willingness to invest is more variable over time.

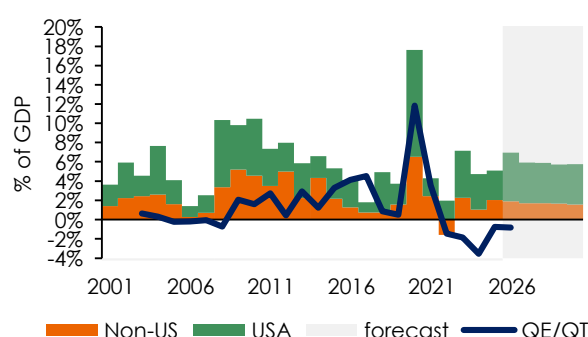
...and a decline in long-term rates (despite the deterioration in fundamentals)

Fig. 3 – Net government bond issuance (advanced economies): the disproportionate role of the United States



Note: Non-US = Japan, Germany, France, Italy, Spain, the Netherlands, Belgium, the UK and Canada; figures in current dollars. Source: LSEG Datastream for historical data, Intesa Sanpaolo Research projections

Fig. 4 – From 2022, following a decade of cooperation, central banks will no longer contribute to the absorption of public debt issuance



Note: Non-US = Japan, Germany, France, Italy, Spain, the Netherlands, Belgium, the UK and Canada. Source: central banks and LSEG Datastream for historical data; projections by Intesa Sanpaolo Research

The **risk that the energy market may not rebalance as quickly as assumed in the baseline scenario** means that growth could fall short of forecasts in the two-year period 2027–28, whilst inflation could be significantly higher. Recalculating the projections using the oil and gas prices from the adverse scenario results in an inflation rate that is approximately two percentage points higher and global GDP growth that is 0.9 percentage points lower. The average global level of interest rates also rises, but only by a quarter of a point on average per year in 2027, with peaks in ECB rates 50 basis points higher in the adverse scenario and 75 basis points higher in the extreme scenario.

Adverse energy scenarios could lead to a brief recession in countries most dependent on energy imports

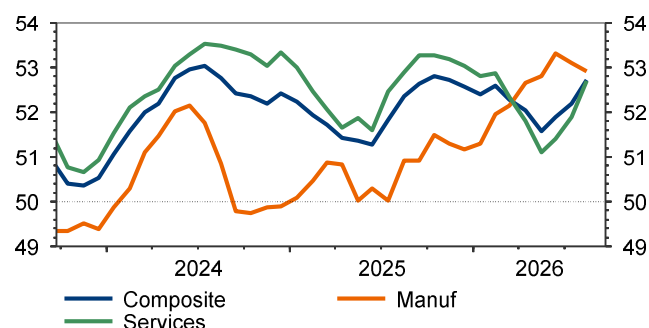
Tab. 1 – Sensitivity of global projections to alternative energy crisis scenarios

	2026		2027		2028	
	Adverse	Extreme	Adverse	Extreme	Adverse	Extreme
GDP growth (pp)	-0.05	-0.05	-0.9	-1.1	-0.3	-0.3
Inflation (pp)	+0.3	+0.5	+2.2	+3.5	+0.4	+0.6
3-month rate (basis points)	+1	+2	+23	+23	-11	-5

Note: the adverse scenario incorporates the energy price assumptions shown in Figures 1 and 2, to which a modest confidence shock is added; the extreme scenario is equivalent to the ECB's 'severe' scenario as regards energy prices and includes a more severe confidence shock from 4Q2026 onwards. Source: Intesa Sanpaolo calculations based on LSEG Datastream data with GEM from Oxford Economics

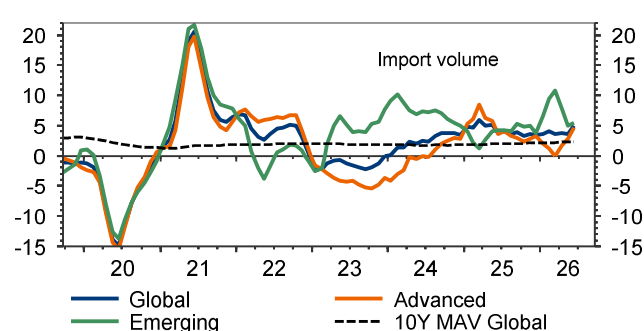
Global Economic Trends in 10 Charts

Fig. A.1 – Global PMI trends



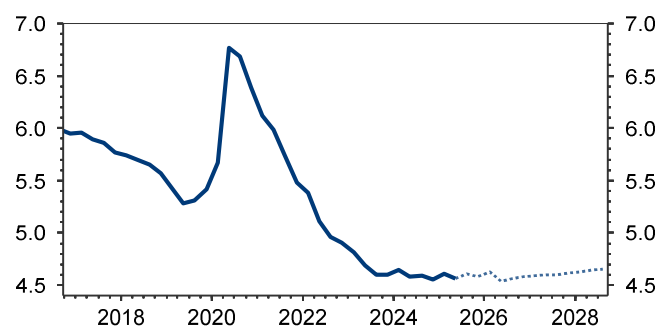
Source: Markit Economics

Fig. A.2 – Import growth, y/y



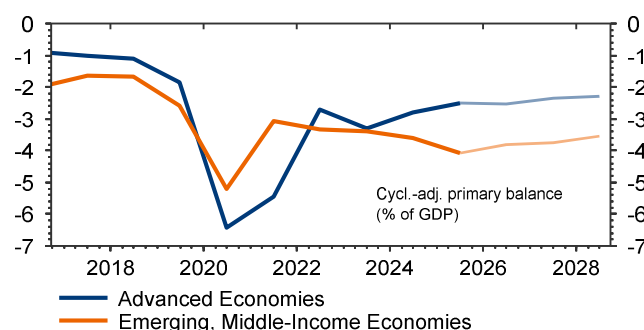
Source: CPB World Trade Monitor

Fig. A.3 – Unemployment rate (%), global aggregate



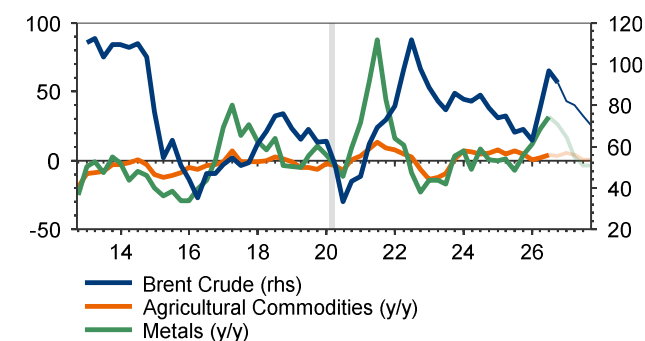
Source: Intesa Sanpaolo calculations using the Oxford Economics model

Fig. A.4 – Cyclically adjusted primary balance of the public sector (% of GDP)



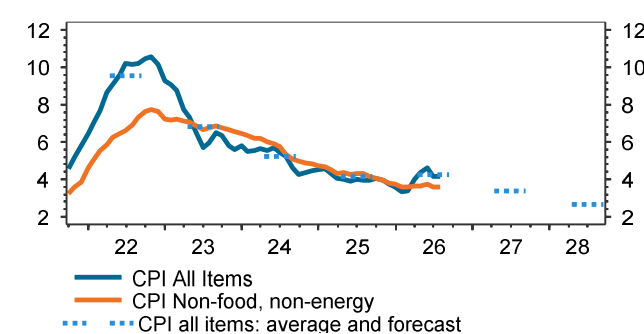
Source: IMF, Fiscal Monitor, October 2025

Fig. A.5 – Commodity prices

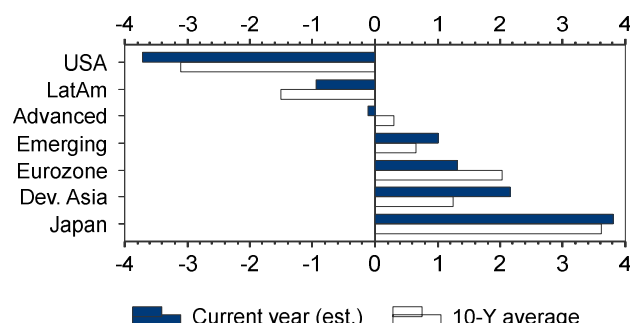


Source: LSEG Datastream

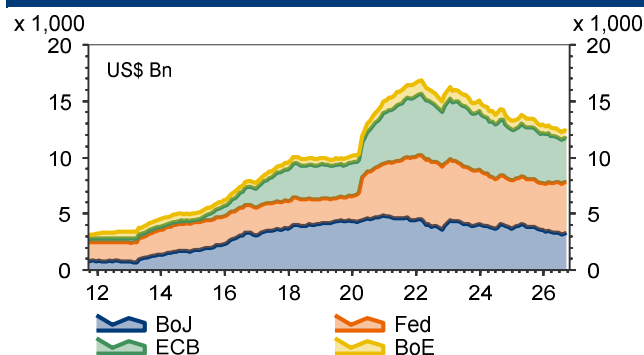
Fig. A.6 – Consumer price indices for OECD countries



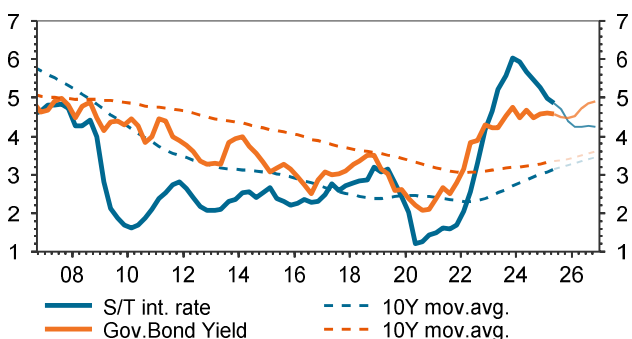
Source: OECD, Oxford Economics

Fig. A.7 - Balance of payments: current account balances as a % of GDP

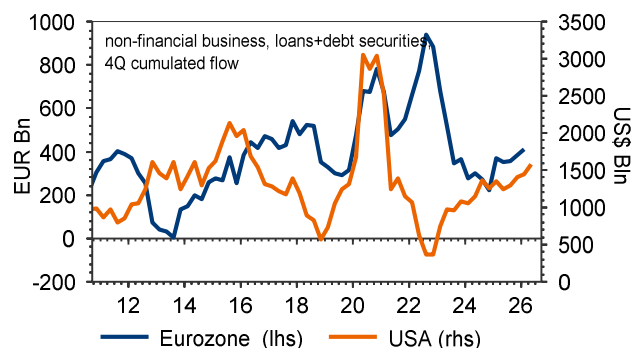
Source: IMF data and estimates

Fig. A.8 - Government bonds in central bank holdings (billions of current US dollars)

Note: excluding foreign exchange reserves. Source: central banks and Intesa Sanpaolo estimates

Fig. A.9 - Interest rates – global average

Note: the aggregate includes 44 advanced and emerging economies. Source: LSEG Datastream Charting and Oxford Economics

Fig. A.10 - Credit to non-financial corporations

Source: ECB (integrated sector accounts), Federal Reserve (Flow of Funds)

Economic growth by geographical area

	2025	2026p	2027p	2028p	2029p
United States	2.1	2.1	2.1	2.0	2.2
Japan	1.2	0.9	1.0	1.1	0.9
Euro area	1.3	1.0	1.2	1.3	1.2
Eastern Europe	2.1	1.9	1.9	2.1	2.1
Latin America	2.2	3.2	2.6	2.7	2.6
OPEC	3.1	-2.9	7.8	5.0	3.5
China	4.3	5.4	4.6	4.4	4.2
India	7.5	6.5	6.8	6.7	6.4
Africa	4.7	4.2	4.2	3.9	3.8
Global growth	3.4	2.8	3.3	3.5	3.3

Note: Continental aggregates in US dollars at constant prices and PPP exchange rates. GDP changes for the US, Japan, the Euro area, China and India calculated on the basis of aggregates at constant prices in local currency. Source: LSEG Datastream and Intesa Sanpaolo projections

United States: war fuels inflation again, Fed takes action

Escalating tensions with Iran have reignited the energy shock, slowing the decline in inflation, while tariff-related risks have eased. Growth remains resilient, supported by consumer spending and AI-related investments, but our 2027 GDP forecast is less optimistic due to weaker support from public spending and non-residential investment. The midterm elections on November 3 represent a further source of uncertainty regarding the political and fiscal outlook. The picture of inflation persistently above target forced the Fed to act in September; at least one more rate hike by year-end is plausible.

Mario Di Marcantonio

Compared to the June Macroeconomic Scenario, **risks related to trade policies have further diminished, while escalating tensions between the United States and Iran have reignited inflationary risks**. The impact on real economic activity remains limited for now but rising energy prices are bound to hinder the decline in inflation following its May peak. Consumer spending continues to support growth but appears less robust due to rising energy costs and the phasing out of tax rebates; investment continues to benefit from spending related to artificial intelligence. **On the trade front**, the replacement of Section 122 tariffs with new tariffs linked to the Section 301 investigations into forced labor keeps the average effective rate around 11%, while trade relations with Canada remain strained. **The midterm elections on November 3 are increasing political and fiscal uncertainty**: a potential "divided government" scenario, against a backdrop of lower net revenue from tariff rebates, could intensify pressure for spending cuts. **We are revising our GDP growth forecast to 2.1% in 2026** (from the 2.3% expected three months ago), due to weaker public spending, and to 2.1% in 2027 (from 2.4%), reflecting a possible slowdown in non-residential investment. **On the inflation front, we confirm the 2026 headline CPI at 3.3% but raise the forecast for 2027 to 2.3% from 2.1%, due to the lingering energy shock**; the 2026 core CPI falls to 2.6% from 2.8% thanks to better-than-expected data, while the 2027 forecast remains unchanged at 2.4%.

Tariff risks are easing, but the energy shock is reigniting inflationary risks; uncertainty rises ahead of the midterm elections

Following the strong rebound in the second quarter (+3.2% q/q, annualized), which was driven by OBBBA refunds, **consumption is expected to slow in the second half of the year as the fiscal stimulus runs out**, against a backdrop of a savings rate at a four-year low. Despite this, support should continue to come from a still-robust labor market (albeit with slowing wage growth) as well as from the wealth effect fueled by stock market performance (despite the negative trend in bond investments). Weighing on the outlook, however, is the return of the energy shock, which has once again dampened household sentiment: with gasoline prices back above \$4 per gallon, the erosion of real income appears inevitable. **We confirm consumption growth of 2.1% in 2026 and 1.9% for 2027; however, the risks to this outlook are skewed to the downside.**

Consumer spending is expected to slow in the second half of the year as the fiscal stimulus wears off; the wealth effect and the labor market are providing support, but the energy shock is once again weighing on the economy

We are revising upward our estimate for nonresidential investment in 2026 to 6.2% (from 5.4% in June), following stronger-than-expected actual data in the first half of the year. The adoption of AI continues to proceed rapidly and is primarily supporting the technology sectors, with a significant contribution from data center construction. However, **spending on AI cannot grow indefinitely: as investments mature, their contribution to growth will tend to decline. For this reason, we are lowering our growth estimate for nonresidential investment in 2027** to 3.6%, down from 4.6% three months ago. The outlook for **residential investment**, on the other hand, has deteriorated further: the estimate for 2026 has been revised to -2.8% from -2.3%, with a partial recovery to 2.4% in 2027, though still below the 4% estimated in June. The rise in mortgage rates - at their highest level in a year - is delaying the recovery in construction activity, which was already being held back by high construction costs.

Nonresidential investment remains supported by data center construction, but this momentum is expected to ease starting in 2027; as mortgage rates rise, the outlook for the residential sector is deteriorating

The labor market has held up better than expected. In August, 162k jobs were created in the non-farm payroll sector, well above expectations, and the data for June and July were revised upward, although the rebound was concentrated in the more volatile sectors. Labor demand, however, continues to slow: JOLTS job openings are down slightly, and the ratio of job openings to unemployed workers remains just above one, signaling a **market that is essentially in balance**

The labor market is holding up better than expected

(at low levels for both labor demand and supply). The unemployment rate remains very low, at 4.1%, due to the slowdown in the labor force caused by declining migration flows and demographic aging. **Slower growth in the labor supply has reduced the pace of job creation needed to stabilize unemployment:** even moderate hiring remains consistent with a stable unemployment rate at very low levels, despite the gradual weakening of demand. **We are revising down our forecast for the unemployment rate by two-tenths to 4.2% in 2026 and by one-tenth to 4.3% in 2027.**

After peaking in May (4.2% y/y), the CPI remains high due to rising fuel prices, with underlying pressures less evident: the recent increase retains the characteristics of a supply shock, but with a contribution from the demand side as well. In the services sector, pressures continue to ease gradually, especially in the housing component, although they remain at high levels. The impact of tariffs on goods prices also appears to be waning, but less reassuring signals are coming from producer prices. **The peak in the CPI should, however, be behind us, with moderation expected in the second half of the year. We confirm our 2026 headline CPI forecast at 3.3%, while raising our estimate for 2027 to 2.3% (from 2.1% projected three months ago) due to the lingering energy shock.** We are revising our 2026 core CPI forecast downward to 2.6% (from 2.8% in June), in light of recent data that came in better than expected, while we confirm the 2.4% forecast for 2027.

The fiscal outlook is deteriorating sharply: in fiscal year 2026, the federal deficit is likely to exceed 6% of GDP, partly due to increased interest payments, which exceeded 1,000 billion annually for the first time (a level now higher than that allocated to defense). **Revenue from tariffs - which the administration had counted on to reduce the deficit - was largely wiped out by refunds** related to the Supreme Court's IEEPA ruling, which mandated the return of collected tariffs, **thereby increasing the risks to the deficit and debt trajectories.**

The November 3 midterm elections are approaching against a backdrop that currently favors the Democrats, who lead by about 8 points in the polls. The House appears vulnerable to a change in majority, while the outcome in the Senate remains more uncertain, given that the distribution of seats up for grabs structurally favors the Republicans. However, the Democrats are ahead in several key states. Prediction markets confirm the Democratic advantage (probability of control: 90% in the House, about 60% in the Senate). **A divided Congress would limit legislation and increase reliance on executive orders;** with lower net revenue from tariff rebates, pressure to rein in spending, but also fiscal uncertainty, may grow.

The September FOMC meeting concluded, as expected, with a 25-basis-point increase in the federal funds rate target to 3.75-4.00%, decided unanimously and accompanied by a more hawkish-than-expected statement. The statement removed the reference to supply shocks as an explanation for inflation, justifying the tightening with the need for a "timelier" return to 2%, without providing forward guidance on upcoming moves. The new Summary of Economic Projections shows inflation that is slightly higher and, above all, more persistent, with a return to the target not expected until 2029, and a rate path consistent with another hike by year-end and rate cuts postponed until 2028 and beyond. **We now expect at least one more hike this year, with December a more likely timing than October. For 2027, we now expect rates to remain unchanged, in line with the SEP, although the risks are all on the upside, especially for the first part of the year.** The gradual easing of inflationary pressures could allow for moderate monetary easing in the medium term, which we now see beginning only in 2028 (or, at the earliest, in the final stretch of 2027).

Despite the energy shock, the peak in inflation should be behind us. We confirm the 2026 headline CPI at 3.3%, while we lower the core CPI to 2.6%

Public finances remain on an unsustainable trajectory, weighed down by interest payments and tariff reimbursements

Midterm Elections: a potentially divided congress would increase fiscal uncertainty and could intensify pressure to curb spending

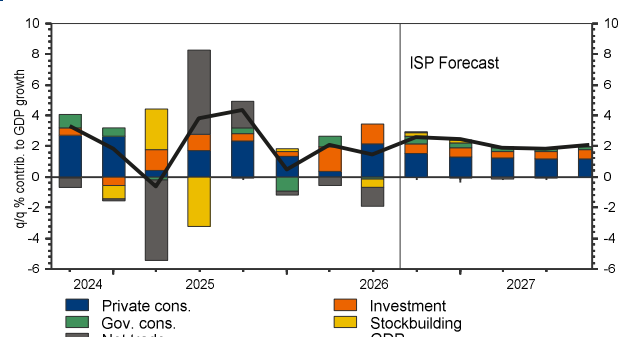
The FOMC has broken the deadlock with a hawkish shift, which could be followed by at least one more rate hike by the end of the year

Forecasts

	2025	2026f	2027f	2025	2026				2027p				
				3	4	1	2	3	4	1	2	3	4
GDP (constant prices, y/y)	2.1	2.1	2.1	2.3	2.0	2.7	2.1	1.7	2.2	2.1	2.2	2.1	1.9
q/q annual rate				4.4	0.5	2.1	1.5	2.6	2.4	1.9	1.9	2.1	1.9
Private consumption	2.6	2.1	1.9	3.5	1.9	0.5	3.4	2.2	1.9	1.8	1.7	1.7	1.6
Fixed investment - nonresid.	4.1	6.2	3.6	3.2	2.4	10.6	8.5	4.0	3.7	2.6	2.9	3.7	3.5
Fixed investment - residential	-2.2	-2.8	2.4	-7.1	-1.7	-7.8	1.3	2.7	3.0	2.0	2.0	3.0	3.0
Government consumption	1.1	0.6	1.5	2.2	-5.6	4.4	-1.0	3.0	2.0	1.5	1.2	1.2	1.4
Export	1.6	4.4	4.1	9.6	-3.2	10.9	4.5	3.0	2.0	4.5	5.0	5.5	5.3
Import	2.7	2.4	3.9	-4.4	-1.0	11.8	12.5	2.0	1.7	4.0	4.0	4.0	4.8
Stockbuilding (% contrib. to GDP)	-0.1	-0.3	0.1	-0.1	0.1	0.0	-0.6	0.3	0.1	0.1	0.0	0.0	0.0
Current account (% of GDP)	-3.8	-3.4	-3.7										
Government Balance (% of GDP)	-7.4	-7.5	-6.5										
Government Debt (% of GDP)	137.0	137.8	138.2										
CPI (y/y)	2.7	3.3	2.3	2.9	2.7	2.7	3.9	3.4	3.1	2.8	2.0	2.3	2.3
Industrial production (y/y)	1.1	1.5	2.1	0.5	-0.5	0.3	1.1	0.4	0.4	0.5	0.5	0.6	0.7
Unemployment (%)	4.3	4.2	4.3	4.3	4.5	4.3	4.3	4.1	4.2	4.3	4.4	4.4	4.3
Federal Funds (%)	4.37	3.84	4.25	4.47	4.02	3.75	3.75	3.79	4.06	4.25	4.25	4.25	4.25

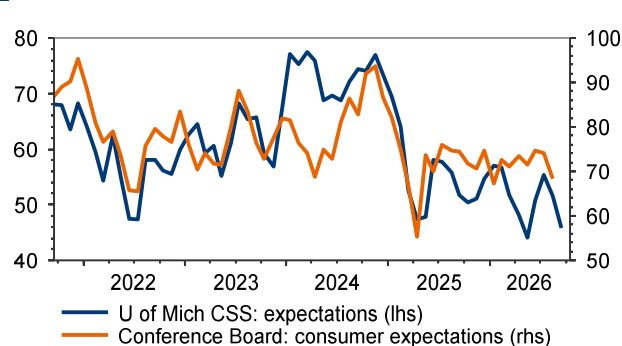
Note: annualised percentage changes on the previous period – unless otherwise indicated. Source: LSEG Datastream, Intesa Sanpaolo

Fig. 1 – GDP growth expected to moderate only slightly in 2027



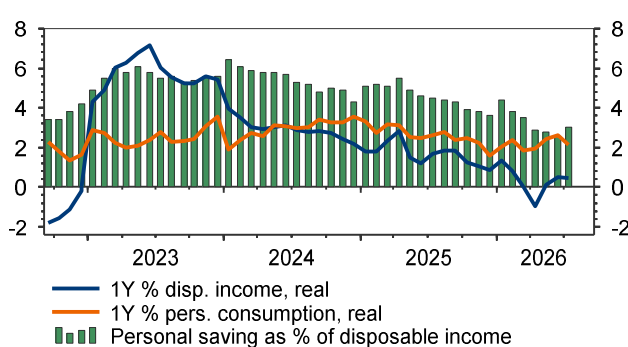
Source: BEA, Intesa Sanpaolo forecasts

Fig. 2 – Consumer confidence falls again, driven by rising fuel prices



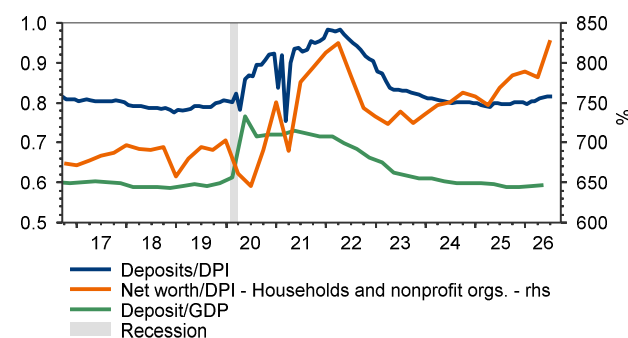
Source: Conference Board, University of Michigan

