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MANUFACTURING IN TRANSFORMATION: WILL IT STAY COMPETITIVE?

2025

"The industry of a country is the source of all its wealth."
Adam Smith, 1776, The Wealth of Nations

Introduction

After several years, Confindustria has reinstated its dedicated report on Italy's manufacturing sector. The initiative responds to the need for a structured and up-to-date overview of the sector's characteristics and recent developments, as manufacturing remains a cornerstone of the national economy and a key driver of Italy's competitiveness. Leveraging the analytical rigour of its Research Department and insights from its network of affiliated associations, Confindustria is uniquely positioned to offer a systematic reading of ongoing industrial trends, combining data analysis with first-hand insights from business realities.

This year's volume is organised into four main chapters, linked by the overarching theme of competitiveness. The first chapter provides a detailed profile of Italian manufacturing. In the wake of repeated economic, health and geopolitical shocks that have affected industrial activity, it offers an updated snapshot of the sector and examines the structural changes that have taken place over the past decade, highlighting their implications for the performance of Italy's industrial system.

The second chapter addresses the issue of competitiveness more directly, a topic that is currently central to the economic and policy debate. Competitiveness is a multidimensional concept, and the analysis seeks to answer a crucial question: *how competitive is Italian manufacturing?* To this end, the chapter considers both "internal competitiveness", measured through productivity dynamics – a key driver of long-term growth – and "external competitiveness", related to firms' ability to compete successfully in international markets.

The third chapter presents two thematic sections that make the findings of causal evaluation studies — designed to identify the effects of public interventions on economic outcomes —accessible to a broader audience. The first set of studies examines the role of managerial skills, labour-market flexibility and inclusion as levers of competitiveness. The second explores the renewed prominence of industrial policy: in recent years, the number and scale of public interventions have increased rapidly, and the contributions included in this section provide initial evidence and insights on their potential implications.

Finally, the report concludes with a chapter of sectoral fact sheets based on two-digit level NACE Rev.2 classification. Drawing on a knowledge base that integrates quantitative and qualitative analysis, the chapter sheds light on the complexity and diversity of Italy's production system. It also builds on one of Confindustria's key strengths: its direct knowledge of firms, arising from a continuous dialogue with entrepreneurs. Thanks to contributions from sector-level associations in the Confindustria network, the fact sheets provide a qualitative assessment of competitive advantages, obstacles and policy priorities as identified by manufacturing firms, thereby offering a clear picture of the factors required to strengthen growth and resilience across individual sectors.

Executive summary

A structural profile of Italian manufacturing

- Italian manufacturing continues to play a significant role both internationally and domestically. It is the eighth largest manufacturing system worldwide and the second largest in Europe (accounting for 2.1% of global manufacturing value added and 13% of the European total). It contributes 15% of Italy's GDP, a share that rises to around 30% once indirect effects are included, and accounts for 35% of investment in machinery and equipment and 50% of R&D expenditure. Manufacturing also exhibits, on average, higher productivity levels than other sectors, enabling it to pay higher wages than private services (+20% in 2024), construction (+21%), the public sector (+8.3%) and the economy overall (+14.5%).

- It is considerably more diversified than other European manufacturing systems, a feature that supports resilience to global shocks. Its sectoral composition has remained broadly stable over the past decade, with a specialisation in medium- and low-technology-intensity industries, which together account for around 60% of manufacturing value added – a lower share than in Spain (64%), but higher than in France (51%) and Germany (39%). Machinery and equipment (14% of manufacturing value added), fabricated metal products (13%) and food products (9%) retain a substantial weight in national manufacturing. At the European level, Italian textiles (25% of EU sectoral value added), wearing apparel (47%), leather products (50%) and furniture (20%) hold a particularly significant position. Metallurgy, chemicals and rubber-plastics are the segments with the strongest upstream and downstream linkages along production value chains.