Fig. 3 – With tax rebates winding down and the savings rate at very low levels, risks to consumer spending are rising



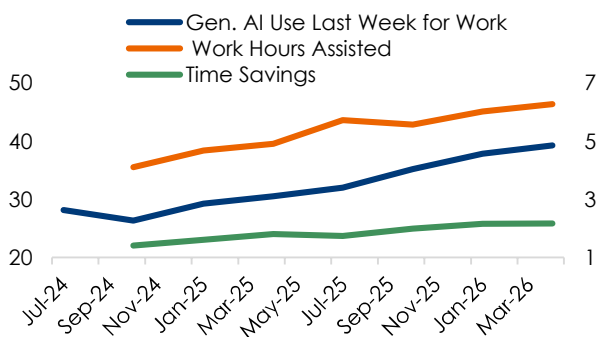
Source: BEA

Fig. 4 – Household wealth is at new all-time highs, driven by stock market gains, and is supporting consumer spending



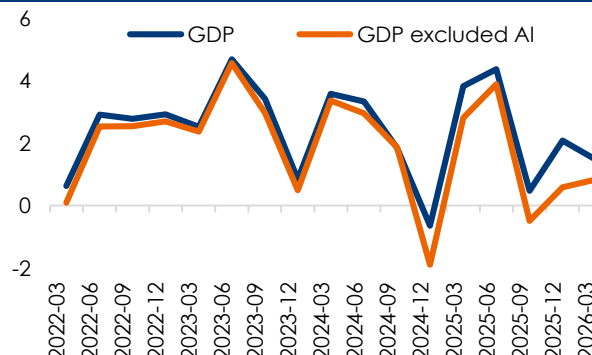
Source: Federal Reserve Z1, BEA

Fig. 5 – The pace of AI adoption continues to accelerate, partly due to the time savings it delivers



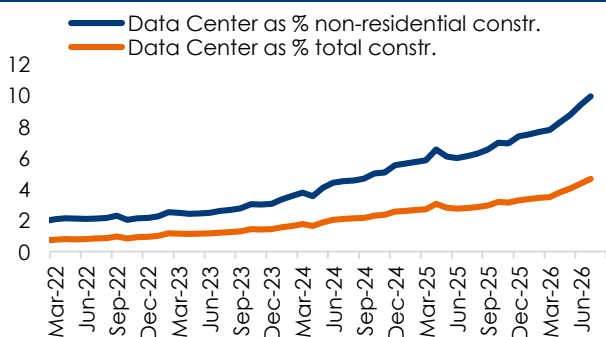
Note: Gen AI used in the past week for work (employed adults), total work hours assisted by Gen AI, total work hours saved. Source: Bick, Alexander, Blandin, Adam, and Deming, David, *Generative Artificial Intelligence*

Fig. 6 – GDP growth, adjusted for investments most closely linked to AI, is more modest than in the official figure



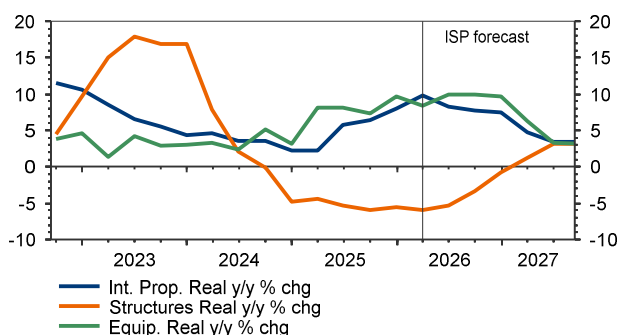
Note: GDP (excluding AI) excludes spending on R&D, software, and information processing equipment (year-over-year % change). Source: Intesa Sanpaolo calculations based on BEA data

Fig. 7 – Spending on data centers has now reached 10% of total nonresidential construction



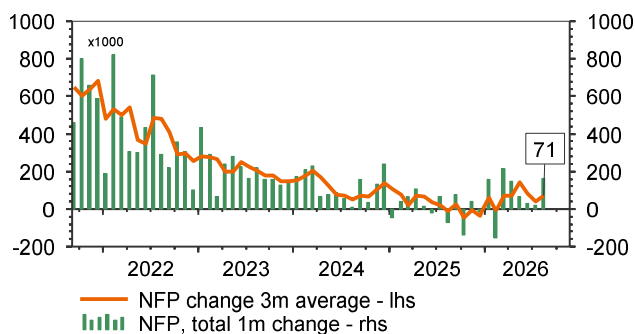
Source: Intesa Sanpaolo calculations based on Census data

Fig. 8 – Growth in non-residential investment is expected to continue, driven by AI, but at a more moderate pace



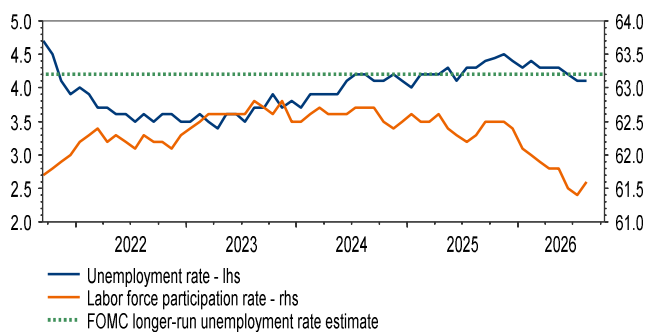
Source: BLS, BEA, Intesa Sanpaolo forecasts

Fig. 9 – Job creation has returned to strongly positive territory



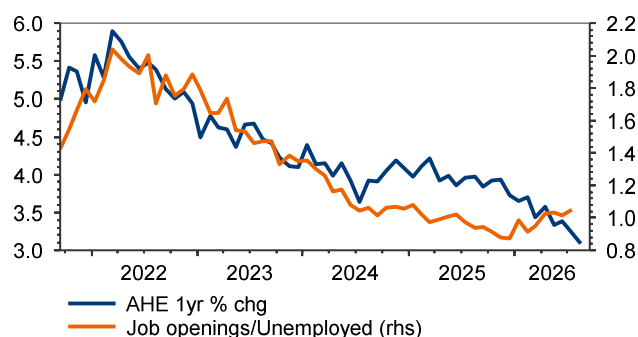
Source: BLS

Fig. 10 – Low labor force participation limits the potential for the unemployment rate to rise



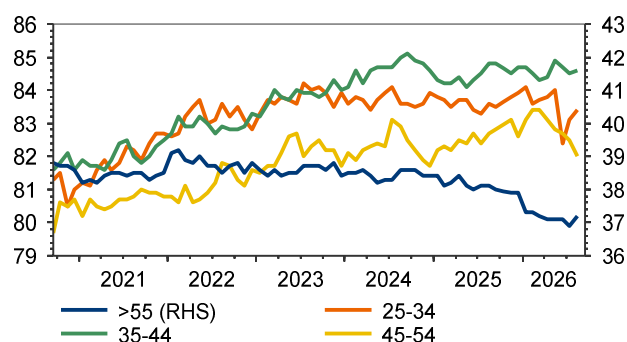
Source: BLS

Fig. 11 – The ratio of job openings to unemployed workers suggests that wages are stabilizing at current levels



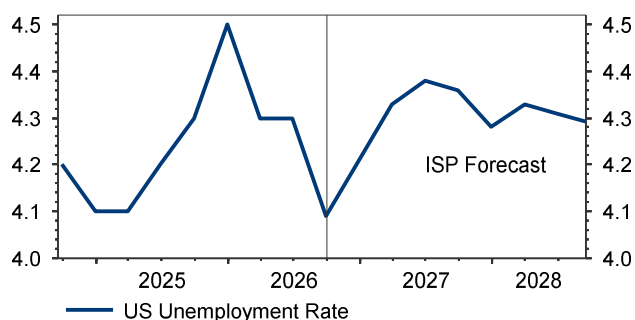
Source: BLS

Fig. 12 – The decline in the labor force participation rate observed in recent years is concentrated among older age groups



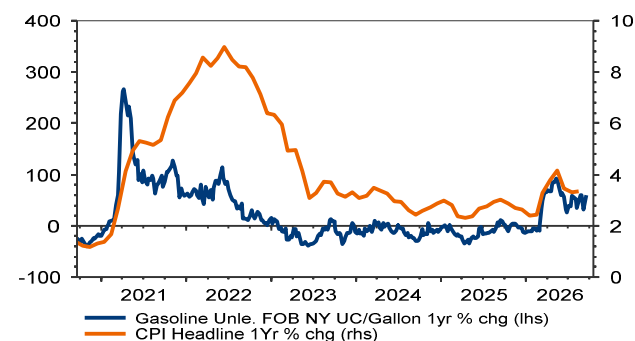
Source: BLS

Fig. 13 – Unemployment could rise, but only moderately



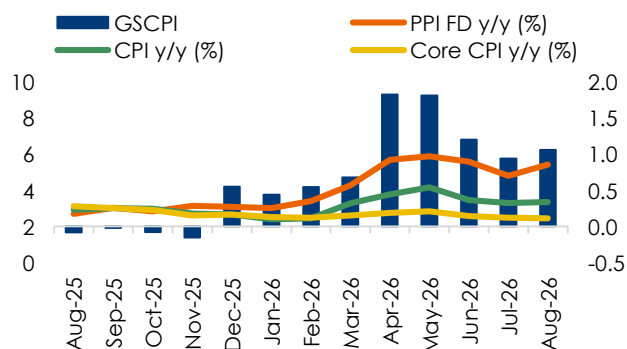
Source: BLS, Intesa Sanpaolo forecasts

Fig. 14 – New fuel price hikes are hindering inflation's return to target



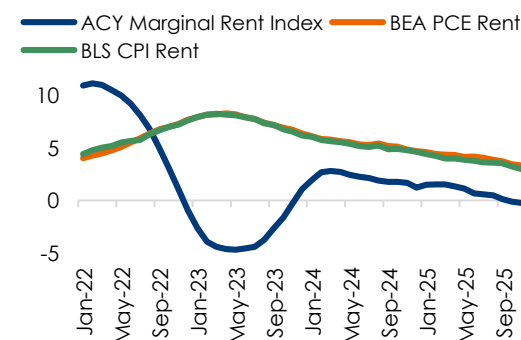
Source: BLS, LSEG Datastream

Fig. 15 – The PPI signals renewed pressures upstream in the production chain



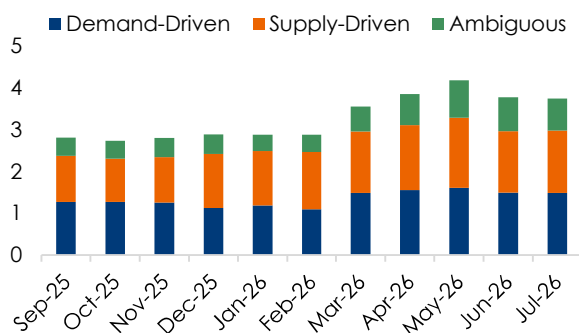
Note: GSCPI = Global Supply Chain Pressure (right-hand scale), PPI FD = Producer Price Index for Final Demand. Source: Federal Reserve Bank of New York, BLS

Fig. 16 – Inflation indices that incorporate market rents point to a further moderation in the CPI for housing services



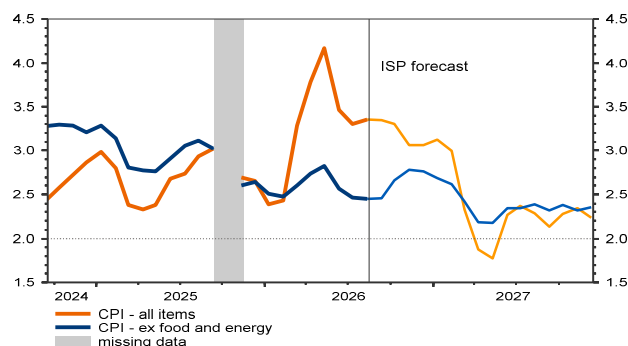
Note: The Penn State/ACY Alternative Inflation Index replaces the "housing" component of the CPI/PCE with the Marginal Rent Index (MRI), according to the methodology of Ambrose, Coulson, and Yoshida (2022). Source: Penn State Alternative Inflation Rate, BEA, BLS

Fig. 17 – The recent rise in inflation (as measured by the PCE) is not solely due to supply shocks but is also driven by a demand component



Note: Breakdown of the year-over-year % change in the PCE into demand-driven, supply-driven, and ambiguous components (based on the Shapiro method, Federal Reserve Bank of San Francisco); a category is "ambiguous" when changes in price and quantity do not allow for a clear attribution of the movement. Source: Intesa Sanpaolo calculations based on BEA data

Fig. 18 – We maintain our forecasts for a decline in headline CPI, but the risks are all on the upside



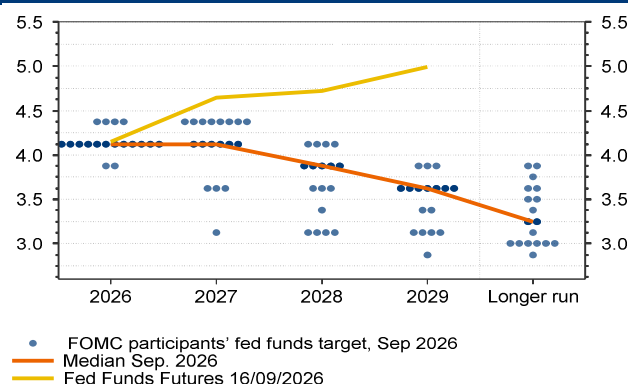
Source: BLS, Intesa Sanpaolo forecasts

Table 1 - SEP: Upward revisions to growth and inflation, along with lower unemployment, reinforce the hawkish outlook

Median					
Variable	2026*	2027*	2028*	2029*	Long term
Real GDP					
FOMC September Projection	2.3	2.4	2.2	2.1	2.0
June FOMC Projection	2.2	2.3	2.2		2.0
Intesa Sanpaolo Estimate	2.2	1.9	2.1	2.0	2.1
Unemployment Rate					
FOMC September Projection	4.1	4.1	4.1	4.1	4.2
June FOMC Projection	4.3	4.3	4.2		4.2
Intesa Sanpaolo Estimate	4.2	4.3	4.2	4.2	4.2
PCE Deflator					
FOMC September Projection	3.7	2.3	2.1	2.0	2.0
June FOMC Projections	3.6	2.3	2.0		2.0
Intesa Sanpaolo Estimate	3.4	2.1	2.0	2.0	2.0
Core PCE Deflator					
FOMC September Projection	3.4	2.5	2.2	2.0	
June FOMC Projection	3.3	2.5	2.1		
Intesa Sanpaolo Estimate	3.3	2.2	1.9	2.0	2.0
Fed Funds Rate					
FOMC September Projection	4.1	4.1	3.9	3.6	3.2
June FOMC Projection	3.8	3.6	3.4		3.1
Intesa Sanpaolo Estimate	4.1	4.1	3.6	3.4	3.4

Note: (*) 4th quarter, Source: projections by Fed Board members and presidents of the regional Fed banks, September and June 2026; Intesa Sanpaolo forecasts

Fig. 19 - The median of the dot plot points to a further rate hike in 2026, rates remaining steady in 2027, and cuts only starting in 2028; market expectations are decidedly more hawkish



Source: Federal Reserve Board, LSEG Datastream

Euro area: growth remains resilient despite renewed energy risks

We have raised our GDP growth forecast for 2026 to 1%, although part of this revision reflects volatility in Ireland. Underlying growth has nevertheless held up better than expected, supported mainly by consumption, whilst investment has remained weak. New energy tensions represent the main downside risk between late 2026 and early 2027, but are unlikely to halt the expansion. In 2027, the normalisation of inflation should allow domestic demand to consolidate and GDP to grow by 1.2%. Excluding Ireland, we forecast growth of 1.1% in both 2026 and 2027.

Inflation has so far moved in line with our June forecasts, with few signs of the energy shock spreading to the rest of the basket. However, the renewed surge in energy commodity prices, and in particular gas, is bringing forward the peak in inflation and increasing the risks of indirect effects.

The market and analysts are sharply divided over the extent of further monetary tightening the **ECB** will implement in the coming months. The deposit rate is expected to rise to 2.75% in December; thereafter, the trajectory will depend on developments in the energy crisis. The absence of a demand-driven component in the current rise in inflation is likely to limit the overall scale of rate increases.

The first half of 2026 proved to be highly volatile, but not for cyclical reasons. The fluctuations are in fact due to Irish GDP: a contraction of -7.8% q/q in the first quarter was followed by a rebound of 10.2% in the second quarter; this figure, which was significantly higher than our expectations, triggers an **automatic revision of the 2026 GDP growth forecast to 1%**, up from the 0.5% indicated in the June Macroeconomic Outlook. It would, however, be simplistic to attribute the revision entirely to Irish volatility. **Excluding Ireland, the Eurozone still performed better than expected, maintaining a stable growth rate of 0.3% q/q in the first two quarters of the year**, in line with potential and with the average for the previous two years. This figure highlights the European economy's resilience to shocks.

However, the resilience shown in the first half of the year does not guarantee that the economy will emerge unscathed from the new energy tensions. Compared with the estimates set out in our Macroeconomic Outlook reports in March and June – where the revisions mainly reflected oil price trends – the key new development is the **rise in gas prices**. For seasonal reasons, its impact on economic activity could become more pronounced during the cold season. We have raised our forecast for the TTF to 67 euro/MWh in the second half of 2026, before a moderation to 53 euro/MWh in the first six months of 2027. These levels are, on average, higher than those incorporated into the ECB's September baseline scenario. For oil, too, the risks remain skewed to the upside. **Confidence surveys currently remain consistent with moderate growth in the second half of 2026 as well**, although early actual data show signs of weakness. This divergence may partly reflect the impact of the summer heatwave, which is not fully factored into the sentiment surveys and is estimated to account for around one-tenth of GDP for the quarter. **We expect the expansion to continue for the remainder of the year, with growth of 0.2% q/q in the summer quarter and 0.3% by the end of the year.** The impact of the heatwave is expected to be temporary and to reverse in the fourth quarter. Energy, on the other hand, is once again the main downside risk for the two quarters straddling 2026 and 2027.

The main positive surprise of the first half of the year came from private consumption. Following the energy shock, we had expected spending to stagnate substantially in the middle quarters of the year, due to the erosion of households' purchasing power. However, the pass-through of higher oil prices to consumer prices was less than expected, and real income continued to grow. The impact on household budgets was therefore less severe than anticipated, and consumption held up despite a sharp deterioration in confidence. **The labour market also remains in good health.** We forecast that employment will grow by around 0.1% quarter-on-quarter in the coming quarters, before picking up again to around 0.2% from mid-2027. The fall in the vacancy rate signals that the labour market is rebalancing, but without putting upward pressure on the

Andrea Volpi

Growth resilient to the energy shock; we are revising our 2026 forecast upwards

New energy risks, but growth is expected to remain positive between late 2026 and early 2027

Consumption has so far surprised on the upside. A slowdown is expected, but only a temporary one, between autumn and winter

unemployment rate, which is expected to remain stable at 6.3-6.4% in 2026-27. Wage growth is expected to slow to an average of 3.4% in 2026 and 2.9% in 2027 (rates that, on average, exceed inflation). However, incomes will lag behind in adjusting to energy price rises; we therefore forecast a modest contraction in purchasing power in the two quarters straddling the turn of the year. The fall in the savings rate should, however, prevent a contraction in **consumption, which is expected to slow to around 0.1% q/q between late 2026 and early 2027. From next spring, the easing of energy prices should support a recovery in real income and a renewed acceleration in spending towards 0.3% q/q.** Compared with the June Macroeconomic Outlook, **we are raising our forecast for consumption growth in 2026 by two tenths of a percentage point to 1%, whilst we are revising downwards the forecast for 2027 to 0.9%.** The revision for next year reflects the carry-over effect of the slowdown expected at the turn of the year and does not indicate a more unfavourable assessment of the fundamentals of household spending, which should continue to underpin domestic demand throughout 2027.

Against a backdrop of stronger-than-expected consumption, **fixed investment was the main source of weakness in the first half of the year.** Compared with June, **we are cutting our forecasts to 0.8% in 2026 and 1.5% in 2027.** Following the sharp rise in 2025, corporate margins have started to contract again, whilst financial conditions are tightening. Geopolitical uncertainty and rising energy costs are also expected to continue to hold back corporate spending, delaying a more robust recovery until 2027. Our forecast for investment is lower than that of the ECB. We share the view that certain less cyclical components, such as those linked to digitalisation, will continue to expand, but we take a more cautious view on the scope and intensity of the boost stemming from increased military spending. **The outlook for the construction sector also remains fragile; 2026 was expected to be a turning point, but weakness has prevailed so far, particularly in residential construction.** Data on building permits, rising mortgage rates and the findings of the Bank Lending Survey remain consistent with substantial stagnation in housing investment, at least until the middle of next year. However, growth in the non-residential sector is not expected to come to a halt. In 2027, the waning impact of NGEU funds in Italy and Spain is likely to be offset by the acceleration of Germany's infrastructure programme.

Exports are expected to continue growing, but at a slower pace than in the spring quarter. Global demand is expected to remain solid, still supported by the technology cycle, from which the Eurozone, however, benefits to a lesser extent than other geographical areas. The rise in gas prices will also affect the Eurozone asymmetrically compared with the rest of the world and is therefore likely to weigh more heavily on terms of trade than an oil shock, further undermining the competitiveness of European industry. Overall, **net exports are expected to make a moderately negative contribution to growth in 2026 and a substantially neutral one in 2027.**

We believe that the factors underpinning the resilience of the economic cycle in the first half of the year will continue to support economic activity in the coming quarters, albeit with risks predominantly tilted to the downside. **The energy shock is expected to cause a temporary slowdown between late 2026 and early 2027, without, however, halting the expansion.** The strength of the labour market and the drawdown of accumulated savings should, in fact, prevent a contraction in domestic demand towards the end of the year. In 2027, the gradual normalisation of gas and oil prices should help restore purchasing power and household spending, whilst also supporting a recovery in business investment. Compared with June, **we therefore leave the GDP growth forecast for 2027 unchanged at 1.2%.** As our GDP forecasts incorporate gas prices higher than the ECB's baseline scenario even over the course of next year, they remain slightly more cautious than those published by the ECB staff in September. **Excluding Ireland, we are raising our estimate for the current year by two tenths of a percentage point to 1.1% and confirming the projection for 2027 at 1.1%.**

Investment remains weak; recovery postponed until 2027

A gas shock is likely to have a greater negative impact on European terms of trade than an oil shock

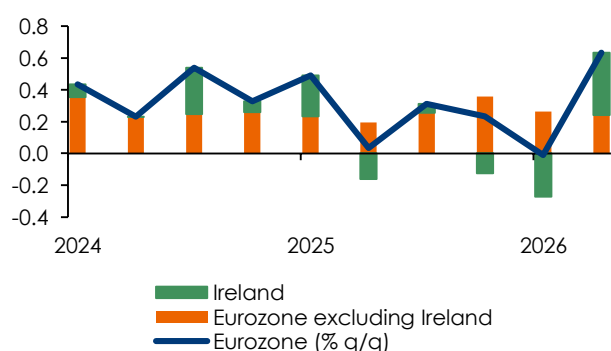
GDP growth confirmed at 1.2% in 2027 (a slightly more cautious estimate than those of the ECB)

Forecasts

	2025	2026f	2027f	2025	2026f				2027f				
				3	4	1	2	3	4	1	2	3	4
GDP (constant prices, y/y)	1.3	1.0	1.2	1.2	1.1	0.6	1.2	1.0	1.0	1.3	1.1	1.2	1.3
- q/q change				0.3	0.2	0.0	0.6	0.2	0.3	0.3	0.3	0.3	0.3
Private consumption	1.5	1.0	0.9	0.2	0.5	0.1	0.4	0.2	0.1	0.1	0.3	0.3	0.3
Fixed investment	2.9	0.8	1.5	1.0	0.7	-0.2	-0.1	0.4	0.3	0.3	0.5	0.6	0.6
Government consumption	1.5	1.8	1.3	0.7	0.5	0.5	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Export	1.9	2.2	2.4	0.6	0.4	-0.6	3.4	-0.7	0.6	0.5	0.6	0.6	0.6
Import	3.6	3.0	2.6	1.1	0.4	0.6	1.5	0.6	0.7	0.5	0.5	0.5	0.5
Stockbuilding (% contrib. to GDP)	0.2	0.1	0.2	0.0	-0.4	0.4	-0.5	0.5	0.1	0.1	0.0	-0.1	-0.1
Current account (% of GDP)	2.2	1.7	1.8										
Government Balance (% of GDP)	-2.9	-3.4	-3.2										
Government Debt (% of GDP)	87.4	89.8	90.4										
HICP (y/y)	2.1	3.0	2.5	2.1	2.1	2.0	3.0	3.3	3.8	3.4	2.6	2.1	1.8
Industrial production (y/y)	1.7	-0.4	1.3	1.5	1.9	-1.9	-0.1	0.3	0.1	1.2	1.1	1.3	1.6
Unemployment (%)	6.3	6.4	6.3	6.3	6.3	6.4	6.4	6.4	6.3	6.3	6.3	6.2	6.2
3-month Euribor	2.18	2.39	2.80	2.01	2.04	2.05	2.24	2.53	2.75	2.87	2.80	2.77	2.76
EUR/USD	1.13	1.15	1.15	1.17	1.16	1.17	1.16	1.15	1.13	1.13	1.15	1.16	1.16

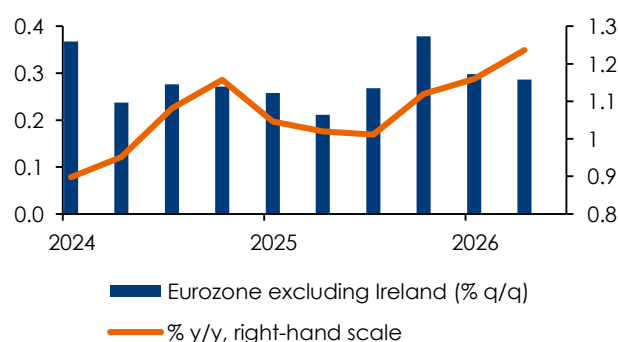
Note: percentage changes on the previous period – unless otherwise indicated. Source: LSEG Datastream, Intesa Sanpaolo forecasts

Fig. 1 – GDP growth in the second quarter is driven by the volatile Irish figure



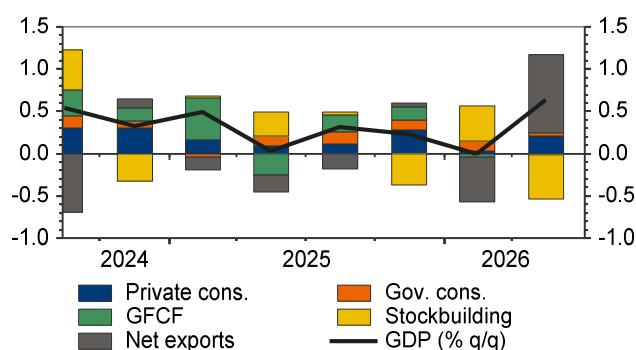
Source: Intesa Sanpaolo calculations, Eurostat data

Fig. 2 – Excluding Ireland, GDP growth remains stable at 0.3% q/q



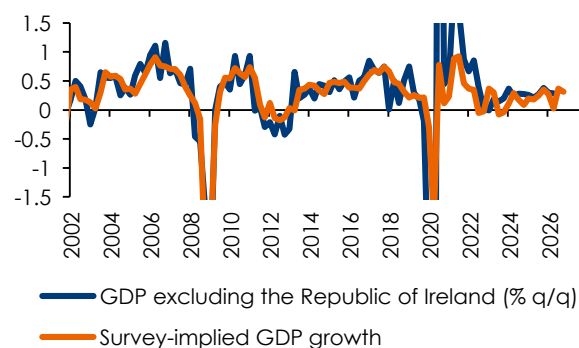
Source: Intesa Sanpaolo calculations, Eurostat data

Fig. 3 – Contributions to GDP growth (% q/q): exports were the driving force, whilst consumer spending showed resilience



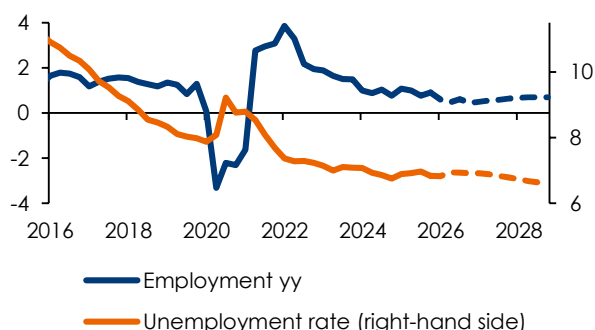
Source: Intesa Sanpaolo analysis, Eurostat data

Fig. 4 – Initial hard data for July were weak, but surveys offer encouraging signs for the cycle's resilience in the second half of the year



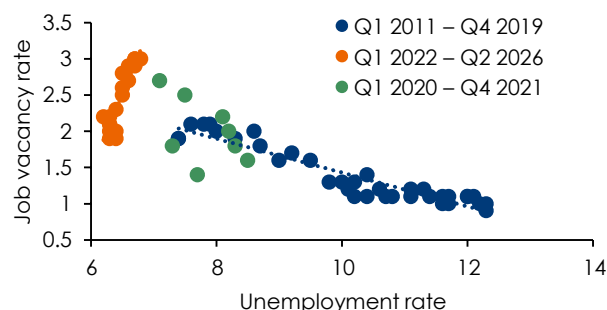
Source: Intesa Sanpaolo analysis, Eurostat data

Fig. 5 – Employment set to continue growing in the coming quarters, with the unemployment rate stabilising at around 6.4% in 2026-27



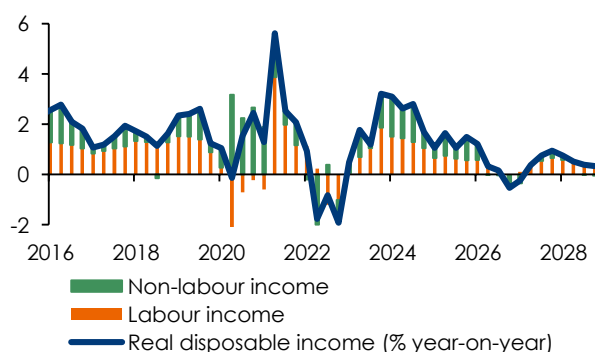
Source: Intesa Sanpaolo forecasts, Eurostat data

Fig. 6 – The labour market is rebalancing without exerting upward pressure on the unemployment rate



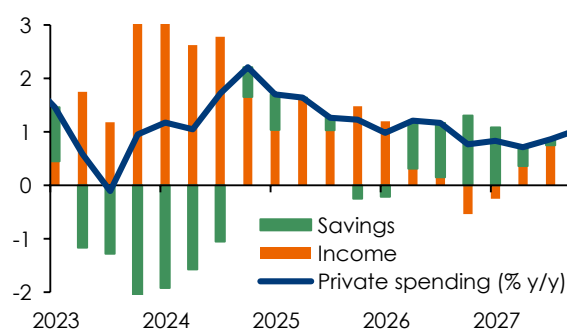
Source: Intesa Sanpaolo analysis, Eurostat data

Fig. 7 – Purchasing power is expected to contract temporarily between late 2026 and early 2027



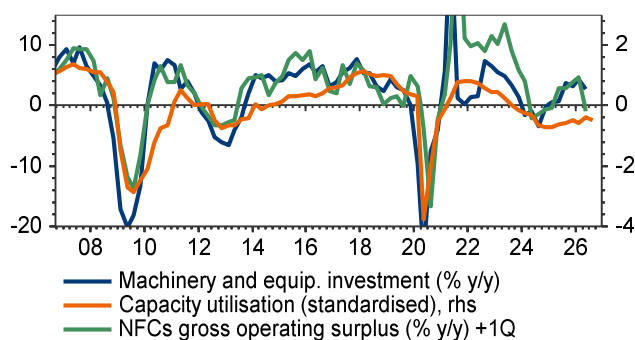
Source: Intesa Sanpaolo forecasts, Eurostat data

Fig. 8 – The fall in real incomes is expected to be offset by a decline in the savings rate, preventing consumption from contracting



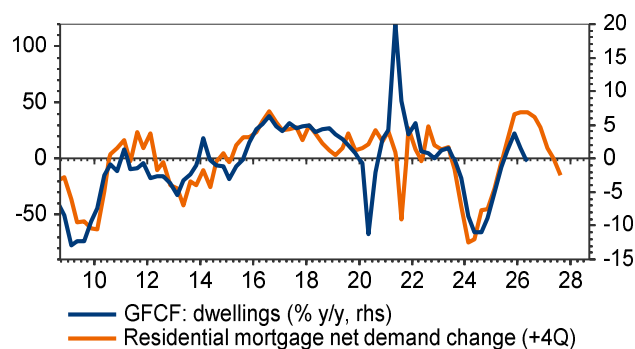
Note: contributions to year-on-year growth in consumption. Source: Intesa Sanpaolo forecasts, Eurostat data

Fig. 9 – Falling profits and low capacity utilisation are holding back the recovery in investment



Source: Intesa Sanpaolo, Eurostat

Fig. 10 – Demand for mortgages offers no encouraging signs for residential investment in the coming quarters



Source: Intesa Sanpaolo, ECB BLS, Eurostat

Inflation: the spillover from the energy shock remains limited, but risks are mounting

Over the summer months, core inflation in the euro area proved to be slightly lower than our June forecasts, but the energy outlook has deteriorated once again. Headline inflation, which fell to 2.8% in June from 3.2% in May, then rose to 2.9% in July and 3.2% in August. The index excluding food, energy, alcohol and tobacco fell to 2.4% in August, from 2.5% in July, whilst the measure excluding energy and fresh food fell to 2.1% (from 2.2%). The slowdown in the core measure in August was entirely due to services (3% from 3.3%), whilst non-energy industrial goods accelerated to 1.2% from 0.9%.

Paolo Mameli
Andrea Volpi

The detailed data confirm the view – which we have held since the start of the conflict – that the extent to which the energy shock would feed through to underlying inflation would be more limited than in 2022-23. Our energy-intensive inflation indices, which group together the core components of goods and services in which energy accounts for a higher-than-average share of production costs, show that within services, inflation for the items most sensitive to energy costs fell in August to 2.9% year-on-year, from 3.5% in July (Fig. 15). However, this decline mainly reflects travel-related services (air travel, package holidays, accommodation), which are notoriously volatile and, in some countries, were likely affected by the impact of the heatwave on demand. **Excluding these items, energy-intensive inflation in services remained stable at 3.3% in August for the third consecutive month** (Fig. 16), with the seasonally adjusted month-on-month change holding steady at 0.2% for four months: a historically high rate, but below the 2025 average and showing no signs of overheating, partly thanks to wage pressures that remain under control.

However, the first signs – albeit still modest – of these pressures being passed on to non-energy goods are emerging: inflation in the NEIG (Non-Energy Industrial Goods) components most exposed to energy costs rose to 1.3% year-on-year from 1.1% (Fig. 17), with price rises for both petroleum-derived products (such as lubricants) and gas-intensive products (glass and ceramics). Unlike in the services sector, manufacturers of goods therefore appear to have begun passing on the rise in production costs to downstream markets, albeit to a limited extent. **Compared with three months ago, however, a new factor has also come into play for goods, unrelated to the energy shock: the rise in the price of electronic products** (computers, tablets, smartphones), which are subject to rising prices for memory chips and semiconductors linked to global demand driven by Artificial Intelligence. The index we have compiled for this basket rose in August to 5.7% year-on-year, up from 4.5% in July (Fig. 18): an all-time high for a group of goods that has traditionally experienced deflation (partly due to statistical methodologies that factor quality improvements into prices). Excluding energy-intensive components and those linked to demand for technology, inflation for non-energy industrial goods would remain broadly stable at around 1%, in line with our June forecast for the two-year period 2026–27.

The energy outlook, however, has deteriorated compared with the scenario envisaged in June. Three months ago, our baseline scenario anticipated the reopening of the Strait of Hormuz from late June and a gradual return to normal levels for oil and gas prices. Instead, the prolonged blockade is leading to further price rises for refined products, particularly kerosene (Fig. 14), whilst the price of natural gas has risen again over the summer (Fig. 12); on the European gas market, low stock levels are compounding the geopolitical risks, increasing the likelihood of further price rises. Consequently, we have revised upwards our assumptions regarding the 2027 average prices for both oil (from 67 to 73 dollars per barrel) and, above all, natural gas (from 32 to 47 euros per megawatt-hour).

In light of the new outlook for energy commodities, we are revising our headline inflation forecast upwards to 3.0% from 2.9% for the 2026 average, and, more importantly, to 2.5% from 2.3% for 2027 (Table 1). The revision for the current year is modest because the first eight months are now in the books, but the outlook for the coming quarters is significantly higher than we had anticipated three months ago: inflation is expected to approach 4% as early as September–October (Fig. 13); the index would remain at or above 3% until March 2027. The subsequent decline would, however, be relatively rapid, due to favourable base effects on energy: headline

inflation would fall below core inflation from July 2027 and below 2% in the final quarter of next year. As the forecast for the core index in 2027 remains unchanged, **the upward revision of two-tenths of a percentage point to the average for next year is entirely attributable to the more volatile components, namely energy and food.**

As regards the core index excluding food, energy, alcohol and tobacco, compared with June we are revising our estimate for 2026 slightly downwards, to 2.4% from 2.5%, whilst we confirm 2.4% for 2027. The downward revision for the current year reflects lower-than-expected summer data, particularly in services. However, **the profile has changed: the peak, which three months ago we had placed in October, has now shifted to the early months of 2027.** Above all, core inflation is not expected to return to 2% within the forecast horizon, remaining at 2.3-2.4% in the second half of next year. The core measure, excluding energy and fresh food, is forecast at 2.2% in 2026 and 2.4% in 2027.

The postponement of the peak in core inflation reflects the different nature of the shock compared with three months ago; today, it is more closely linked to natural gas. An oil shock tends to feed through to prices relatively quickly and to subside once market conditions normalise; **a rise in gas prices, by contrast, is passed on more slowly to final prices, but with potentially more persistent effects.** Gas is, in fact, closely integrated into industrial supply chains, not only as a fuel but also as an intermediate input; and, given its importance as a primary energy source, it affects the electricity costs borne by service sector firms as well. Furthermore, following the crisis triggered by Russia's invasion of Ukraine, it is possible that companies have made extensive use of fixed-price supply contracts or financial hedging: the longer the new shock lasts, the greater the risk that, upon the expiry of these contracts, production costs will rise rapidly. In other words, **the spillover effect may not be absent so much as delayed compared with the past** – an uncertainty that justifies the ECB's cautious approach.

In the short term, the most obvious pressures will continue to come from energy. The rise in crude oil and gas prices will be reflected in energy inflation as early as the coming months, including through electricity and gas bills, which adjust to wholesale prices with an average lag of around three months; furthermore, the increase in the price of kerosene, which has not yet been fully passed on to airfares, could drive up transport costs. **Risks have also returned to the upside for food prices:** the rise in fertiliser prices (Fig. 13) is expected to put pressure on retail prices with a lag of 3 to 6 months, reinforcing the rise in food inflation that we had already forecast in June for the latter part of the year and making it more persistent throughout 2027.

The risks to the forecasts remain tilted to the upside, but those of the underlying trend overheating appear limited for the time being. Our model, which links the price expectations of firms across 70 sectors with their respective assessments of demand trends, points to a rise in core inflation towards 2.5% by the end of the year (Fig. 21), in line with our baseline scenario and with what we had already indicated in June. However, it cannot be ruled out that confidence surveys may be reflecting recent movements in commodity markets to a greater extent from September onwards (Figs. 19-20); nevertheless, firms' caution regarding the outlook for demand should continue to limit their pricing power.

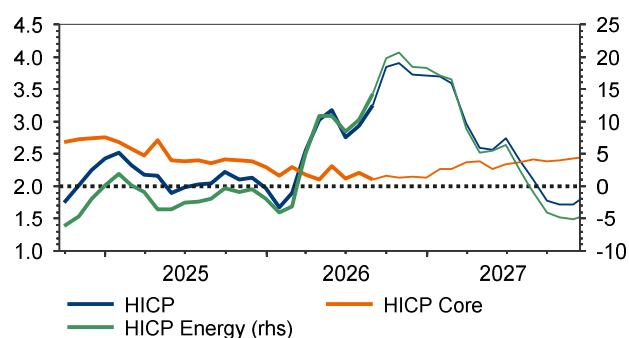
In summary: **the pass-through of the latest rise in energy prices to consumer prices has only just begun and will push headline inflation close to 4% in the autumn; the spill-over to non-energy goods and services has so far been modest, but the nature of the shock – which is more concentrated on gas – is prolonging the process,** pushing the peak in core inflation to early 2027 and hindering its return to 2% by the end of next year.

In any case, we continue to believe that **second-round effects will remain limited**, both because long-term inflation expectations have shifted only slightly, and because wage growth is unlikely to accelerate significantly, given that the labour market is less tight than in 2022 and large sectors, particularly in industry, are facing weak demand and growing competition from China.

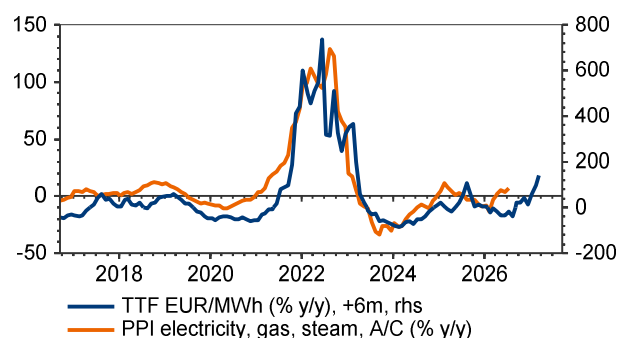
Table 1 – Inflation forecasts for the euro area: September scenario and comparison with June (% change y/y)

	2026				2027				Average – September		Average – June	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2026	2027	2026	2027
HICP	2.1	3.0	3.3	3.8	3.4	2.6	2.1	1.8	3.0	2.5	2.9	2.3
ECB Core	2.2	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.2	2.4	2.5	2.5
Core (ex FEAT)	2.3	2.4	2.4	2.4	2.6	2.5	2.4	2.4	2.4	2.4	2.5	2.4
HICP excluding tobacco	2.0	2.9	3.3	3.7	3.3	2.6	2.0	1.7	3.0	2.4	2.8	2.2

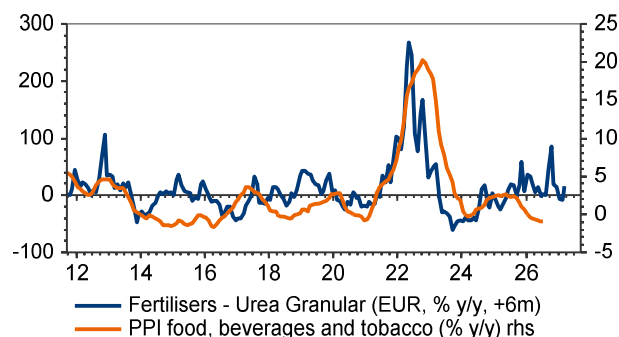
Note: quarterly averages of monthly year-on-year percentage changes; actual data up to August 2026; ECB core: excluding fresh food and energy; ex-FEAT core: excluding food, energy, alcohol and tobacco. Source: Eurostat, Intesa Sanpaolo forecasts

Fig. 11 – In our central scenario, headline inflation approaches 4% in the autumn; the peak in core inflation is pushed back to 2027

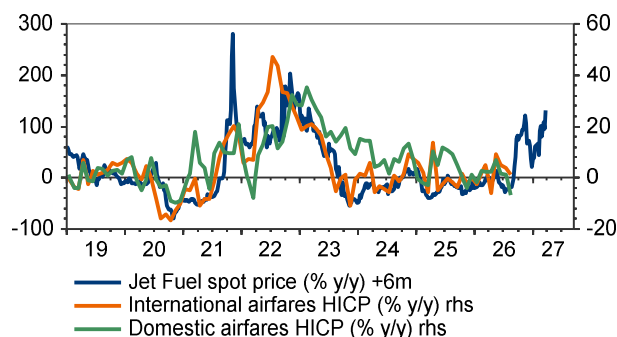
Source: Eurostat, Intesa Sanpaolo forecasts

Fig. 12 – The new surge in gas prices is expected to start exerting upward pressure on businesses' energy costs

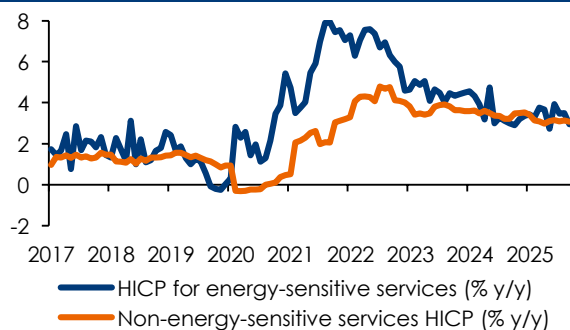
Source: Intesa Sanpaolo calculations, Eurostat data, LSEG Datastream

Fig. 13 – Rising fertiliser costs could lead to a rise in food prices

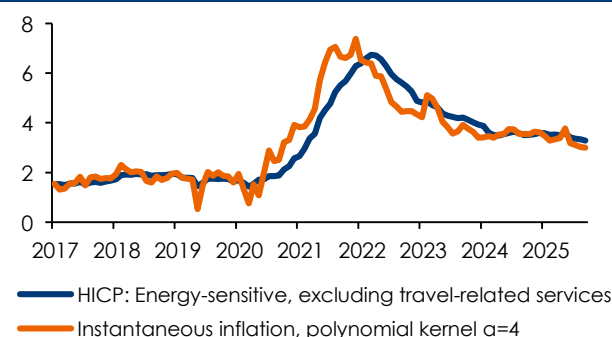
Source: Intesa Sanpaolo calculations, Eurostat data, LSEG Datastream

Fig. 14 – The rise in kerosene prices has not yet been fully passed on to air transport fares

Source: Intesa Sanpaolo calculations, Eurostat data, LSEG Datastream

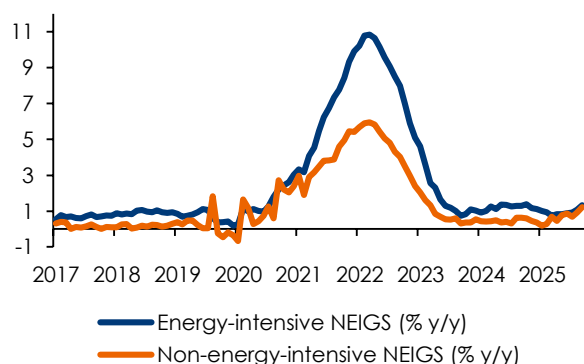
Fig. 15 – The most energy-sensitive service sectors are not yet showing significant signs of price pass-through

Source: Intesa Sanpaolo calculations, Eurostat data

Fig. 16 – Excluding volatile travel-related services, energy-intensive inflation in services is stable

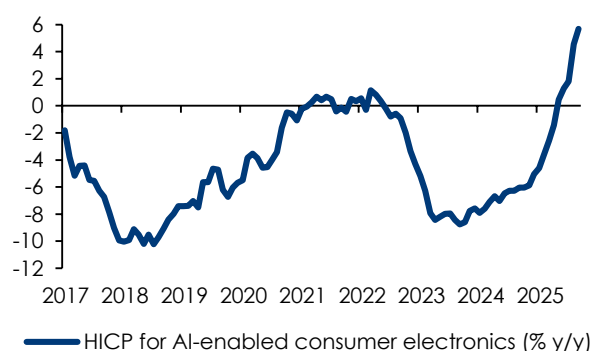
Source: Intesa Sanpaolo calculations, Eurostat data

Fig. 17 – Inflation among non-energy industrial goods is rising, but not solely due to energy