- It exhibits a high level of international openness, alongside a diversified export composition. In 2023, exports amounted to 48.2% of manufacturing output and generated a trade surplus of around EUR 120 billion, driven in particular by machinery and equipment. The main exporting sectors are machinery (17.1% of manufacturing exports, 2023–24 average), textiles–clothing–leather (10.8%), food and beverages (9.8%), pharmaceuticals (8.6%) and motor vehicles (7.3%). The pharmaceuticals industry stands out for a particularly marked increase in trade openness.
- Its size distribution remains skewed towards small and micro firms. In 2023, large enterprises (250 or more employees) accounted for only 42% of manufacturing value added, compared to 74% in France and 75% in Germany. Conversely, micro (up to 9 employees) and small firms (10–49 employees) have a disproportionately large role, with a combined contribution of more than 30% of value added, compared to around 10% in Germany and 14% in France. This reflects both the prevalence of small and micro firms and the relatively modest scale of Italy's larger enterprises. At the same time, a significant qualitative transformation is underway: over the last decade, a strong selection process has reduced the number of micro firms by almost 12%, while the average size of large firms has increased substantially. This evolution is particularly relevant in light of the relationship between firm size and productivity: holding other factors constant, efficiency increases markedly with firm size. Moreover, Italian medium-sized and large firms display higher productivity levels than their German, French and Spanish counterparts.
- It went through a long-term process of balance-sheet strengthening, with potentially positive implications for investment, resilience and competitiveness. The share of equity in total liabilities rose from 34.5% in 2007 to 48.9% in 2023, closing the gap with European competitors. However, the post-pandemic period has increased heterogeneity among firms, with a non-negligible share of businesses remaining financially fragile. Balance-sheet strengthening has been driven, at least in part, by a marked reduction in indebtedness across all sectors: the stock of loans fell from 100% of manufacturing value added in 2011 to 56% in 2024, and the share of bank loans in total liabilities declined from 19.5% in 2007 to 12.3% in 2023. Financial soundness is critical for productivity performance: controlling for other factors, a relaxation of financial constraints is associated with an average increase in productivity of 5 to 10%, with larger effects in sectors where intangible capital is more important.

- It maintains a higher investment propensity than the main European peers. Between 2015 and 2024, gross fixed capital formation averaged around 25% of manufacturing value added, compared with 22% in France and 20% in Germany, and broadly in line with Spain. However, growth in the physical capital stock has been relatively weak in international comparison, including when measured relative to labour input. Investment in tangible assets has historically accounted for the largest share of manufacturing investment: over the past decade, the average investment rate in tangible assets was 18.1% of value added, widening an already existing gap vis-à-vis France (11%, on average) and Germany (9.3%). By contrast, although it has increased over time, the propensity to invest in intangible assets (15%, only partly included in fixed capital formation) remains significantly below levels observed in Germany (18%) and France (23%), particularly for investment in intellectual property products.
- It reduced critical strategic dependencies by around one-third over the past eight years, mainly due to lower gas imports from Russia and greater diversification of energy supplies. In 2023, manufacturing dependencies on foreign suppliers were concentrated in 364 products, worth around EUR 26 billion (8.7% of manufacturing value added), with substantial differences in the extent of criticality across sectors and suppliers. Pharmaceuticals exhibit a high concentration of imports, while electronic intermediates and electrical equipment display substantial geopolitical exposure, with China accounting for 80-90% of supplies. Moreover, critical imports in pharmaceuticals and electronics consists almost entirely of strategic and high-tech products.
- It contributed to the steep decline in industrial production observed in 2023 (-2.0%) and 2024 (-4.0%), which pushed output back below pre-pandemic levels, offsetting the rebound of 2021–22. The 2025 dynamics has been initially more favourable than expected: partly due to front-loaded exports to the United States ahead of tariff introductions, industrial production recovered moderately in the first half of the year (+0.5% in the first quarter, +0.2% in the second), but then turned negative again in the third quarter (-0.5%).

Competitiveness of Italian manufacturing

- Weak productivity growth continues to be a central structural challenge for Italian manufacturing. Over the past three decades, although productivity growth has outperformed that of services and of the economy overall, labour productivity per hour worked has

increased by only 26%. This is significantly below the performance of manufacturing in the main European economies: roughly one-third of the cumulative growth recorded in France and Germany, and less than half of that observed in Spain. A substantial portion of this gap emerged between 1995 and 2014, largely driven by a negative contribution from total factor productivity.