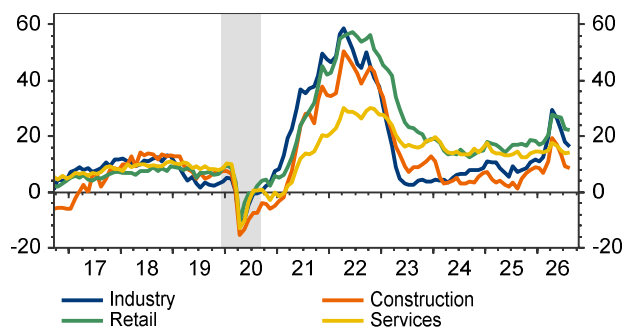
Source: Intesa Sanpaolo calculations, Eurostat data

Fig. 18 – Rising prices for electronic products, which are exposed to memory and semiconductor prices, are also contributing



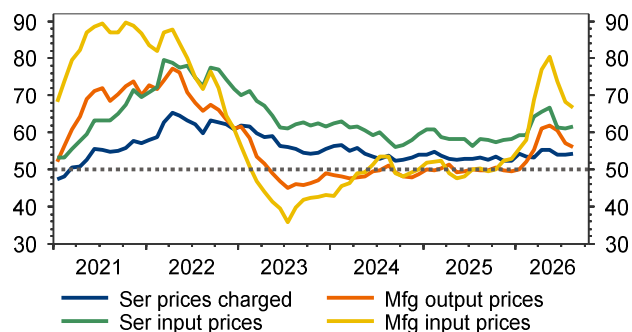
Source: Intesa Sanpaolo calculations, Eurostat data

Fig. 19 – European Commission surveys: expected selling prices by sector



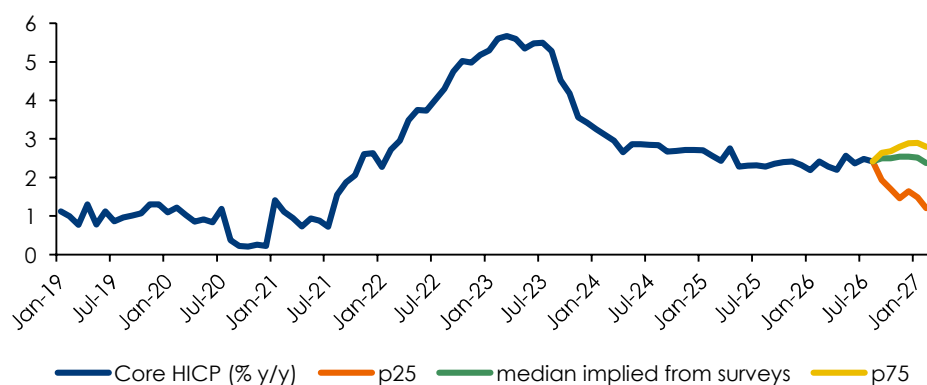
Note: shaded area = recession. Source: Intesa Sanpaolo, EU Commission DG Ecofin

Fig. 20 – SME surveys: prices paid and prices received



Source: Intesa Sanpaolo, S&P Global

Fig. 21 – Businesses' indications regarding prices and expected demand are consistent with core inflation of around 2.5% by the end of the year: the risks of excessive overheating remain limited for the time being



Source: Intesa Sanpaolo model correlating firms' price expectations across 70 sectors with their respective assessments of demand trends (data from the EU Commission DG Ecofin, Eurostat); the 'p25' and 'p75' lines highlight the 25% tails of the distribution of the model's forecast results

ECB: the rate-hiking cycle may not yet be over

In the third quarter of 2026, the European Central Bank continued its gradual adjustment of THE policy stance in response to the energy shock: on 10 September, it announced a second 25-basis-point increase, bringing the deposit facility rate (DFR) to 2.50%. Once again, given the high level of uncertainty surrounding the outlook, the statement refrained from providing guidance on the future path of interest rates, reiterating that this will be decided on a meeting-by-meeting basis, based on the evolution of the data and the forecast outlook.

The market and analysts are sharply divided in their assessment of the outlook. The OIS market is pricing in a third 25bp hike at the 17 December meeting, followed by a fourth in February; a fifth hike, which would take the DFR to 3.25%, has been priced at 70–75% since 29 April. The median of the *Survey of Monetary Analysts* conducted by the ECB prior to the September meeting, however, stands at 2.50%, with the 75th percentile at 2.75%. Our official forecast previously coincided with the consensus median. However, Lagarde's statements following the monetary policy meeting and subsequent comments by governors of national central banks or executive board members have made it quite clear that further increases in official interest rates are likely, barring a sharp easing of the energy crisis. There are at least two reasons for this. Firstly, the baseline scenario achieves price stability, but with 3-month Euribor rates at 3.0%, not 2.5%. Secondly, in the adverse and severe scenarios, which assume greater persistence of the energy shock and broader second-round effects, inflation does not return to target within the forecast horizon if the increase in rates stops at 3%. It is therefore reasonable to assume that, barring a drastic improvement in the energy market situation, the ECB is set to raise rates gradually by a further half a percentage point or so, even if everything goes as planned in the coming months. Without a sudden easing of the Iranian crisis, therefore, a 25-basis-point increase in December is to be expected.

On the other hand, there is no justification for rapid and intense tightening. Unlike in 2022, inflation is now entirely cost-driven, with no contribution from demand. Furthermore, the tightening began with nominal rates of 2% – not negative – and took place before any spillover effects through supply chains had materialised. Third, inflation expectations remain well anchored. Fourth, the pass-through of rate increases to bank lending rates is rapid and is amplified by tensions in medium- and long-term rates, even though the new ECB-BIG index shows financial conditions to be broadly unchanged, unlike traditional financial conditions indices. In fact, of the policy rules we use as a guide in our forecasting, only two points to a target of 3% when based on the baseline scenario: we must assume a significant probability of adverse scenarios materialising for them to forecast rates above 3%.

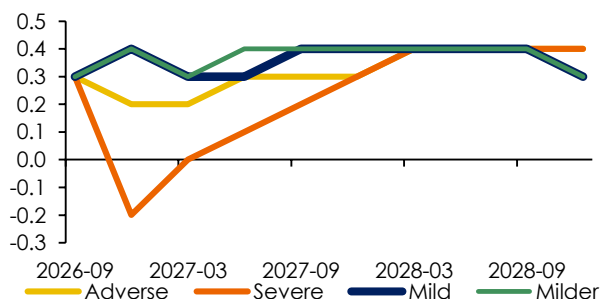
On the liquidity front, the European Central Bank will continue the gradual passive reduction of its APP and PEPP portfolios. Apart from the now well-known effects on the *term premium*, this operation also entails a drain on reserves. The Central Bank's approach is to allow the banking system to signal when critical thresholds of excess liquidity have been reached through increased demand at MRO and LTRO auctions. So far, the *repo* market has effectively absorbed the increased volumes resulting from the reallocation of reserves without this leading to a rise in interbank rates sufficient to make access to MROs attractive; MRO volumes, while recovering, remain below 20 billion. Although we estimate the impact of the reduction in reserves on the DFR-ESTR spread over the next 12 months to be 1–2 basis points at most, we expect this situation to change during 2027, with a more rapid increase in the number of banks with excess reserves below the target level for which recourse to MROs could become advantageous. From 2028, conditions may be ripe to shift part of the demand for reserves to a structural LTRO. Subsequently, perhaps in 2029, we expect the ECB to decide to launch the structural liquidity portfolio as well, a move that could entail a change in the plan for the run-off of the APP and PEPP portfolios.

Luca Mezzomo

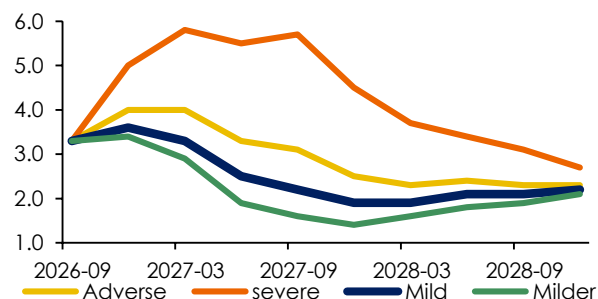
The ECB has indicated that, in most scenarios, further rate rises are to be considered likely

However, with cost-push inflation, the tightening can be gradual and more moderate

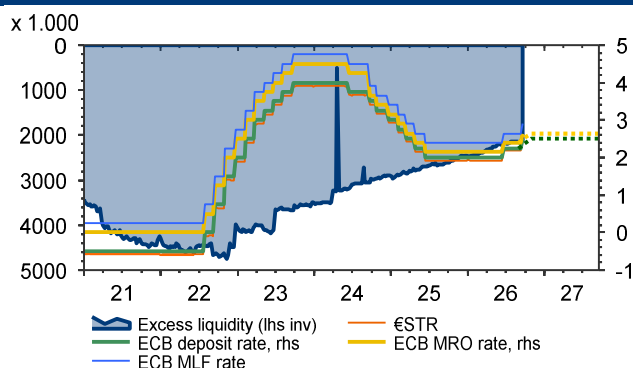
During 2027, excess reserves could approach critical thresholds, leading to an increase in demand at MRO auctions

Fig. 22 – GDP growth forecasts under the ECB staff's various crisis scenarios

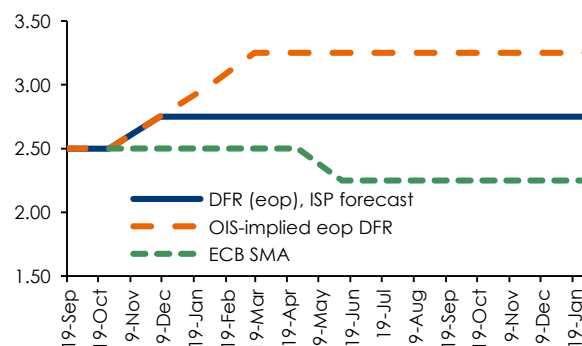
Source: ECB, Staff macroeconomic projections for the Euro area, September 2026

Fig. 23 – Inflation forecasts under the ECB staff's various scenarios

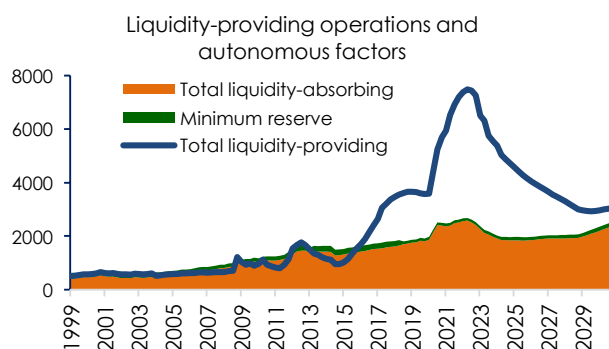
Source: ECB, Staff macroeconomic projections for the Euro area, September 2026

Fig. 24 – Excess liquidity and monetary rates

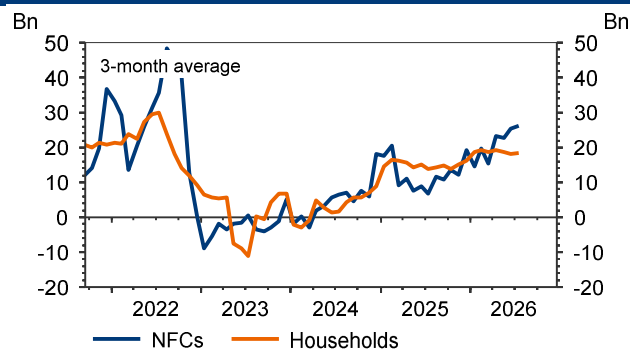
Source: calculations based on data from the ECB and LSEG Datastream

Fig. 25 – ECB deposit facility rate (DFR): level implied by OIS rates and our projections

Source: LSEG, ECB Survey of Monetary Analysts (September 2026), and calculations and projections by Intesa Sanpaolo Macroeconomic Analysis

Fig. 26 – Historical and projected trends in excess liquidity

Source: calculations and projections by Intesa Sanpaolo's Macroeconomic Analysis based on ECB data

Fig. 27 – Net credit supply continues to recover

Note: the shaded areas indicate recessions. Source: ECB, monetary statistics

Germany: private demand is not keeping up with the fiscal stimulus

In the first half of the year, the economy proved more resilient than expected to the energy shock, buoyed by exports and public spending. We have revised our GDP growth forecast for 2026 to 1%, whilst leaving the forecast for 2027 unchanged at 1.2%. However, net of fiscal stimulus, private demand is struggling to regain momentum. Structural problems remain unresolved, and the government's loss of popularity risks limiting its ability to push through reforms and could lead to a further rise in support for anti-establishment parties.

Andrea Volpi

Despite the energy shock, **the German economy grew at a faster-than-expected pace in the first half of the year. The expansion was driven by exports**, thanks to resilient global trade, **and by public spending**, fuelled by fiscal stimulus. **Domestic private demand, on the other hand, is not yet showing convincing signs of regaining momentum.** Compared with the June Macroeconomic Scenario, **we have revised up our GDP growth forecast for 2026 to 1%** (1.3% on a non-working-day-adjusted basis), effectively realigning it with the estimate made before the outbreak of the conflict in the Persian Gulf. **We have left the projection for 2027 unchanged at 1.2%.** The revision for the current year reflects not only the resilience of the cycle in the first half of the year and the upward revision of data for the previous three-year period: confidence surveys are consistent with moderate growth rates continuing into the latter part of 2026.

With the economy proving more resilient than expected, we are revising our GDP growth forecast for 2026 upwards

We believe that GDP growth slowed during the summer quarter; we regard this as temporary and attributable to certain extraordinary factors that are holding back industrial activity. The sharp fall in output recorded in July was largely due to a disruption, lasting several weeks, in the automotive sector ascribable to the retooling of a plant for electric vehicle manufacturing. This is therefore a one-off factor, the impact of which should be absorbed in the coming months. **Low water levels in the Rhine**, a major waterway for industrial transport, may, on the other hand, have held back activity throughout the summer. However, the prolonged drought is likely to have prompted the affected supply chains to divert an increasing share of transport to the rail and road networks, thereby gradually limiting its effects. **We estimate, however, that the overall impact on industrial production will be around one percentage point in the third quarter, sufficient to reduce GDP growth by around two tenths of a percentage point in the summer quarter.** The effect of the drought should, however, be temporary and give way to a recovery in production and a rebound in activity towards the end of the year.

One-off factors may have temporarily slowed activity in the summer quarter

Excluding these one-off factors, the outlook for industry is consistent with only a moderate recovery in the coming months. The PMI surveys point to a more marked acceleration in new orders, whilst the IFO survey maintains a more cautious outlook, albeit showing an improvement in production expectations. It is difficult to assess how much of the spring growth is genuine or attributable to precautionary stockpiling. In any case, **the surveys suggest that the most acute phase of the industrial contraction may have passed, but they do not yet point to a widespread and sustained recovery in activity.** Indeed, the order data show **underlying demand stabilising but still at low levels**, whilst **it is individual high value-added contracts that are driving growth.** These include, for example, orders in the 'other means of transport' sector, which is thought to comprise a significant share of defence-related production, whilst the automotive sector is struggling to get back on track. **We therefore expect an uneven recovery in industrial activity: the sectors recording the greatest increase in demand are already operating at high levels of capacity utilisation; new orders are therefore likely to translate only slowly into higher output.**

Industrial recovery to be at best moderate and uneven

The figures for orders of military equipment and those for 'other means of transport' also reflect the evolution of the fiscal stimulus. In light of the monthly data from the Ministry of Finance, **the implementation of spending programmes appears, so far, to be skewed towards defence. There are encouraging signs regarding infrastructure investment, but no marked acceleration in spending has yet been observed.** Furthermore, the entire Special Fund for Infrastructure and Climate Neutrality (SVIK), amounting to EUR 500Bn, will not necessarily translate into new investment: part of the resources is expected to be used to finance existing projects in order to free up fiscal space. **The developments observed so far appear broadly consistent with our**

Early signs of the fiscal plan being implemented, with a greater focus on defence than on infrastructure

previous assumptions which, whilst reflecting a degree of caution regarding the impact and speed of implementation, **discounted a contribution from the fiscal stimulus to GDP growth of around half a percentage point in 2026**. In the baseline scenario, we continue to assume a gradual acceleration in the implementation of the infrastructure plan over the coming years, peaking between 2027 and 2028. Overall, fiscal policy is expected to remain expansionary over the next two years. In the absence of new measures, **the deficit is expected to remain close to 4% of GDP over the three-year period 2026–28**, with upside risks stemming from the trend in current expenditure, particularly on pensions.

Private domestic demand, on the other hand, is struggling to regain momentum. Following the volatility seen between late 2025 and early 2026, **household consumption was little more than stagnant in the spring, and we believe it will remain sluggish, with growth of between 0.1% and 0.2% q/q, in the second half of the year as well**. Inflation of close to 3% over the next twelve months and the persistent weakness of the labour market will continue to hold back real income growth, which is expected to remain only modestly positive in 2026 before accelerating modestly next year. The savings rate, expected to remain broadly stable at around 10%, is also unlikely to provide significant support for consumption. We have therefore left our consumption forecasts virtually unchanged, with consumption expected to grow **by 0.2% in 2026 and 0.8% in 2027**. **Private investment also remains weak**: purchases of machinery and equipment remain well below the levels of three years ago, and the construction sector is also fragile, held back by tighter financial conditions and rising housing costs, which are dampening residential demand. **The improvement in business confidence could herald a modest recovery in the second half of the year**, but, as highlighted by the DIHK surveys, spending is likely to be primarily driven by the replacement of depreciated capital rather than by an expansion of production capacity. The structural problems that have helped to hold back growth in recent years remain unresolved and, despite the fiscal stimulus, the conditions for a more sustainable recovery in private demand do not yet appear to be in place. After three years of contraction, **fixed investment is expected to stagnate in 2026 before growing by around 3% in 2027: the cyclical recovery should also support private demand, but this acceleration is likely to reflect primarily the fiscal stimulus**.

Private consumption and investment remain weak

The **regional elections** held in Saxony-Anhalt and Mecklenburg-Western Pomerania resulted in a clear victory for the AfD and a marked loss of support for the CDU. The two Länder are not fully representative of the national political balance, as they are relatively small regions situated in the east of the country. However, even in Berlin, the CDU and SPD have seen their support erode. Overall, **the election results** therefore **confirm the gradual loss of support for the governing parties**. The results of the regional elections do not yet appear to jeopardise the stability of the coalition, partly because, in the event of a snap election, the CDU/CSU and SPD would suffer a considerable loss of seats, whilst the options for forming an alternative government would remain limited. **At least in the short term, the most likely scenario** therefore **appears to be one of the government's gradual erosion over the coming months**. The attempt by the CDU/CSU and SPD to rebuild their political capital could, however, further reduce the scope for compromise within the majority and limit the government's ability to pass politically contentious structural reforms. **The main risk therefore does not appear to be an early collapse of the government, but rather, looking ahead to the natural end of the parliamentary term in 2029, a gradual paralysis of decision-making, with the possibility of a further rise in support for anti-establishment parties**.

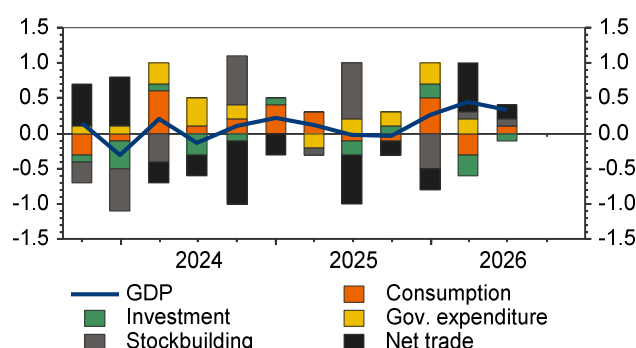
The loss of support for the CDU and SPD increases the risk of political deadlock and reduces the scope for potentially controversial structural reforms

Forecasts

	2025	2026f	2027f	2025	2026f				2027f				
				3	4	1	2	3	4	1	2	3	4
GDP (constant prices, y/y)	0.3	1.0	1.2	0.3	0.3	0.7	1.0	1.1	1.1	1.0	1.1	1.4	1.5
- q/q change				0.0	0.3	0.4	0.3	0.1	0.3	0.3	0.4	0.4	0.4
Private consumption	1.4	0.2	0.8	-0.1	1.0	-0.6	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Fixed investment	-0.3	-0.2	3.2	0.3	1.3	-1.3	-0.2	0.6	0.6	0.9	0.9	1.1	1.1
Government consumption	1.7	3.0	2.1	0.8	1.2	0.9	0.1	0.6	0.6	0.5	0.5	0.5	0.5
Export	-0.8	2.9	2.1	-0.7	-0.1	2.4	2.0	-0.5	0.5	0.6	0.6	0.6	0.6
Import	3.0	2.3	2.0	-0.2	0.5	0.5	1.5	0.2	0.4	0.5	0.5	0.5	0.5
Stockbuilding (% contrib. to GDP)	0.7	-0.1	-0.4	0.0	-0.5	0.1	0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Current account (% of GDP)	4.5	4.5	4.0										
Government Balance (% of GDP)	-2.7	-3.7	-4.0										
Government Debt (% of GDP)	63.5	66.9	67.4										
HICP (y/y)	2.3	2.7	2.2	2.1	2.3	2.3	2.6	2.9	2.9	2.8	2.6	1.8	1.8
Industrial production (y/y)	-0.8	-0.5	1.8	-1.1	0.3	-2.4	-0.6	0.3	0.7	2.1	2.0	2.0	1.3
Unemployment (%)	6.3	6.3	6.2	6.3	6.3	6.3	6.3	6.3	6.3	6.2	6.2	6.1	6.1
10-year yield	2.63	3.11	3.21	2.69	2.72	2.85	3.01	3.21	3.36	3.31	3.22	3.16	3.12

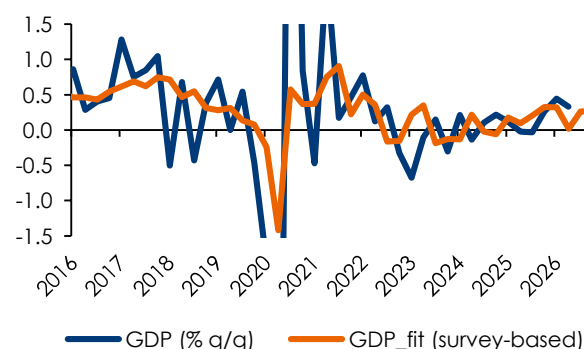
Note: percentage changes on the previous period – unless otherwise indicated. Source: LSEG Datastream, Intesa Sanpaolo forecasts

Fig. 1 - Growth in the first half of 2026 was driven by exports and public consumption. Upward revision to the figures for the 2023–25 period



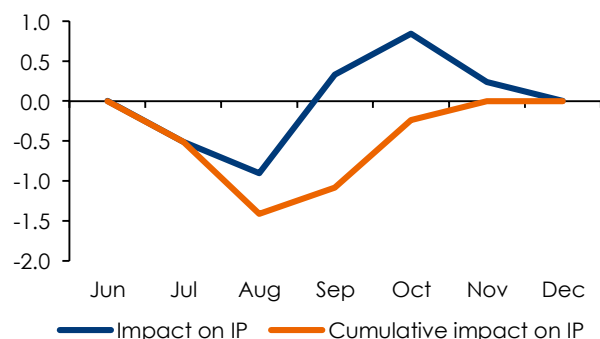
Source: Intesa Sanpaolo, Destatis

Fig. 2 - Confidence surveys remain consistent with moderate growth rates in the second half of the year



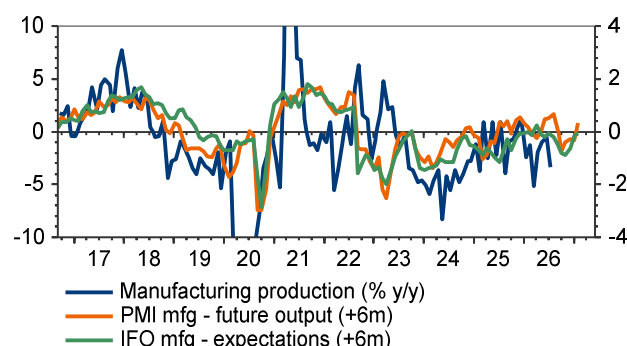
Source: Intesa Sanpaolo calculations

Fig. 3 - We estimate that the low water levels on the Rhine will have an impact on industrial output of 0.5pp in July and 1pp in August, before a reversal in the following months

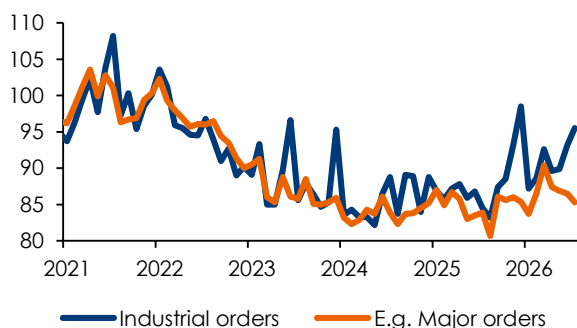


Source: Intesa Sanpaolo calculations

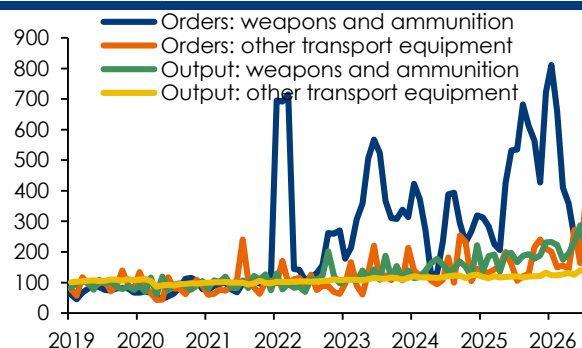
Fig. 4 - Both the IFO and PMI indices show a gradual improvement in production expectations, suggesting that the low point for industry may have passed



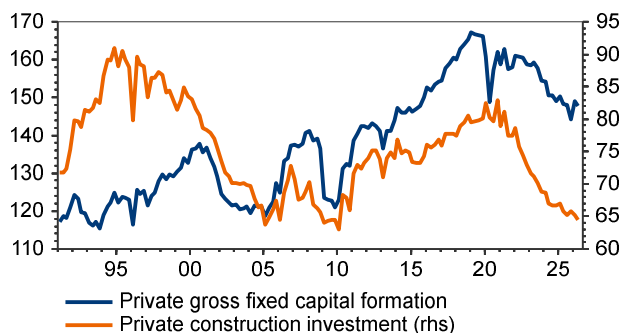
Source: Intesa Sanpaolo, IFO, S&P Global

Fig. 5 - Industrial orders driven by major orders

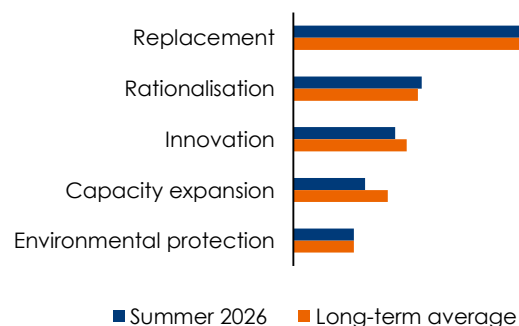
Source: Intesa Sanpaolo, Destatis

Fig. 6 - New orders for military equipment and other means of transport will only gradually translate into increased production

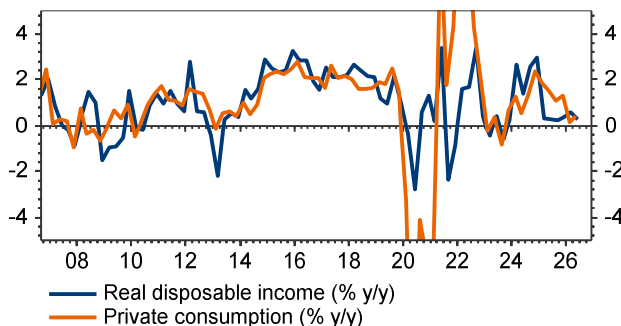
Source: Intesa Sanpaolo, Destatis

Fig. 7 - Excluding the fiscal stimulus, private investment remains weak, particularly in the construction sector

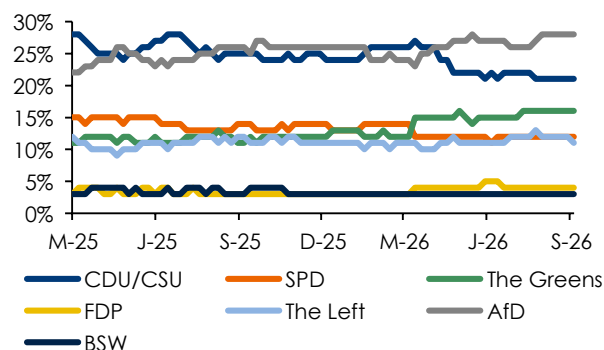
Note: figures in billions of euros. Source: Intesa Sanpaolo calculations, Destatis data

Fig. 8 - Reasons for business investment: the desire to expand production capacity is at its lowest since 2009

Note: reasons for investment, % mentioned; multiple answers possible. Source: Intesa Sanpaolo, Deutsche Industrie und Handelskammer

Fig. 9 - Rising inflation and falling employment are holding back purchasing power and consumption

Source: Intesa Sanpaolo, Destatis

Fig. 10 - The AfD is now the leading party in the polls and has pulled well clear of the CDU, whilst the SPD remains stable at around historic lows

Source: Intesa Sanpaolo, FORSA

France: after the heatwave, political uncertainty will keep temperatures high

We have revised down our GDP growth forecast for 2026 to 0.4%, whilst leaving the estimate for 2027 unchanged at 0.9%. The summer heatwave could shave around one-tenth off this year's growth, with the impact concentrated on agriculture and already partly factored in, for statistical reasons, in the revisions to previous quarters. Following stagnation in the first half of the year, growth is expected to return to modestly positive territory from the summer onwards, whilst remaining below potential in 2027 as well. We are revising our deficit estimates for 2026–27 upwards; with the presidential elections next spring approaching, risks to public finances are once again intensifying.

Andrea Volpi

GDP figures for the first half of the year have been revised sharply downwards and show the economy virtually at a standstill in the first part of 2026. The revision partly reflects new data on services deflators and the quarterly breakdown of the expected decline in annual agricultural output caused by summer heatwaves, the main negative surprise compared with other major euro area economies. **The actual impact of the drought on agriculture is expected to be concentrated in the summer quarter, but the damage estimated by INSEE, which is therefore still subject to revision, has, for accounting reasons, been partly attributed to previous quarters as well** (the sector acted as a drag on sequential value added growth by almost 0.1pp per quarter). Preliminary data for July and, to a lesser extent, surveys suggest that **wildfires and high temperatures have also weighed on manufacturing and construction.** The impact on these sectors is, however, expected to be temporary and to subside after the summer, whilst the impact on consumption is likely to be negligible. Overall, INSEE estimates that the heatwave could reduce GDP growth by around 0.1pp in 2026.

Downward revision of GDP in the first half of the year

The recovery in confidence following the spring slump is consistent with a moderate strengthening of the economic cycle in the second half of 2026. With the impact on agriculture already partly factored in, **GDP could return to growth of between 0.1% and 0.2% q/q between summer and autumn.** We are not making any substantial changes to the outlook for 2027, when **the economy is expected to expand by an average of 0.25% q/q, still below potential** as domestic demand may continue to be held back by fiscal and political risks. Compared with the June Macroeconomic Scenario, **we are cutting the growth forecast for 2026 by 0.2pp to 0.4% and confirming that for 2027 at 0.9%. We are leaving the inflation forecast for 2026 unchanged at 2.1%** (2.3% harmonised); renewed upside risks to energy commodity prices lead us to revise **our estimate for 2027 upwards by 0.2pp to 1.7%** (1.8% harmonised). Consumer price inflation is expected to peak at around 3% at the end of 2026.

We are cutting our forecast for the whole of 2026 to 0.4%; recovery remains below potential in 2027

Despite the contraction in purchasing power, **private consumption** recorded an unexpected rebound in the spring (0.3% q/q), following a decline of the same magnitude at the start of the year. However, the fundamentals remain weak and we therefore do not believe that this figure signals a reacceleration: **in the second half of the year, we expect a further slowdown, consistent with a full-year growth of 0.3%, following 0.5% in 2025.** Among the major Eurozone economies, France is in fact the only one where we expect **real disposable income to fall in 2026**, for the second consecutive year. **Private-sector employment has not grown since the end of 2024**, and cyclical fundamentals, trends in temporary contracts, as well as confidence surveys, point to substantial stagnation in the coming quarters too. **The unemployment rate is expected to continue rising**, reaching 8.6% between late 2026 and early 2027, whilst wage growth is expected to remain around 2%, still below inflation. In the two-year period 2025–26, the fall in the savings rate prevented a sharper slowdown in consumption; **in 2027**, the fall in inflation is expected to support a modest recovery in purchasing power, but we expect **spending growth to remain below 1%.**

The decline in purchasing power is holding back household consumption

Investment contracted in the first half of the year, and we do not foresee a marked pick-up in the remainder of the year. Among **businesses**, falling profit margins, persistently sluggish demand and stagnant credit flows are consistent with capital expenditure essentially stagnating for the third consecutive year. **Residential investment**, too, shows no convincing signs of recovery. The

Investment is set to remain stagnant in 2026 as well, weighed down by cyclical weakness and uncertainty

tentative signs of a turnaround that emerged at the end of last year appear to have petered out, and weak incomes, uncertainty and tighter financial conditions are likely to continue to weigh on demand for housing. **Against a backdrop of flat domestic demand, exports are expected to underpin growth in the coming quarters**, thanks mainly to strong order intake in the aerospace and shipbuilding sectors.

With just over six months to go before the presidential elections, the political landscape remains highly fragmented. Marine Le Pen is clearly leading in the polls and her place in the run-off is all but certain; however, it is still unclear who might challenge her. The presence of several centrist candidates risks splitting the vote, whilst on the left, Mélenchon is struggling to attract votes beyond his own electoral base. **The polls do not indicate a clear favourite for the second round**, except in the event of a run-off against Mélenchon, which would clearly favour the Rassemblement National candidate. The political landscape following the vote also remains difficult to predict: **the presidential election could be followed by new parliamentary elections, but it is not yet possible to determine whether these will secure a stable majority for the presidential coalition**. The return of a fragmented parliament would further reduce the executive's room for manoeuvre, particularly with regard to onerous fiscal policies and potentially controversial structural reforms, thereby further delaying the already difficult process of consolidating public finances.

Over the summer, we had revised upwards our forecasts for the public deficit in the 2026–27 period, but the latest developments have led us to revise these estimates once again. With GDP growth expected to be well below the 1% forecast at the start of the year, **the government now estimates that the deficit in 2026 will stand at 5.4% of GDP**, well above the planned 5%. **The draft budget bill for next year**, which is due to be presented to the Council of Ministers on 1 October, **is expected to table a target deficit of 5% of GDP** (4.8% excluding the increase in military spending), compared with the 4.7% initially forecast. As, in the absence of new measures, the trend deficit could reach, according to the latest government estimates, 6.5% of GDP in 2027 (compared with the 5.9% estimated just a few months ago), bringing the deficit back down to 5% would require a fiscal effort of around 50 billion euros (around 1.5% of GDP) compared with a scenario of unchanged policies. There is a tangible risk that the Budget Law will not be approved by early 2027: in the run-up to the election campaign, the parties would in fact be tempted to resort, for the third consecutive year, to the special law that ensures the state can continue to function even in the absence of a budget. Approval of the budget would thus be postponed until after the presidential elections, not before the summer, with the consequence of a likely worsening of the deficit by around 0.5pp of GDP compared with 2026. **We are raising our forecast for net borrowing in 2027 by 0.3pp, to 5% of GDP; however, the risks remain skewed to the upside.** 2027, an election year, is shaping up to be a year of transition for fiscal policy. The real test for the next government will be to prepare, approve and implement a fiscal consolidation programme that, from 2028 onwards, is capable of bringing the deficit back towards 3% of GDP and stabilising the debt. This task currently appears daunting given that, under a business-as-usual scenario, the deficit could reach 7% of GDP by 2030. A reduction in debt over the long term appears even less realistic: it would require a primary structural adjustment which, in the light of historical experience, is proving increasingly challenging.

There remains considerable uncertainty regarding the outcome of the presidential election and any subsequent parliamentary elections

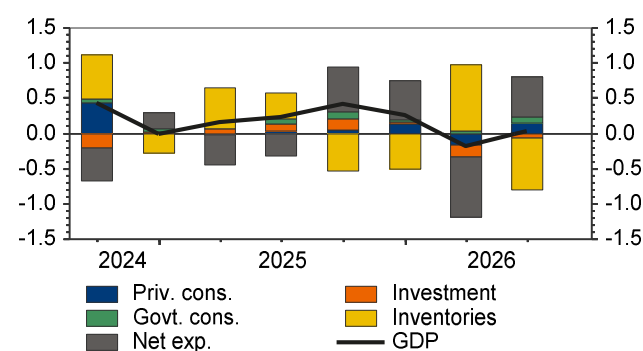
Fiscal risks are once again coming to the fore: we are revising our deficit forecasts for 2026-27 upwards

Forecasts

	2025	2026f	2027f	2025	2026f				2027f				
				3	4	1	2	3	4	1	2	3	4
GDP (constant prices, y/y)	0.9	0.4	0.9	0.8	1.1	0.7	0.5	0.3	0.2	0.6	0.8	1.0	1.0
- q/q change				0.4	0.3	-0.2	0.0	0.1	0.2	0.3	0.3	0.3	0.3
Private consumption	0.5	0.3	0.9	0.1	0.2	-0.3	0.3	0.1	0.2	0.2	0.3	0.3	0.3
Fixed investment	0.7	-0.6	0.4	0.7	0.1	-0.8	-0.3	-0.4	0.1	0.3	0.3	0.3	0.2
Government consumption	0.7	1.2	0.7	0.5	0.2	0.3	0.4	0.2	0.2	0.1	0.2	0.2	0.2
Export	2.4	2.0	4.5	2.8	1.0	-3.0	2.9	1.0	1.0	1.0	1.0	1.0	1.0
Import	3.0	1.1	3.0	1.0	-0.5	-0.6	1.1	0.6	0.8	0.7	0.7	0.7	0.7
Stockbuilding (% contrib. to GDP)	0.5	-0.2	-0.4	-0.5	-0.5	0.9	-0.7	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Current account (% of GDP)	-0.4	-0.5	0.4										
Government Balance (% of GDP)	-5.1	-5.4	-5.0										
Government Debt (% of GDP)	115.9	118.5	120.3										
HICP (y/y)	0.9	2.3	1.8	0.9	0.8	1.1	2.4	2.6	3.0	2.5	1.9	1.7	1.4
Industrial production (y/y)	0.6	1.3	1.9	1.0	1.7	0.9	1.9	0.8	1.5	2.1	1.8	1.9	1.7
Unemployment (%)	7.6	8.4	8.5	7.7	7.9	8.1	8.3	8.5	8.6	8.6	8.5	8.5	8.4

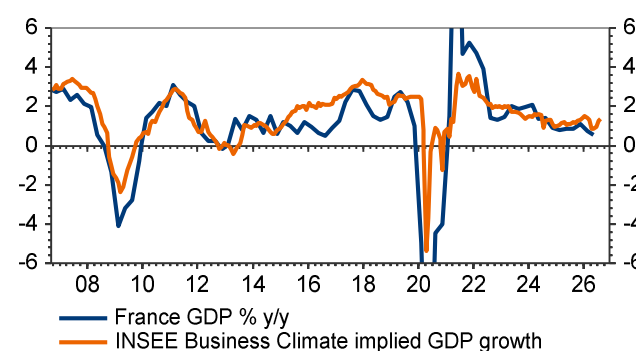
Note: percentage changes on the previous period – unless otherwise indicated. Source: LSEG Datastream, Intesa Sanpaolo forecasts

Fig. 1 - In the first half of the year, the French economy was essentially stagnant



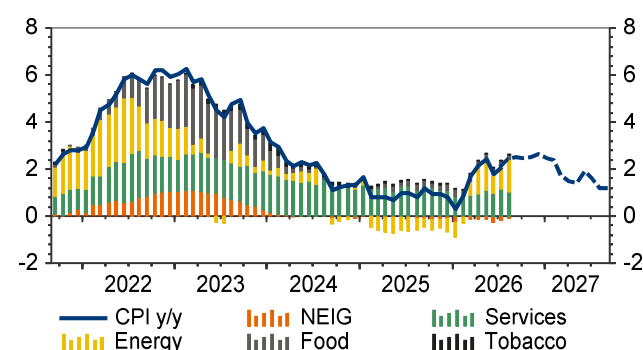
Note: contributions to GDP growth (% q/q). Source: Intesa Sanpaolo calculations, INSEE data

Fig. 2 - However, surveys point to signs of recovery in the second half of the year



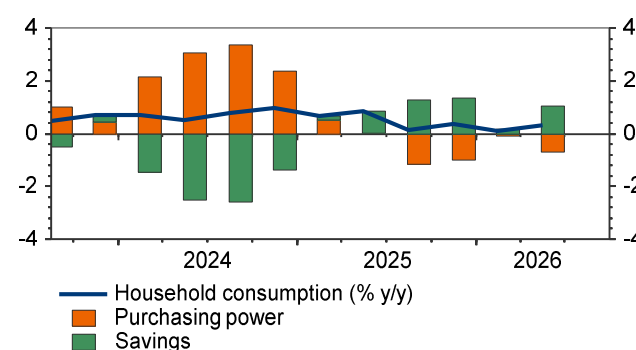
Source: Intesa Sanpaolo calculations

Fig. 3 - National inflation is forecast at 2.3% in 2026 and 1.7% in 2027, peaking at around 3% in the final months of 2026



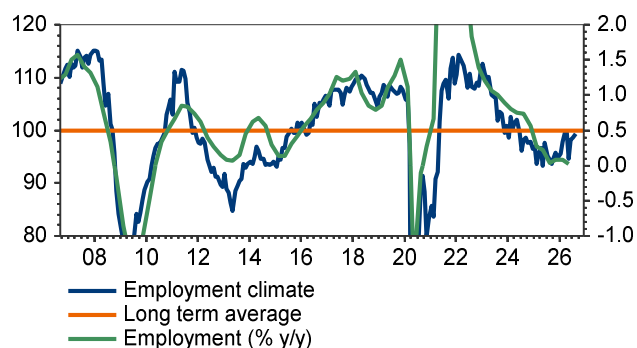
Source: Intesa Sanpaolo forecasts, INSEE data

Fig. 4 - Purchasing power could also contract in 2026; despite the use of savings, consumption is expected to slow compared with 2025



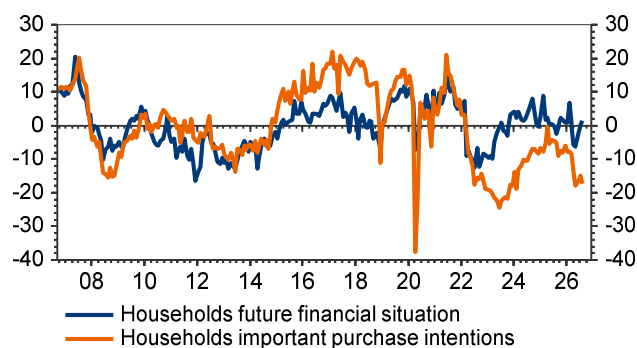
Note: Contributions to year-on-year growth in consumption. Source: Intesa Sanpaolo, INSEE

Fig. 5 - Employment is expected to remain weak in the second half of the year as well, but is expected to stabilise in 2027



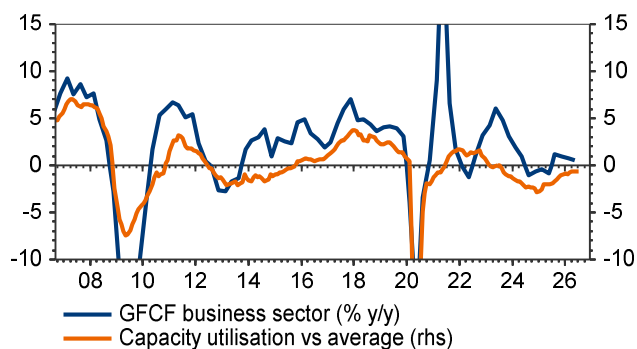
Source: Intesa Sanpaolo, INSEE

Fig. 6 - Confidence surveys do not point to a recovery in private consumption



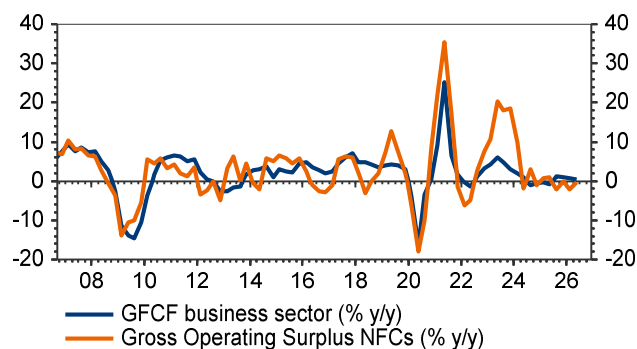
Source: Intesa Sanpaolo, INSEE

Fig. 7 - The weakness of the economic cycle is likely to continue to hold back business investment



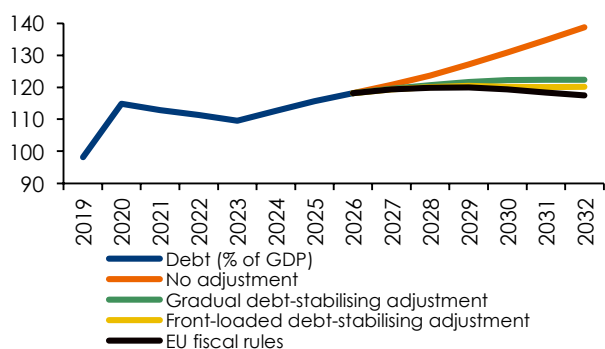
Source: Intesa Sanpaolo, INSEE

Fig. 8 - Capital expenditure is also likely to be affected by stagnating profits



Source: Intesa Sanpaolo, INSEE

Fig. 9 - Under a scenario of unchanged policies, without any expenditure control measures, debt could approach 140% of GDP by 2032



Source: Intesa Sanpaolo calculations

Tab. 1 - Change in public debt (% of GDP) over a 5-year horizon under various scenarios for the primary balance and real GDP growth: the conditions required for debt to fall are becoming increasingly challenging

		Primary balance (% of GDP)									
		-2.0	-1.5	-1.0	-0.5	0.0	0.5	1.0	1.5	2.0	2.5
Real GDP % y/y	-2.0	32.9	30.2	27.5	24.8	22.2	19.5	16.8	14.1	11.4	8.8
	-1.5	29.2	26.5	23.9	21.2	18.6	15.9	13.3	10.6	8.0	5.3
	-1.0	25.6	23.0	20.4	17.7	15.1	12.5	9.9	7.3	4.6	2.0
	-0.5	22.1	19.5	17.0	14.4	11.8	9.2	6.6	4.0	1.4	-1.2
	0.0	18.8	16.2	13.6	11.1	8.5	5.9	3.4	0.8	-1.8	-4.4
	0.5	15.5	13.0	10.4	7.9	5.3	2.8	0.2	-2.3	-4.8	-7.4
	1.0	12.3	9.8	7.3	4.8	2.3	-0.3	-2.8	-5.3	-7.8	-10.3
	1.5	9.3	6.8	4.3	1.8	-0.7	-3.2	-5.7	-8.2	-10.7	-13.2
	2.0	6.3	3.8	1.3	-1.1	-3.6	-6.1	-8.6	-11.0	-13.5	-16.0

Note: we assume an average deflator of 1.6% and a zero fiscal multiplier.
Source: Intesa Sanpaolo calculations

Italy: better than expected, but not out of the woods yet

The inflationary shock has, at least for now, weighed less heavily than expected on the Italian economy: following a first half of the year that was stronger than anticipated, we have revised our 2026 GDP estimate upwards to 0.9%, bringing it above the forecasts in place before the outbreak of the war in the Persian Gulf. However, the effects of the shock will, to some extent, be more spread out over time: consumption is likely to bottom out around the turn of the year, when the impact on electricity and gas bills – and therefore on households' disposable income – becomes more tangible. The prospect of a continued investment cycle leads us to keep our 2027 GDP forecast unchanged at 0.8%.

The scenario we outlined three months ago, in the wake of the Hormuz crisis, has proved to be too cautious. **Istat reported a 0.2% q/q increase in GDP for the second quarter, following 0.3% in the winter period**, whilst our June scenario forecasted a contraction: clearly, the robust start to the year was not significantly linked to a temporary factor such as the Milan-Cortina Winter Olympics. This resilience was evident across all the main components of demand: consumption was stronger than expected thanks to the stability of disposable income and employment; investment was supported by the final phase of the National Recovery and Resilience Plan (NRRP); and exports benefited from a recovery in world trade despite the blockade of the Strait of Hormuz. The summer quarter may also avoid a contraction in GDP, given that the tone of the surveys, at least between July and August, was, with few exceptions (the fall in the manufacturing PMI in August), encouraging; however, an element of uncertainty regarding the summer quarter stems from the heatwave, which may have weighed on construction activity but may also have supported certain components of household spending. Consequently, **we have revised our forecast for working-day-adjusted GDP in 2026 to 0.9%, up from 0.5%** three months ago. Given that 2026 has three more working days than 2025, this forecast is consistent with gross annual GDP of at least 1%.

The price outlook remains the main risk factor for the economy. Italian inflation rose to 3% year-on-year (based on the HICP) in the spring quarter, standing at 3.2% in the latest available figure (August): this trend is in line with our forecasts from three months ago. However, the recent rise in European natural gas prices means that the average inflation rate we now expect for the fourth quarter of the year is higher than that estimated three months ago (4.3% versus 3.9%). In other words, **the impact of the energy shock on inflation and household spending will be more spread out over time** than expected in June, partly because a shock focused more on gas than on oil – such as the current one – has delayed but more persistent implications for underlying inflation. The figures forecast for the first quarter of 2027 are higher than those we predicted three months ago (3.8% versus 3.3%). A return to around 2% is not expected until May 2027. The annual average HICP for 2027 remains unchanged from the June forecast (2.4%).

The most significant surprise of the first half of the year comes from consumption. Italian household spending grew by 0.5% and 0.4% q/q in the first two quarters, with year-on-year growth consistently above 1%: when comparing the major economies of the eurozone, Italy is the country where consumption has held up best (excluding Spain). **We are therefore significantly revising upwards our estimate for private consumption in 2026, to 1.3% from the previous 0.7%.** The underlying picture remains fragile, however: the acceleration in prices has halted the recovery in real wages, and Italy continues to underperform the other major European countries in this regard. As growth in spending has likely outpaced that of purchasing power, the savings rate has fallen, as is typically the case in response to inflationary shocks. **It is precisely the likely rise in the propensity to save during 2027 – not least in light of the increase in real interest rates observed in recent quarters – that will limit the scope for a recovery in consumption next year:** indeed, we foresee a slowdown to 0.6% in 2027.

The impact of the energy and geopolitical shock on the labour market has proved to be limited. **The unemployment rate remains at very low levels by historical standards:** we are revising our estimate to 5.5% in 2026 and 5.4% in 2027 (from 5.4% and 5.7% respectively, as forecast in our June Macroeconomic Outlook). However, the very low unemployment rate is accompanied by **persistent generational gaps (growth not only in employment but also in labour force participation remains concentrated amongst older workers), as well as gender gaps (in labour**

Paolo Mameli

The Italian economy is proving more resilient than expected to the energy shock

Inflation trends have so far been in line with expectations, but the peak at the turn of the year will be higher than forecast three months ago

Consumption has held up better than expected, but lower purchasing power is likely to lead to a slowdown in household spending in 2027

The labour market remains solid, but with structural vulnerabilities

force participation) and regional disparities, and by productivity that remains stagnant. Against a backdrop of slowing labour demand (not only in Italy but across the entire Eurozone), we believe that the labour market's support for consumption may remain positive but is likely to stay moderate in the coming quarters.

Investment continued to grow in 2026, unlike in Germany and France: this divergence may be largely attributable to the completion of the PNRR, which has entered its final phase and is focused on public works. **We are revising our estimate for gross fixed capital formation upwards to 2.9% in 2026 (from 2.4%) and to 1.9% in 2027 (from 1%).** The Italian construction cycle remains out of step with the rest of the euro area: whilst in other major economies sector confidence has deteriorated due to the expected slowdown in private demand, in Italy the outlook has remained positive in the wake of the implementation of infrastructure projects. We believe that the 'tail' of works linked to the NRRP may continue to support non-residential construction in 2027, whilst a decline could be seen from 2028 onwards. As for the residential sector, much will depend on whether or not the 50% tax relief on renovations to the main residence is renewed; compounded by rising interest rates, the sector nevertheless appears to be at risk of a slowdown in the coming years following the boom linked to the 2021-23 Superbonus. The cycle of private investment, excluding construction, does not, however, appear to have run its course, and may continue to benefit from the impetus provided by the digital transition and the rush towards AI, as well as the energy transition and green initiatives, in a context where the full effects of the super-depreciation measures included in the 2026 Budget Law have not yet been felt, given that the GSE booking platform has only been operational since 12 June 2026; in this context, the tightening of interest rates will not help, but does not appear to be of such a magnitude as to cause a tightening of financial conditions severe enough to halt the investment cycle.

Italian exports performed significantly better than expected in 2026, recording a further 0.8% in the second quarter following the 2.3% q/q growth in the first quarter, with growth seen in both goods (0.8%) and services (1%). **We are therefore significantly revising our export forecast upwards, to 3.3% in 2026 (from 1.1%) and to 2.2% in 2027 (from 0.5%);** imports have also been revised upwards (to 3.9% and 2.6%), in line with the revision of domestic consumption and investment. The contribution of net external demand is now only marginally negative over the current two-year period (i.e. the trend has been less pessimistic than feared in the wake of the shift in US trade policy a year and a half ago). One reason for this lies in the fact that, following the escalation in 2025, US tariff barriers have settled at less extreme levels, reducing uncertainty for exporting firms; furthermore, international demand has continued to benefit from the boom in investment linked to artificial intelligence (which, whilst concentrated in the United States, involves certain European supply chains). We remain cautious on exports, however, as the resilience is concentrated in certain volatile product categories (transport equipment, pharmaceuticals, metals) and does not reflect a widespread strengthening of foreign demand; furthermore, supply difficulties linked to the Middle East crisis may have led to orders for intermediate goods being brought forward and, for some sectors such as chemicals, provided a temporary competitive advantage over Asian producers more exposed to supply chain bottlenecks. **We therefore expect a slowdown in both exports and imports next year** (to 2.2% and 2.8% respectively).

The picture described will also lead to an upward revision of the government's GDP estimates. The **Public Finance Policy Document, due to be published in early October, is expected to revise upwards by three to four tenths the growth forecast of 0.6% for 2026 and 2027** contained in the April Public Finance Document, which was drawn up during the period of greatest uncertainty at the start of the Gulf crisis. **The improvement in the economic cycle is expected to be reflected in the underlying budget balances; however, these will be weighed down not only by rising interest expenditure but also by new discretionary measures. In our scenario for next year, we assume higher expenditure amounting to two-tenths of GDP in 2027 (courtesy of the flexibility clause granted by the EU); we assume, however, that the more than 8 billion from the SAFE will be used not for additional military spending but as an alternative source of funding to government borrowing. This results in a deficit of 2.9% of GDP throughout the three-year period 2026-28 and a debt-to-GDP ratio of 138.1% in 2026 and 137.5% in 2027,** with a slower downward trend in subsequent years compared with that of the latest government estimates. Compared with this

The investment cycle does not appear to have come to an end, as it is still being underpinned by the Recovery Plan, tax incentives and the digital and energy transitions

Exports have surprised on the upside, but part of the boost is temporary

Public finances are improving, but rising interest rates are reducing fiscal space

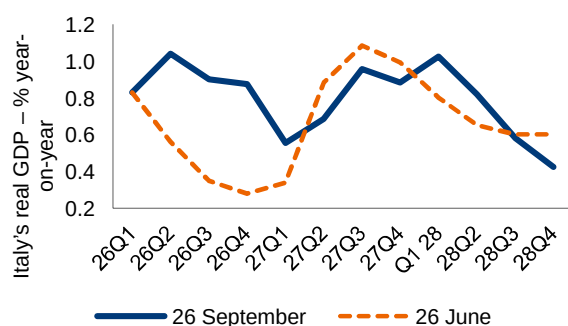
central scenario, we believe the risks to the deficit and debt are on the upside, given that 2027 will be an election year and the incentives to include electoral measures in the Budget Law (new tax cuts, greater flexibility on the retirement age) cannot be overlooked, given that the outcome of the forthcoming parliamentary elections is uncertain (in our view, it will depend more on the composition of the two main coalitions than on the electoral law currently being approved). Italy has managed to keep the spread under control over the past year, but the higher cost of debt reduces the room for manoeuvre in the coming years: this factor cannot be ignored, starting with the 2027 budget, which is due to be finalised in the coming weeks.

Forecasts

	2025	2026f	2027f	2025	2026f				2027f				
				3	4	1	2	3	4	1	2	3	4
GDP (constant prices, y/y)	0.7	0.9	0.8	0.7	0.9	0.8	1.0	0.9	0.7	0.5	0.7	1.0	1.0
- q/q change				0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3	0.3	0.2
Private consumption	1.1	1.3	0.6	0.3	0.1	0.5	0.4	0.2	0.1	0.1	0.1	0.2	0.2
Fixed investment	3.8	2.9	1.9	1.2	0.9	0.8	0.3	0.1	0.3	0.2	1.0	1.0	0.5
Government consumption	0.6	0.3	0.2	0.3	0.2	0.0	-0.1	0.1	0.1	0.0	0.0	0.0	0.0
Export	1.4	3.3	2.2	2.3	-1.0	2.3	0.8	0.6	0.4	0.4	0.6	0.6	0.6
Import	3.9	3.9	2.6	2.1	1.5	0.0	1.7	0.7	0.6	0.5	0.6	0.6	0.7
Stockbuilding (% contrib. to GDP)	-0.2	-0.5	0.0	-0.4	0.8	-0.9	0.1	-0.1	0.1	0.0	0.0	0.0	0.0
Current account (% of GDP)	1.1	0.5	0.6										
Government Balance (% of GDP)	-3.1	-2.9	-2.9										
Government Debt (% of GDP)	136.7	138.1	137.5										
HICP (y/y)	1.6	3.1	2.4	1.7	1.2	1.4	3.0	3.5	4.5	3.7	2.4	1.9	1.6
Industrial production (y/y)	-0.3	0.5	1.1	0.2	1.2	0.5	0.5	0.6	0.5	1.2	1.1	1.3	0.9
Unemployment (%)	6.0	5.5	5.4	5.9	5.7	5.5	5.6	5.5	5.4	5.4	5.4	5.4	5.3
10-year yield	3.57	3.89	4.08	3.55	3.46	3.54	3.78	4.03	4.20	4.13	4.09	4.06	4.02

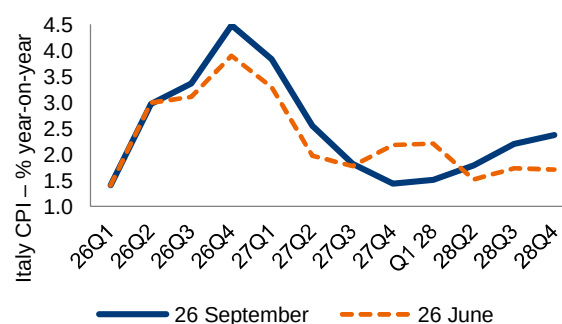
Note: percentage changes on the previous period – unless otherwise indicated. Source: LSEG Datastream, Intesa Sanpaolo forecasts

Fig. 1 – Compared with forecasts from three months ago, the Italian economy has proved more resilient than expected



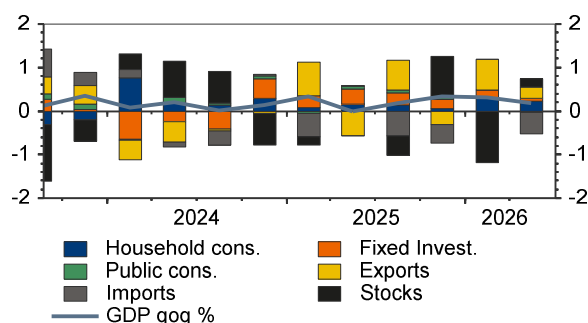
Source: Intesa Sanpaolo forecasts based on Istat data

Fig. 2 – However, the peak in inflation has yet to be seen; we expect it to be higher than estimated three months ago



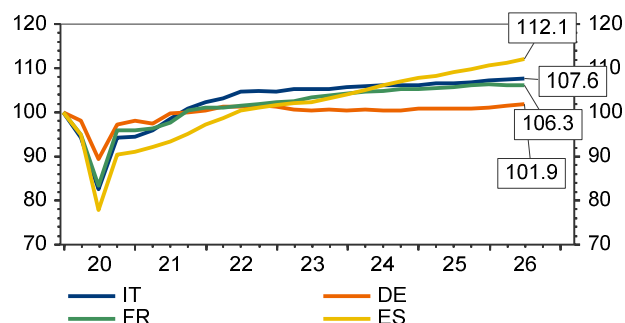
Source: Intesa Sanpaolo forecasts based on Istat data

Fig. 3 – Despite the energy shock, GDP continued to grow in the first half of 2026, driven mainly by domestic demand



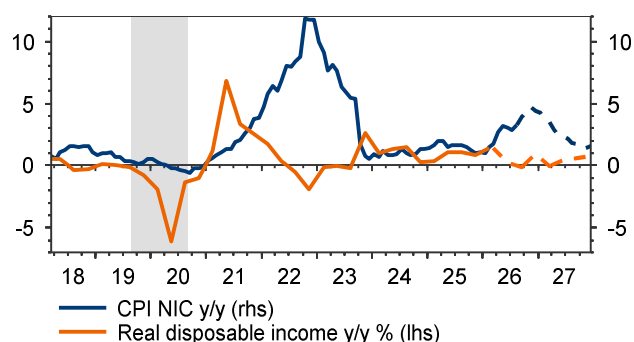
Source: Intesa Sanpaolo calculations based on Istat data

Fig. 4 – Since the pandemic, the Italian economy has outperformed Germany and France, whilst remaining some way behind Spain



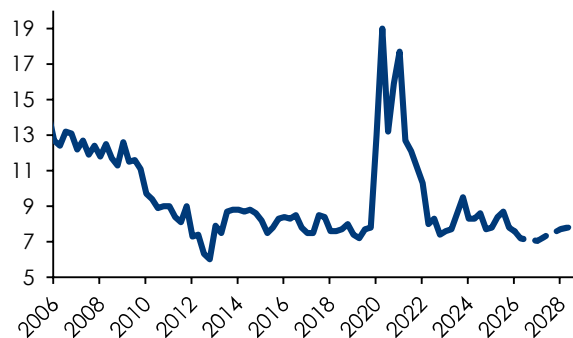
Note: 4Q2019 = 100. Source: Intesa Sanpaolo calculations based on Eurostat data

Fig. 5 – Household disposable income will slow but will not fall into negative territory as it did in 2022



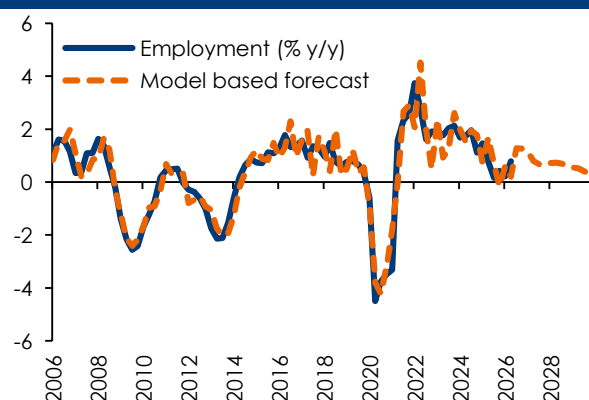
Source: Intesa Sanpaolo forecasts based on Istat data

Fig. 6 – The savings rate, after hitting a low around the turn of the year, is expected to rise again subsequently (curbing consumption)



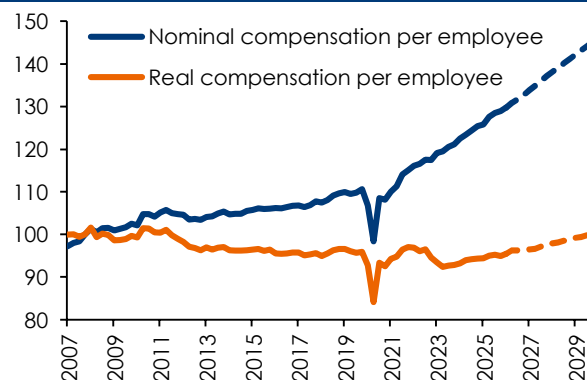
Source: Intesa Sanpaolo forecasts based on Istat data

Fig. 7 – Household incomes are driven more by employment than by wages: employment growth remains positive, but is slowing



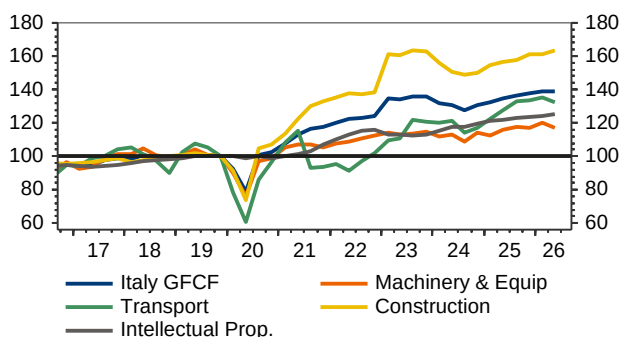
Source: Intesa Sanpaolo forecasts based on Istat data

Fig. 8 – Real wages will rise, but very slowly: real wages per employee will, according to our assumptions, remain below 2007 levels until the end of the decade



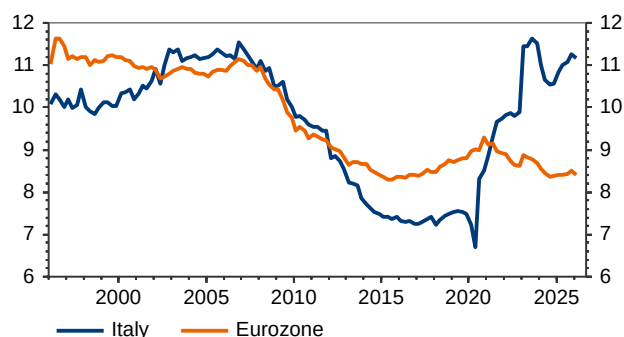
Source: Intesa Sanpaolo forecasts based on Istat data

Fig. 9 – Following the pandemic, construction has once again become the driving force behind Italian investment



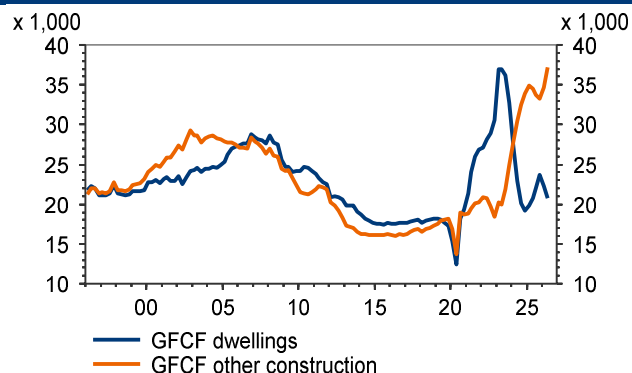
Note: 4Q2019 = 100. Source: Intesa Sanpaolo calculations based on Istat data

Fig. 10 – The share of construction investment in GDP has risen again, well above the euro area average (% of GDP)



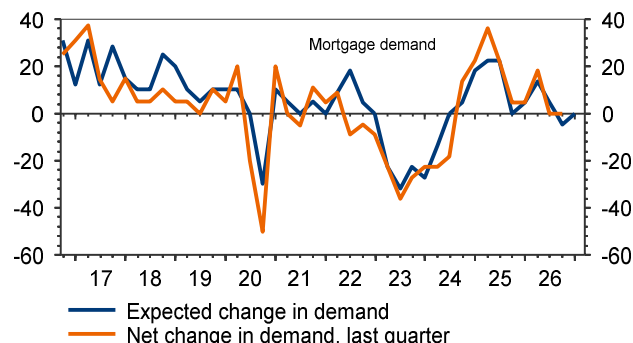
Source: Intesa Sanpaolo calculations based on Eurostat data

Fig. 11 – From the Superbonus to the NRRP: the driving force has shifted from residential construction to infrastructure



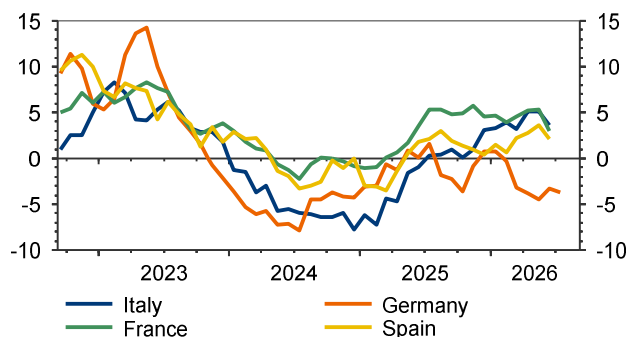
Source: Intesa Sanpaolo calculations based on Istat data

Fig. 12 – Rising interest rates are beginning to weigh on demand for mortgages: the residential sector remains exposed to the risk of a slowdown



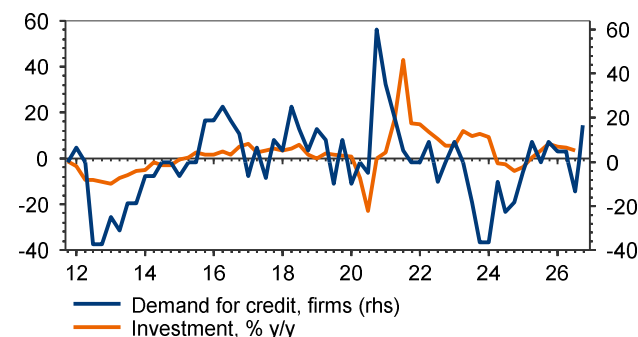
Source: Intesa Sanpaolo calculations based on Bank of Italy data

Fig. 13 – The investment cycle does not appear to have run its course, as evidenced by the strong performance of capital goods production, even when compared with other European countries



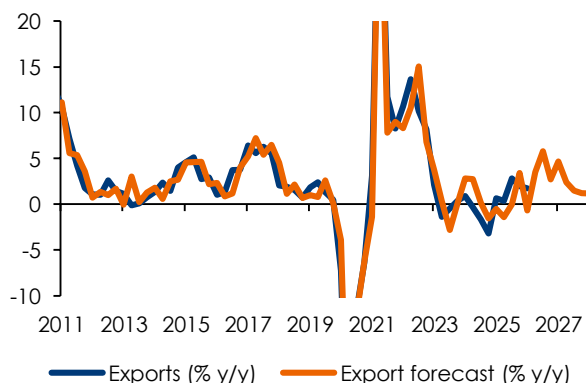
Source: Eurostat

Fig. 14 – A positive sign for the continuation of the investment cycle comes from the recovery in corporate demand for credit



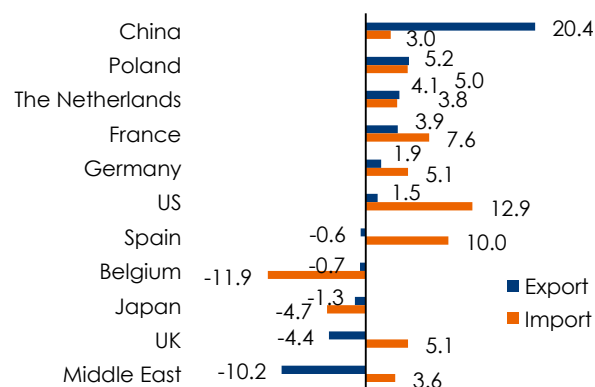
Source: Intesa Sanpaolo, Istat, Bank of Italy

Fig. 15 – Following the upward surprise in 2026, exports are expected to continue growing in the coming quarters, albeit at a more moderate pace



Source: Intesa Sanpaolo forecasts based on Istat data

Fig. 16 – In the first seven months of 2026, exports were driven by China and European partners, whilst sales to the Middle East fell (% change y/y)



Source: Intesa Sanpaolo calculations based on Istat data

Spain: growth still solid, but moderating

Compared with three months ago, we have revised our GDP growth forecasts for Spain upwards, to 2.5% in 2026 (from 2.2%) and 1.9% in 2027 (from 1.8%). However, we expect consumption to moderate in the second half of the year as households' purchasing power weakens, with inflation remaining structurally higher than the euro-area average. The virtuous trend in public finances continues (helped partly by the budget rollover), but the outcome of next year's general election could put it at risk.

Riccardo Bellesia

We believe Spanish GDP growth can remain solid in the coming quarters. In the second quarter, activity grew by 0.7% q/q (from 0.6%) and 2.7% y/y, driven by domestic demand (which contributed six tenths). Early indications for the third quarter are also positive. After a low of 47.9 in April, the services PMI has moved back well into expansionary territory (58.1 in July-August). **However, we expect quarterly growth to moderate to 0.4% q/q in the Summer and 0.3% q/q in the Autumn,** as the effects of the inflationary shock have not yet fully played out. With national inflation at 4.3% y/y in August and wages per employee expected to grow by 3.1% in 2026, real income is being squeezed and signs of weaker consumption are emerging (retail sales fell by 0.3% y/y in July). Moreover, monetary tightening could weigh on household credit, which is already contracting (-3.1% y/y in July). **In 2027, quarterly GDP growth should re-accelerate to around 0.5% q/q as inflation falls back.** It should then converge towards potential (estimated at 2%) as the National Recovery and Resilience Plan (NRRP) runs out and migration flows moderate.

Growth remains robust but should slow next year

We expect investment to grow by 4.1% in 2026 and 2.6% in 2027. The NRRP still provides a residual boost. As of 30 June, €62.7 billion had been awarded (78% of the funds), with around €13 billion left to be spent between the end of this year and early next year. As the Plan winds down, the baton passes mainly to spending on reconstruction and defence, which is expected to rise from 0.9% of GDP in 2024 to 1.2% in 2026 and 1.5% in 2028. Private investment, by contrast, could lose momentum. Machinery investment seems to be starting to suffer from less favourable credit conditions and heightened uncertainty. Even so, the energy shock weighs less on Spanish industry than on the other large euro-area economies, thanks to greater energy independence. **We expect exports to slow to 1% in 2026 (from 3.6% in 2025), mainly due to weaker sales to other European countries, before a moderate re-acceleration in 2027 (to 2.4%),** with tourism continuing to act as a driver.

Public investment continues to support growth, while exports slow

Spain's outperformance relative to the euro-area average rests on structural factors. The first is immigration, which accounted for around half of GDP growth and two-thirds of employment growth in 2022-25. Professional services linked to finance and information and communication technology are another driver. They have grown by over 20% since 2019, twice the pace of France and Italy (non-tourism services exports were worth 8.7% of GDP in 2025, the highest in 25 years). Greater energy independence, with renewables covering more than 50% of domestic needs, has also made the economy more resilient to the crisis triggered by the conflict in the Middle East. **The GDP outperformance appears to come mainly from the growth of the labour force, while productivity (measured as output per employee) has barely changed** (just +0.2% since the fourth quarter of 2019, against +12.1% for GDP). The boost therefore comes from immigration. In August, Social Security affiliates rose by 679,000 y/y (+3.1%), of whom 482,000 were foreign nationals (the extraordinary regularisation launched in April alone accounts for around 340,000 affiliates). Employment growth among Spanish nationals is instead slowing (to 0.7% y/y in the second quarter, from 1.9% y/y in the first three months of the year). This reflects the contraction in the domestic working-age labour force (the 25-55 age group has shrunk by 1.1 million since 2019). Since migration flows cannot keep up their recent pace in the coming quarters, a structural improvement in productivity is needed to sustain current GDP growth rates. The declining trend in the labour force should allow the unemployment rate to fall further, to 10.1% in 2026 and 9.8% in 2027, even as employment growth slows.

With migration flows moderating, sustaining this pace of growth would require higher productivity

Spanish inflation remains persistently above the euro-area average. In August, harmonised inflation rose to 4.6% y/y (from 3.9% in July), its highest since February 2023 and more than a point above the euro-area average. **The first reason for this gap lies in the smaller rise in energy inflation**, owing both to the features of the domestic energy market and to Government measures. These measures, which lowered Spanish inflation by over a point in the Spring, are now being withdrawn (VAT on fuels returned to 21% on 1 July and the discount at the pump was cut to €0.10 per litre on 1 August). **The second reason for the inflation gap with the euro area is the strength of demand.** Core inflation has exceeded the euro-area rate by over a point since late 2024, and the difference lies in services, at 3.8% y/y in August against 3.0% in the euro area. The main risks come from fresh food, which rose back to 4.5% y/y in August from 2.3%, partly because of higher fertiliser prices. Second-round effects are practically absent. The 2026 collective agreements, covering 70% of workers under collective bargaining, closed with pay increases of 2.9%. **We see inflation peaking at 4.6% y/y in the fourth quarter, with the annual average moderating from 3.8% in 2026 to 2.6% in 2027.**

Inflation is markedly higher than in the rest of the euro area, reflecting stronger demand

"Automatic" fiscal consolidation is expected to continue at least until next year's election. We estimate the deficit at 2.5% of GDP in 2026 (weighed down by temporary measures worth over 0.7% of GDP) and 2.3% in 2027, with debt edging further down, mainly thanks to nominal GDP growth. In the first half of 2026, central Government tax revenue grew by 7.6% y/y, with personal income tax (IRPF) up 15.6% y/y. However, central Government spending rose by 8.3% y/y, driven by transfers to the regions, pensions and interest payments (+13.6% y/y). The central Government primary balance showed a deficit of 0.2% of GDP over the half-year. The general Government deficit was unchanged from a year earlier (just above 1% of GDP), mainly thanks to the likely rollover of the budget, automatic since 2023 (which freezes discretionary spending). The €83.3 billion regional debt write-off approved on 4 September leaves central Government finances unaffected, but could lead to higher transfers from the State to the regions (talks on regional financing are still open). Assuming only a partial and tapering extension of the extraordinary energy-relief measures in the fourth quarter, structural pressures come from defence spending and from interest expenditure, at €43.7 billion in 2026 (2.5% of GDP). Even so, the downward trend in debt should continue.

Debt stays on a downward path...

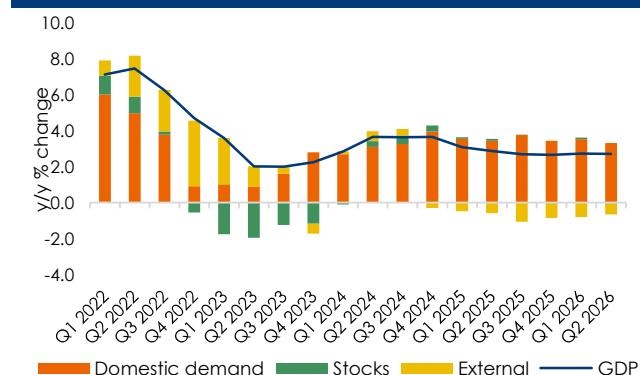
The political landscape remains turbulent ahead of the elections due in Summer 2027. Junts per Catalunya has broken with the Government and pledges to obstruct its agenda in Parliament. An agreement on the budget is therefore unlikely, and the budget will in all likelihood be rolled over for the third time this year. The September poll average puts the People's Party (PP) at 32.5%, the Socialist Party (PSOE) at 26.2% and Vox at 17.6%. For the first time, the PP and Vox together exceed 50%, with projections of 200-210 seats against the 176 needed for a majority, while the left, together with the Basque and Catalan parties, stops at around 140. However, should the vote confirm current polls, we think PP leader Feijóo would seek a minority government with possible external support from the far-right party, and would avoid a formal coalition with Vox. **In any case, the growing weight of extreme or populist parties poses a risk to fiscal consolidation in the coming years.**

... but the electoral cycle could put the deficit improvement at risk

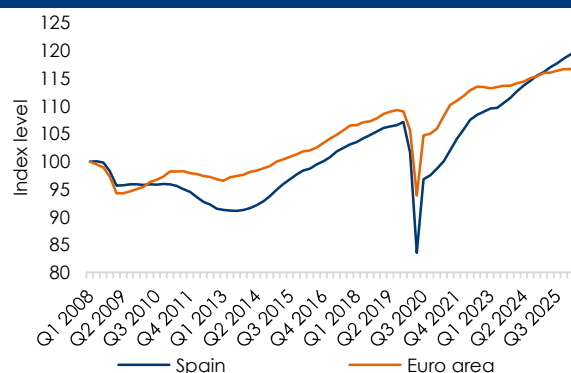
Forecasts

	2025	2026f	2027f	2025	2026	2027f							
				3	4	1	2	3	4	1	2	3	4
GDP (constant prices, y/y)	2.8	2.5	1.9	2.7	2.7	2.7	2.7	2.5	2.0	1.9	1.7	1.8	2.0
- q/q change				0.6	0.8	0.6	0.7	0.4	0.3	0.5	0.5	0.5	0.5
Private consumption	3.4	2.8	2.1	0.9	0.9	0.7	0.7	0.3	0.3	0.6	0.6	0.6	0.6
Fixed investment	5.8	4.1	2.6	2.1	2.1	0.3	0.4	0.9	0.6	0.7	0.7	0.6	0.6
Government consumption	2.4	2.1	1.8	1.4	0.2	0.6	0.3	0.4	0.4	0.5	0.5	0.5	0.4
Export	3.6	1.0	2.4	-0.7	0.7	-0.6	0.8	0.5	0.5	0.6	0.6	0.6	0.6
Import	6.2	1.9	2.7	1.4	1.2	-0.9	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Stockbuilding (% contrib. to GDP)	-0.1	-0.1	-0.2	0.0	-0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0
Current account (% of GDP)	3.0	2.3	2.4										
Government Balance (% of GDP)	-2.4	-2.5	-2.3										
Government Debt (% of GDP)	100.7	99.3	97.5										
HICP (y/y)	2.7	3.8	2.6	2.8	3.1	2.8	3.6	4.3	4.6	3.6	2.6	2.3	1.9
Unemployment (%)	10.5	10.1	9.8	10.5	9.9	10.8	9.9	9.8	9.8	9.8	9.8	9.8	9.7

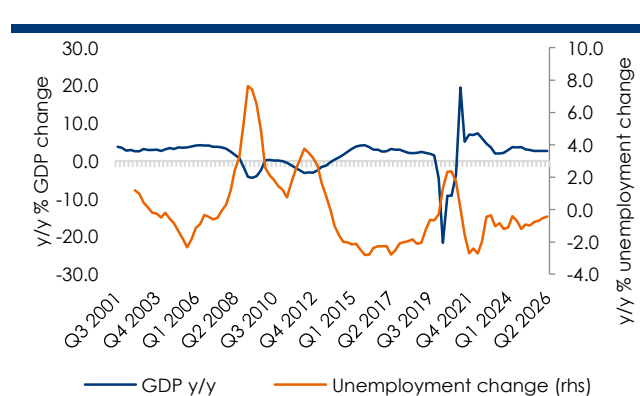
Note: Annualised percentage changes on the previous period – unless otherwise indicated. Source: LSEG Datastream, Intesa Sanpaolo

Fig. 1 – Domestic demand is the main engine of growth for the Spanish economy

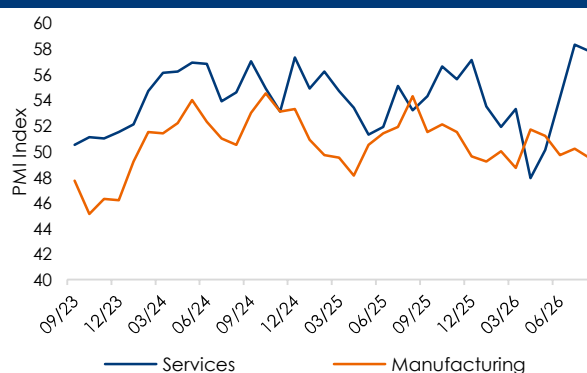
Source: Intesa Sanpaolo, LSEG Datastream

Fig. 2 – Since 2008, Spanish GDP has outperformed the euro-area average

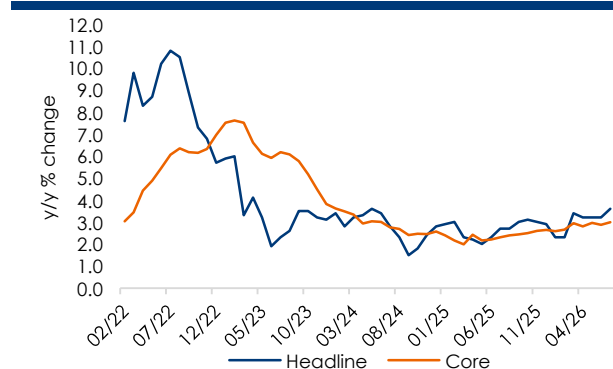
Note: 2007 = 100. Source: Intesa Sanpaolo, LSEG Datastream

Fig. 3 – Employment growth has continued to support the economy

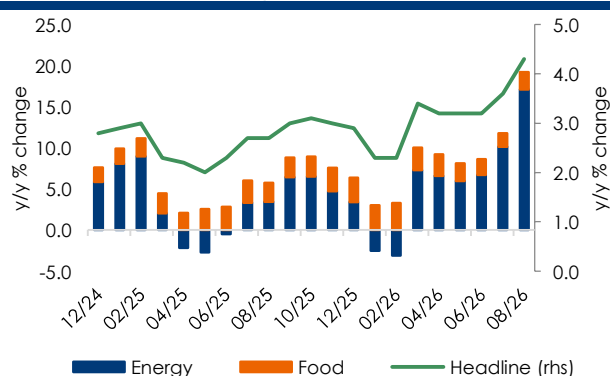
Source: Intesa Sanpaolo, LSEG Datastream

Fig. 4 – Early signals from confidence surveys for the Summer quarter are positive, especially for services

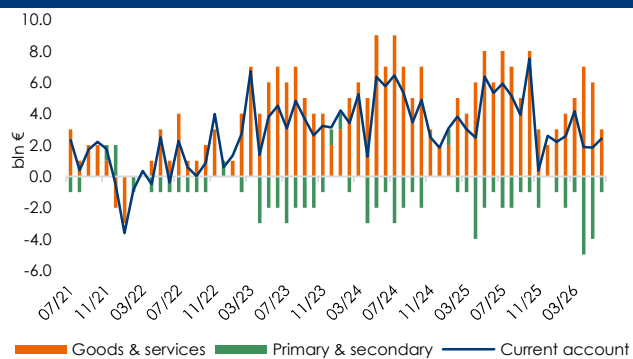
Source: Intesa Sanpaolo, LSEG Datastream

Fig. 5 - Inflation is rising towards 2023 levels, but core inflation remains close to 3%

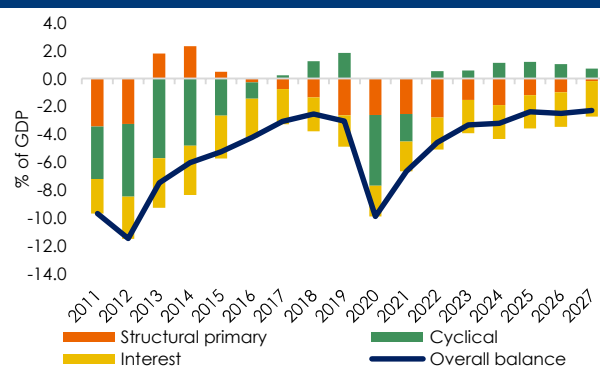
Source: Intesa Sanpaolo, LSEG Datastream

Fig. 6 - The withdrawal of Government measures pushed energy inflation up to 17% y/y in August

Source: Intesa Sanpaolo, LSEG Datastream

Fig. 7 - The current account remains in surplus thanks to services

Source: Intesa Sanpaolo, LSEG Datastream

Fig. 8 - We expect the public deficit to narrow further in 2027

Source: Intesa Sanpaolo, LSEG Datastream

Japan: a faster pace towards 'normalisation'

We have revised up our growth forecast for the Japanese economy to 0.9% in 2026 and 1% in 2027. Public demand and AI-related investment are supporting activity, while household consumption remains exposed to the effects of the energy shock (as well as to rate hikes). Prices net of Government measures are already running above 2%. We think headline inflation could peak at 3.5% in early 2027, before the cut in the consumption tax on food temporarily brings it back below 1%. We expect the BoJ tightening cycle to end at 2% by the end of 2027.

Riccardo Bellesia

The Japanese economy is proving resilient, mainly thanks to the strength of industrial activity, while consumption could slow in the coming months. GDP grew 1.4% q/q annualised in 2Q2026, after 1.9% at the start of the year. The release of strategic reserves and alternative supplies from the United States and other producers have prevented rationing of crude oil and refined products. The main driver remains global demand linked to Artificial Intelligence and semiconductors, which is supporting exports, investment and industrial production. Some signs of fragility nonetheless emerged as early as 2Q. Consumption stagnated and investment fell despite accelerating incomes and record-high profits, a sign of caution by households and firms in the face of uncertainty. Besides net exports and inventories, growth was driven by public consumption (+6.9% q/q annualised, the fastest pace in two years), thanks to the expansionary measures put in place by the Government. **In the coming quarters, investment could take over as the driver of growth, with public spending remaining supportive.** In our forecasts, public consumption holds at around 2% over 2026-27, and public investment accelerates from 0.7% in 2026 to 1.7% in 2027. Private investment and exports should recover as geopolitical tensions ease. We also expect residential construction to recover in 2027, after a slight contraction this year. On private consumption, by contrast, we keep a cautious view. Real household spending fell by 3.6% y/y in July (down for the eighth month in a row). In addition, the boost from durables that marked the previous quarter fades in 3Q, when the abolition of the environmental tax had lifted car purchases. The cut in the consumption tax on food from April 2027 will only partly revive consumption (towards a pace of 0.6-0.8% q/q annualised). We expect consumption to grow by 0.3% on average in 2027, owing to the weak second half of this year. The main risk relates to the effects of monetary tightening. Most mortgages are at variable rates, and small firms that borrowed for years at near-zero cost could now suffer from higher debt-servicing costs (inflation-related bankruptcies hit a record high of 556 cases in the first half). With unemployment expected to remain stable at 2.5%, **we forecast GDP growth of 0.9% in 2026 and 1.0% in 2027** (from 0.6% and 0.8% in our June Macroeconomic Outlook).

Growth supported by investment, consumption held back by higher rates

Prices are rising moderately but steadily, and we expect the trend to continue in the coming quarters. In July, headline inflation, the measure excluding fresh food and core-core (excluding fresh food and energy) all stood just below 2% (at 1.9%, 1.8% and 1.9% y/y, respectively). The data, however, are biased downwards by the cut in fuel excise duties (which alone shaves about 0.2pps off inflation), by the electricity and gas subsidies in force until September and by free education. Excluding the effects of these measures, underlying inflation estimated by the BoJ stood at around 2.5% in 2Q. The moderation in food prices is running its course, the rise in international energy commodity prices has not yet been fully passed through to electricity and gas bills, and the phasing out of Government measures will add upward pressure in the coming months. **Pressures do not come from energy alone, but also from the labour market.** Nominal wages rose 4.7% y/y in July, the highest since 1997, although the BoJ's preferred measure, which strips out distortions from sample changes, slowed markedly to 2.8% y/y (from 4.8% in June). We expect higher labour costs to pass through gradually to services, where inflation remains contained partly because of administered prices (while goods continue to reflect import costs rising by almost 30% y/y). **We forecast inflation to rise to 2.7% in 4Q2026 and peak at 3.5% in early 2027.** From April, the cut in the consumption tax on food, approved for two years starting in April 2027 (and covering around a quarter of the basket), will drive a moderation over the following four quarters, before inflation converges to 2% over the medium term.

Fiscal measures mask underlying inflation already above 2%

Fiscal policy remains expansionary, but the deficit will stay under control. Budget requests for FY2027 hit a record JPY 143tn, but the correct comparison is with the JPY 140.6tn of the current year (initial budget plus supplementary budget), because the Takaichi administration is bringing spending so far financed through supplementary budgets back into the regular budget. The actual increase thus shrinks to around JPY 2.5tn (0.4% of GDP), which does not endanger the fiscal position. Support to households continues through three channels. Electricity and gas subsidies cover higher energy costs until September, and we do not rule out a winter extension. The abolition of the provisional fuel excise duties is permanent. In addition, from April 2027 the consumption tax on food falls from 8% to 1% for two years, with a revenue loss estimated by the Government at JPY 4.3tn per year, plus JPY 600bn in cash transfers to low- and middle-income households. Together, the two measures are worth around JPY 4.9tn per year (0.7% of GDP), which the Government has stated it will cover without new issuance through subsidy cuts, a review of tax breaks and non-tax revenues, with details deferred to the FY2027 budget. Alongside the budget sits the JPY 370tn public-private investment plan to 2040, whose impact on public finances is uncertain at this stage. **Tax revenues continue to surprise on the upside**, thanks to nominal GDP growing by over 3% y/y, while actual spending often turns out lower than announced. **The new element is the rising pressure on debt-servicing costs.** With the 10-year JGB yield touching 3% for the first time since 1996, the Ministry of Finance has prudently budgeted a marginal refinancing rate of 3.8% to calculate interest expenditure in FY2027 (from 2.6% in FY2026). On these estimates, interest expenditure would absorb around a quarter of this year's budget. In this context, risks to the deficit remain to the upside.

Rising pressure from public debt-servicing costs

The Bank of Japan raised its policy rate by 25bps to 1.25% at its latest meeting. The statement repeats the assessments, risks and guidance of June and July, with no new hawkish signals. Governor Ueda stated that the monetary policy phase has changed, with underlying inflation close to 2% and the aim of anchoring it at those levels, but added that this phase has only just begun and that time will be needed to assess its effects. He also avoided committing to a sequence of hikes. With September behind us, attention shifts to the pace of the next decisions. **We expect a pause in December, to assess the impact of the end of subsidies and the transmission of the six hikes delivered since 2024. We then see the policy rate at 1.50% in January 2027 and at 1.75% in 2H2027**, followed by a second summer pause and a final hike to 2.00% in 4Q2027. This terminal rate is revised up from 1.75% in our June Macroeconomic Outlook and lies within the neutral range estimated by BoJ staff (1.1-2.5%). The composition of the Board justifies a front-loaded cycle. The terms of the two most hawkish members expire in July 2027 and that of Governor Ueda in spring 2028, with successors appointed by the Government expected to hold more dovish positions. The Government also appears less opposed to hikes after US support for normalisation. **Gradualism remains a must given transmission risks to households with variable-rate debt and to small firms.** As the rate differential with the Fed narrows and the economy remains stable, we expect a gradual appreciation of the yen, which stays weak on average around current levels until early 2027 and then moves towards 146 by the end of 2027. This should ease imported inflation and support real incomes.

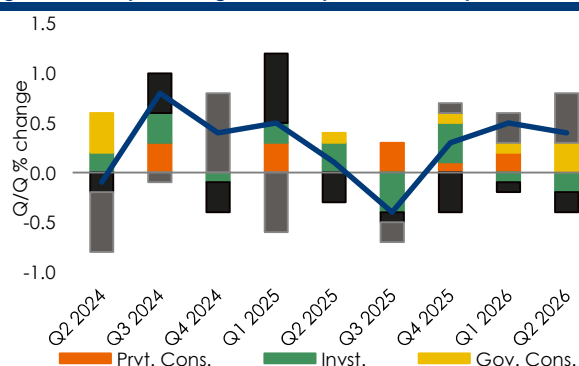
The BoJ will continue to raise rates until end-2027

Forecasts

	2025	2026f	2027f	2025	2026				2027p				
				3	4	1	2	3	4	1	2	3	4
GDP (constant prices, y/y)	1.2	0.9	1.0	0.7	0.5	0.5	0.7	1.3	1.1	0.9	0.8	1.0	1.3
q/q annual rate				-1.5	1.1	1.9	1.4	0.6	0.6	0.9	1.0	1.5	1.7
Private consumption	1.3	0.9	0.3	2.2	0.6	1.8	0.0	0.1	0.1	0.2	0.6	0.6	0.8
FI - private nonresidential	2.5	-0.3	1.2	-0.9	5.2	-3.9	-3.7	1.0	1.2	1.4	1.5	2.5	2.6
FI - private residential	-1.8	-0.2	0.0	-28.2	21.4	3.8	-2.3	-1.5	-1.0	0.5	0.9	1.3	1.4
Government investment	-0.3	0.7	1.8	-4.5	-1.8	5.5	-1.8	2.0	1.8	1.7	2.0	2.4	2.8
Government consumption	0.9	2.5	2.2	0.6	1.8	1.5	6.9	2.0	1.5	2.0	1.9	2.0	2.0
Export	2.5	2.0	1.5	-5.3	0.6	7.0	1.6	1.0	1.2	1.4	1.5	2.3	2.5
Import	3.8	0.0	2.1	-2.4	-0.6	1.0	-6.5	6.5	3.5	1.6	2.0	1.8	1.6
Stockbuilding (% contrib. to GDP)	-0.1	0.0	0.0	-0.2	-0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current account (% of GDP)	4.7	3.3	3.6										
Government Balance (% of GDP)	-1.8	-1.9	-2.6										
Government Debt (% of GDP)	205.2	200.8	200.0										
CPI (y/y)	3.1	1.9	1.9	3.0	2.5	1.4	1.6	1.9	2.7	3.5	1.7	1.4	0.9
Industrial production	0.1	3.0	1.8	-1.2	-1.3	1.2	1.9	4.5	4.4	2.2	2.4	1.3	1.3
Unemployment (%)	2.5	2.6	2.5	2.5	2.6	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.4
JPY/USD	149.6	158.9	152.7	147.5	154.1	156.8	159.3	159.7	159.8	159.5	155.7	149.7	145.6

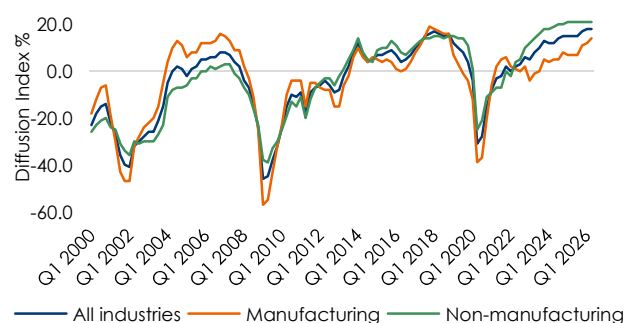
Note: Annualised percentage changes on the previous period – unless otherwise indicated. Source: LSEG Datastream, Intesa Sanpaolo

Fig. 1 – A third quarter of growth, but private consumption remains flat



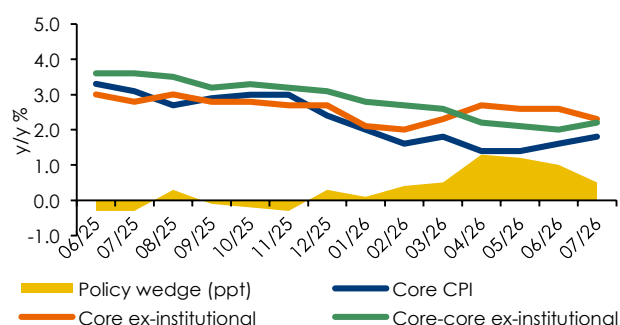
Source: Intesa Sanpaolo, LSEG Datastream

Fig. 2 – Business sentiment has absorbed the energy shock



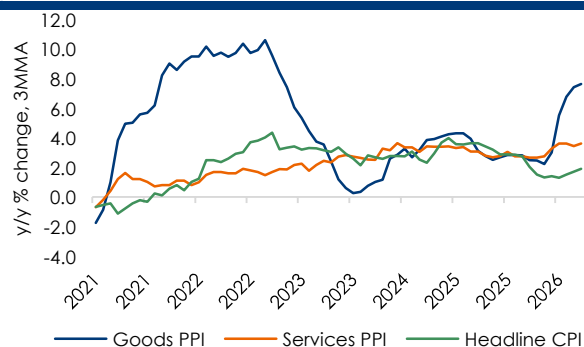
Source: Intesa Sanpaolo, LSEG Datastream

Fig. 3 – Net of policy effects, underlying inflation remains above 2%



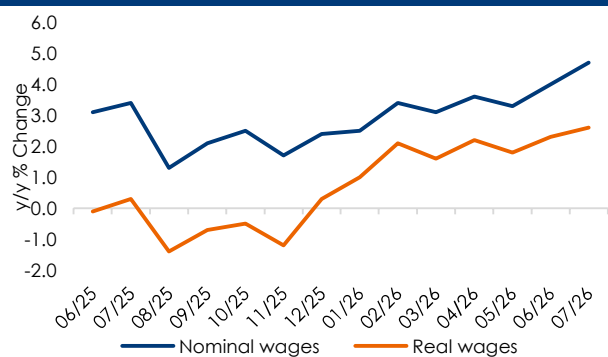
Source: Intesa Sanpaolo, LSEG Datastream

Fig. 4 – Producer price pressures remain broad



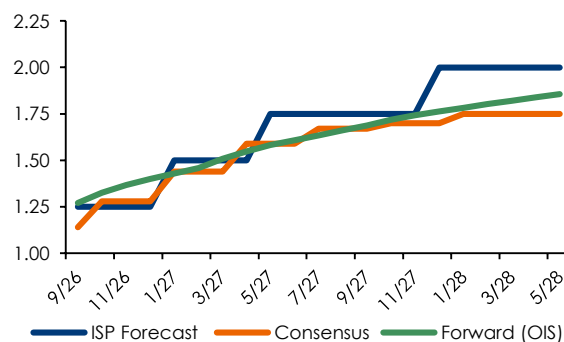
Source: Intesa Sanpaolo, LSEG Datastream

Fig. 5 - Wages are growing at the fastest pace since 1997, with positive real wages



Source: Intesa Sanpaolo, LSEG Datastream

Fig. 6 - We expect the BoJ policy rate to peak at 2.00% by the end of 2027



Source: Intesa Sanpaolo, LSEG Datastream

Commodities: between geopolitics and climate

Commodity markets are still distorted by protracted and complex conflicts that are difficult to resolve, but price reactions are also influenced by underlying fundamentals. The process of rebalancing the physical crude oil market is now well underway and is containing price rises. In Europe, meanwhile, natural gas and electricity prices are rising, driven by several structural issues, currently exacerbated by supply disruption and seasonality in consumption patterns.

Daniela Corsini

The war in Iran continues to capture the markets' attention. The 14-point Memorandum of Understanding (MoU) announced on June 14th was quickly shelved, due to the excessive distance between the parties involved. As early as July 8th, Trump declared that the MoU was "over" after the Tehran regime and its Houthi allies had resumed attacking vessels transiting through the Straits of Hormuz and Bab el-Mandeb. Since then, **Iran and the United States have been engaged in a low-intensity conflict, punctuated by periodic phases of extreme tension**, placing a heavy strain on both the forces involved and the region's economies.

The most recent escalation occurred **in early September**, when **Saudi Arabia experienced its most serious bombing since 2019**. Attacks were launched from pro-Iranian bases in Iraq and Yemen against various Saudi energy infrastructure sites, including the Jizan and Abha refineries (which temporarily suspended operations), the Yanbu port and the East-West pipeline. This is the country's most important oil pipeline, transporting around 7 million barrels per day (mb/d) from the Persian Gulf to the Red Sea and bypassing the Strait of Hormuz. Currently, these flows are interrupted, and it is estimated that it will take 'a few weeks' to repair the damage to the compressor stations. Furthermore, the Houthis have extended their control along the Bab el-Mandeb Strait, threatening to block shipping in the southern Red Sea.

In September, the escalation led to a further supply drop due to the temporary halt of Saudi Arabia's main pipeline and to serious logistical difficulties in the Red Sea

We regard these latest developments as particularly serious for two main reasons: **1) logistics and energy infrastructure are once again being regarded as legitimate military targets**, and this could lead to further spikes in energy prices and inflation; **2) Iran is more actively seeking to exploit militias outside its own territory** to achieve strategic objectives and gain greater leverage in future negotiations with the United States and Israel. Using these actors makes attacks much more difficult to predict and prevent, fuelling uncertainty and increasing the risk of price increases.

Ironically, this change in approach by Iran is partly driven by the success of the new US strategy, which aims to diplomatically isolate the regime and gradually strangle its economy, rather than replicate the costly and intense direct military involvement that characterised the first phase of the conflict.

In fact, as early as mid-July, Washington reinstated the **naval blockade** to and from Iran, aimed at preventing both oil exports and imports of essential goods. At the same time, it tightened **economic sanctions** on Tehran, with the aim of eroding the regime's political and financial resilience; it also worked to deepen **its international isolation** by reviving trade negotiations with China; and it stepped up efforts to **establish a safe shipping corridor** along the coast of Oman to escort non-Iranian oil tankers out of the Persian Gulf, in order to limit rises in energy prices and provide relief to its Gulf allies (and the global economy).

Yet the US strategy is working, and flows through the Strait of Hormuz have increased

Before the latest wave of attacks on Saudi infrastructure orchestrated by Tehran, it appeared that the massive US efforts were yielding positive results. Indeed, according to statements by US Energy Secretary C. Wright, on August 31st over 17 mb/g had been transported out of Hormuz, volumes not far off the average levels for 2025 (around 20 mb/g). Furthermore, taking into account the regional pipelines exploited by Saudi Arabia, the United Arab Emirates and Iraq, total exports from the Gulf are estimated to have reached 21 mb/g, exceeding pre-war averages.

The US government emphasises that its Department of Energy's data is the most reliable because it is based on direct observations by the US navy, whilst estimates from independent vessel-tracking companies may underestimate the number of passages, given that many oil tankers travel at night with their transponders disabled. In August, these data providers reported an average of around 6 mb/g of volumes leaving the Strait of Hormuz. Adding the additional 4 mb/g

flowing via pipeline would result in an average of at least 10 mb/g of exports from the Gulf: roughly half the levels of a year ago.

Given the complexity of the situation and the sensitive nature of this type of information, estimates of trade flows are subject to significant margins of error. However, it is clear that the **blockade of the Strait of Hormuz is only partial, not total**: US naval control is preventing pro-Iranian oil tankers from sailing through, whilst it has helped to keep export volumes from allied countries well above expectations. Furthermore, all producers in the region have been very quick and resourceful in finding alternatives to traditional routes. These **increased export flows are reflected in a market deficit that is far smaller than had been feared in the first weeks of the conflict**, when transit volumes had effectively fallen to almost zero.

Let us now turn to examine price movements, which reflect the perceptions of market participants. By mid-September, the front-month **Brent crude** futures contract had risen to close to USD 110 (+80% year-to-date), its highest level since May. Prices were consistent with the **negative surprise of a temporary suspension of the East-West pipeline** and with **flows from the Strait of Hormuz roughly halved compared with 2025 levels**. Apparently, the market now places greater confidence in estimates from independent data providers than in those released by the US government.

The forward curve maintains a steep downward slope, known as **backwardation**. This structure occurs when prices for near-term deliveries are much higher than those for longer-term deliveries and reflects **an immediate supply shock**, consistent with the ongoing conflicts in Ukraine, Russia and the Middle East. Yet, backwardation also suggests **cautious optimism linked to the expectation that restrictions on transit through Middle Eastern straits may be a temporary, albeit very serious, concern**. Indeed, scarcity of crude oil and high prices have stimulated investment in new production capacity, which could lead to a substantial surplus within a few quarters.

At present, we believe that the narrative priced in by markets is consistent with what is being observed in the physical market for short-term deliveries: prices for the front-month futures contract are being driven by uncertainty surrounding the course of the conflict and the actual availability of crude and oil products.

Conversely, **we are more bearish than the market on subsequent expiries**: in our view, the likely restart of Saudi oil pipelines within a few weeks could lead to prices reverting to late-August levels. By 4Q27, we expect prices to have fully returned to 2025 levels, favoured by a gradual rebalancing of demand (falling) and supply (rising).

In our view, **this war will have lasting consequences for physical markets** as it could represent a structural break for energy trade in the Middle East. Indeed, even if full navigability of the Hormuz Strait were to be restored, **part of export flows will be permanently diverted via regional pipelines, and a significant proportion of Iran's oil production capacity and Qatar's liquefied natural gas (LNG) capacity will remain off the global market for several more years**.

On a global scale, **the region will suffer a structural contraction in its production share** because the high prices recorded in recent years have fuelled heavy investment in extraction capacity in the Americas and Africa.

The US strategy aimed at achieving energy dominance has already helped to shrink the influence of OPEC and OPEC+, amid the United Arab Emirates' exit (effective from 1 May 2026) and rumours suggesting that Venezuela and Iraq may also be set to leave. Not only has the **United States** long since overtaken Saudi Arabia as the **world's leading oil producer**, but we are also witnessing a handover of the role of **"market mover"**: in the past, statements, threats or promises from Riyadh fuelled rapid adjustments in oil prices, whereas today announcements issued by the White House are perceived as more significant.

Finally, although it is difficult to imagine how and when the conflict in Iran will end, it is likely that the United States will not be keen to relinquish **control over export flows from the region** any time soon, as suggested by the massive US naval presence around the Arabian Peninsula and the

Despite the variability in estimates, the shortfall on the world market is less than initially feared

The backwardation is explained by a shock perceived as temporary...

...because the rebalancing of physical markets has already begun

The war in the Middle East will have lasting impacts on the structure of the global energy market

Energy dominance and currency dominance

agreements signed between the United States and the United Arab Emirates. The latter are also of interest because they suggest **a parallel between energy and currency dominance**.

We are well aware that one of the key arguments in favour of the process of **de-dollarisation** centres precisely on the possibility of paying for oil and gas in yuan or currencies other than the US dollar. At present, **the energy agreements the US has signed with Venezuela and the United Arab Emirates stipulate payment in dollars**. It is highly unlikely that a future peace agreement with Iran would not include a similar requirement for energy exports from the Gulf.

The commodities market remains at the mercy of a conflict with no easy way out

Unfortunately, **commodity markets are closely tied to developments in the geopolitical landscape**. The deadlock in negotiations between Iran and the United States, the ongoing difficulties with navigation through the Straits of Hormuz and Bab el-Mandeb, and the resumption of attacks on logistics and energy infrastructure are compounded by uncertainty over the outcomes of the autumn elections in Israel (October 27th) and the United States (November 4th).

We consider it unlikely that there will be any significant easing of tensions in the Middle East whilst the attention of Western governments is focused on election campaigns, and the negotiating power of the United States and Israel is undermined by uncertainty over the outcome of the vote. Consequently, **the low-intensity conflict could drag on for a few more months, likely causing further damage to energy infrastructure in the region**.

Compared with the assumptions made in the previous quarterly outlook published in June, the recent attacks on the energy sector have contributed to slowing down the global market's rebalancing. It is therefore likely that the recovery in Middle Eastern exports will not be complete before mid-2027. **During this period, shipments from the Strait of Hormuz could stand at between 50% and 75% of pre-crisis levels, and the shortfall will be only partially offset by intensive use of pipelines**.

In line with the significant deterioration in the geopolitical landscape, we have revised our price forecasts for the energy sector upwards through to the middle of next year, but we confirm our expectation that Brent will return to an average of USD 65 by late 2027 driven by strong production growth outside the Gulf and a concurrent slowdown in global demand.

Given the complexity of the geopolitical framework, we continue to outline an **adverse scenario**: if tensions do not ease after the mid-term elections and, as a result, the recovery in transit volumes is slowed by more serious damage to extraction and export facilities, the coming quarters could prove decidedly critical for global markets due to an unprecedented shortage of oil, refined products and LNG.

Price forecasts for BRENT crude oil (USD/barrel) and TTF natural gas (EUR/MWh) under various scenarios

As at 18 September 2026	4Q26	1Q27	2Q27	3Q27	4Q27	2026	2027	2028	2029	2030
BRENT – BASELINE SCENARIO	82.0	80.0	75.0	70.0	65.0	86.2	72.5	66.0	67.0	68.0
BRENT – ADVERSE SCENARIO	110.0	105.0	100.0	95.0	90.0	94.2	97.5	85.0	80.0	75.0
TTF – BASELINE SCENARIO	70.0	63.0	43.0	50.0	42.0	54.7	47.0	36.0	32.0	30.0
TTF – ADVERSE SCENARIO	140.0	126.0	86.0	80.0	82.0	73.9	93.5	70.0	60.0	50.0

Source: Intesa Sanpaolo estimates

We would emphasise that **refined product** prices will continue to trade **at a substantial premium to crude oil**, fuelling high refining margins, **driven by Europe's structural dependence on imports and export restrictions imposed by Russia and China**.

The wider increases in European natural gas prices (TTF benchmark) relative to Brent crude are expected to continue, amid extremely low gas inventory levels and EU structural dependence on LNG imports. From January 2027, the ban on imports from Russia will be extended from spot purchases to long-term contracts, reducing the flexibility of European supplies, and complicating the difficult task of balancing supply and demand during the seasonal peak in heating needs.

The autumn elections could hinder the easing of tensions and slow down the rebalancing process...

...delaying the full recovery of oil prices

Structural issues are widening the premium of products over crude...

...and are driving up natural gas prices in Europe

These challenges weighing on Europe's energy markets **are not linked to developments in the conflicts in the Middle East or Ukraine but are now a structural issue**: the more investment increases in regasification capacity to manage the growing dependence on LNG, the less incentive operators have to adequately fill gas storage facilities in anticipation of winter. This is creating a vicious circle of low inventories, high volatility and high prices, which we fear may become the "new normal" for the European market.

Geopolitics and high energy prices are also having significant repercussions on precious and industrial metals markets.

Gold and silver prices are heavily influenced by monetary policy expectations. High oil and gas prices have fuelled upside risks to inflation forecasts and justified interest rate hikes by central banks, including the European Central Bank (ECB), which raised interest rates in both June and September, and the Federal Reserve, which announced in September its first rate rise since July 2023 following three cuts in the second half of 2025. Furthermore, in recent months we have seen a significant rise in government bond yields, particularly for maturities exceeding five years, reflecting the expansion of public debt and competition from corporate bond issues, especially in the technology sector. Higher interest rates at both the short and long ends of the yield curve have a negative impact on gold and silver prices because they increase the opportunity cost of holding assets that pay neither coupons nor dividends, thereby discouraging purchases.

In our baseline scenario, we expect precious metals to lack clear direction, although volatility is likely to remain high. Gold could continue to trade for a couple of quarters near an average of USD 4,200 per ounce, driven by a sharp contraction in global jewellery demand.

We are, however, **more positive on industrial metals**, which could see further price rises in both 4Q26 and in 2027 **driven by rising production costs and continued growth in global demand**. Protectionist pressures, logistical issues and negative supply surprises could continue to justify copper outperforming the rest of the complex for some more time.

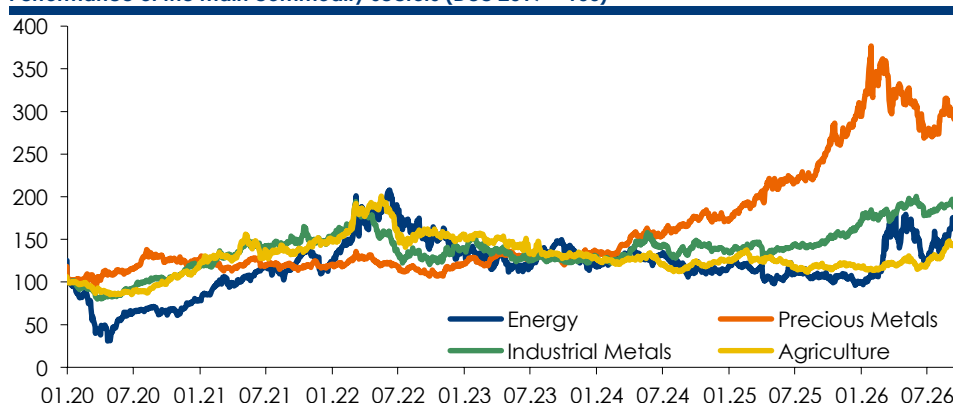
For agricultural commodities too, the price increases seen in 3Q26 could extend into the final months of the year, as **persistent logistical risks and weather anomalies linked to El Niño are amplifying fears of lower-than-expected yields** for both cereals and many soft commodity crops. However, it is likely that some of these concerns will ease in the early months of 2027, leading to a consolidation of prices at levels that remain nonetheless high.

Inflationary risks are driving up interest rates but dampening gold and silver prices

Industrial metal prices remain subject to upside risks

Logistical and climatic risks have so far amplified the rises in agricultural goods

Performance of the main commodity sectors (Dec 2019 = 100)



Source: Intesa Sanpaolo analysis based on Bloomberg data

Price forecasts for key commodity futures in the currency of quotation, baseline scenario, year-to-date (YTD) performance and expected returns in 2026 and 2027 as a percentage

As at 18 September 2026	4Q26	1Q27	2Q27	2026	2027 % YTD %	2026 %	2027 %	
ICE BRENT (USD/barrel)	82.0	80.0	75.0	86.2	72.5	71	26	-16
NYMEX WTI (USD/barrel)	78.0	76.0	71.0	81.2	68.5	78	25	-16
NYMEX NATURAL GAS (USD/MMBtu)	3.5	3.6	3.4	3.2	3.5	-21	-12	9
JKM LNG (USD/MMBtu)	24.0	21.6	14.9	19.1	16.2	179	56	-15
TTF NATURAL GAS (EUR/MWh)	70.0	63.0	43.0	54.7	47.0	182	51	-14
PSV NATURAL GAS (EUR/MWh)	71.0	64.0	44.0	56.1	48.0	165	47	-14
PUN ELECTRICITY (EUR/MWh)	200.0	175.0	130.0	157.2	140.0	81	36	-11
ELECTRICITY GER (EUR/MWh)	160.0	140.0	100.0	118.0	110.0	78	33	-7
EUA (EUR/metric tonne)	85.0	82.0	80.0	80.3	80.0	-1	5	0
LME GOLD (USD/oz)	4,200	4,200	4,250	4,444	4,275	0	29	24
LME SILVER (USD/oz)	59.0	55.0	53.0	69.5	53.0	-7	73	-24
LME PLATINUM (USD/oz)	1,900	1,900	1,950	1,930	1,956	-19	50	1
LME PALLADIUM (USD/oz)	1,450	1,475	1,400	1,466	1,431	-21	27	-2
LME COPPER 3M (USD/tonne)	14,700	14,500	14,000	13,710	14,075	17	37	3
LME ALUMINIUM 3M (USD/tonne)	3,450	3,300	3,375	3,366	3,375	10	28	0
LME NICKEL 3M (USD/tonne)	16,600	16,610	16,000	17,351	16,340	-2	13	-6
LME ZINC 3M (USD/tonne)	4,250	4,000	3,900	3,695	3,850	25	30	4
LME LEAD 3M (USD/tonne)	1,935	1,920	1,940	1,944	1,950	-5	-2	0
LME TIN 3M (USD/tonne)	58,000	57,000	55,000	53,351	55,500	31	56	4
SGX IRON (USD/tonne)	101	102	102	102	102	-9	0	0
LME HRC North America (USD/tonne)	1,030	960	900	1,069	895	35	26	-16
CME HRC NWE (EUR/metric tonne)	650	600	600	680	600	18	14	-12
LME HRC FOB China (USD/tonne)	480	475	470	481	470	12	5	-2
LME REBAR (USD/tonne)	590	600	600	581	600	6	5	3
LME SCRAP (USD/tonne)	390	400	400	388	400	7	10	3
COMEX LITHIUM (USD/kg)	18.0	16.0	15.0	19.0	14.8	55	107	-22
COMEX COBALT (USD/lb)	24.0	23.0	22.5	25.3	22.6	3	53	-10
CBOT MAIS (USc/bu)	500	500	490	468	485	20	7	4
CBOT WHEAT (USc/bu)	750	750	730	651	715	41	22	10
CBOT SOYABEANS (USc/bu)	1,300	1,250	1,250	1,194	1,250	26	15	5
NYB-ICE COTTON (USc/lb)	90	87	85	79	84	20	21	6
ICE SUGAR (USD/tonne)	550	540	520	479	520	19	0	8
NYB-ICE SUGAR (USc/lb)	19.0	18.0	17.5	16.2	17.5	16	-4	8
MDE-PALM OIL (MYR/mt)	4,650	4,600	4,550	4,482	4,550	18	5	2
NYB-ICE ARABICA COFFEE (USc/lb)	350	340	330	323	330	-17	-12	2
LIFFE ROBUSTA COFFEE (USD/tonne)	3,800	3,700	3,600	3,731	3,600	-18	-20	-4
NYB-ICE COCOA (USD/tonne)	6,500	6,000	5,500	5,073	5,500	-11	-38	8
LND-ICE COCOA (GBP/tonne)	5,000	4,400	4,200	3,793	4,200	-9	-36	11
CBOT-RICE (USD/mt)	16.0	15.5	15.0	13.3	15.0	64	8	13
CBOT SOYABEAN MEAL (USD/tonne)	330	325	330	319	330	20	9	3
CBOT SOYABEAN OIL (USc/lb)	70	70	70	67.8	70.0	42	38	3

Source: Intesa Sanpaolo estimates, historical data from Bloomberg

Appendix

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