- Between 2015 and 2019, manufacturing productivity growth showed signs of convergence with the dynamics of European peers, supported by a more favourable contribution from intangible capital and a contribution of total factor productivity turning positive. Subsequent shocks – first the pandemic and then the energy crisis – have complicated the interpretation of convergence signals and their underlying drivers, and productivity dynamics in Italy weakened again. The energy shock affected Italy more severely than many other European countries, leading to a sharper increase in the share of energy costs in total production costs – a share that was already relatively high before the crisis. In energy-intensive sectors in particular, higher energy prices risk dampening incentives to invest, both through a supply effect (higher marginal costs raise the profitability threshold for investment) and through a demand effect (weaker demand, driven by higher inflation, tends to compress investment), with potentially more persistent consequences for productivity growth. Finally, in 2023–24, amid a pronounced decline in industrial production, Italian manufacturing displayed a particularly strong degree of labour hoarding, which "mechanically" weighed on labour productivity growth.
- Over the last decade, productivity growth has been driven mainly by within-sector improvements. This reflects both higher average productivity at the firm level and a more efficient allocation of resources across firms within sectors. While these gains have been broad-based, they have been more pronounced among firms at the top of the productivity distribution, widening the gap between frontier firms and the rest of the productive system. By contrast, between-sector reallocation has made only a limited contribution, suggesting the absence of major structural shifts in the sectoral composition of manufacturing that could impact aggregate productivity dynamics. Overall, regardless of their sign and relative importance, the identified contributions remain modest in absolute terms. This implies that re-igniting productivity growth will require a multi-pronged policy approach: supporting innovation and efficiency among frontier firms; promoting the diffusion of best managerial and technological practices among less productive firms, facilitating their growth; and

enabling a more effective productivity-enhancing reallocation of resources towards firms and sectors with higher growth potential.

- Despite weak productivity dynamics, Italian manufacturing has strengthened its export performance. Between 2015 and 2024, manufacturing exports grew on average by 2.4% per year, clearly outpacing France (+0.8%) and Germany (+1.1%), and broadly in line with Spain. This performance points to stronger "revealed" competitiveness, with Italian firms gaining market shares in international trade relative to firms located in peer European countries. Improved export outcomes largely reflect the widespread quality upgrading of Italian manufactured goods, particularly evident in pharmaceuticals, transport equipment, and food and beverages. Favourable producer-prices dynamics, supported by contained growth in unit labour costs, and positive contributions from labour productivity in several segments have further reinforced this trajectory.

Thematic in-depth studies

- *"The value of skills, flexibility and inclusion."* The ability of Italian manufacturing to grow and compete in the coming decades will increasingly depend on the functioning of its labour market. Addressing the challenges posed by the demographic decline and the technological transition will require integrated policy action aimed at: (i) broadening labour-force participation, including through investment in social infrastructure, such as childcare and long-term care services, to support female and youth employment; (ii) strengthening productivity dynamics by promoting the diffusion of sound managerial practices, which are essential for the effective adoption of digital technologies; and (iii) enhancing institutional efficiency by ensuring a regulatory framework that encourages labour mobility and innovative investment, while reducing uncertainty for firms.

- *"The return of industrial policy."* Public intervention in the economy is once again widely regarded as a necessary instrument to strengthen resilience, revive productivity growth, promote technological innovation and accelerate the digital and green transitions. Public subsidies – widespread among large manufacturing groups but generally modest in size – display substantial variation across countries and sectors, with China exhibiting the highest support levels. Moreover, evidence points to a positive relationship between aid intensity and global market shares gains. The effectiveness of such measures depends critically on their implementation: objective, rules-

based allocation mechanisms tend to outperform discretionary approaches. It is also crucial to target support towards products with high technological complexity and aligned with the existing production structure, thereby increasing the likelihood of developing sustainable comparative advantages and generating positive spillovers for growth.

Sectoral fact sheets

- The sectoral fact sheets underscore the heterogeneity of Italian manufacturing, reflecting differences in the structure of production and competitiveness dynamics across sectors. At the same time, they confirm several aggregate trends, including strong integration into international markets, a size distribution that remains relatively skewed towards SMEs, and high productivity levels among medium-sized and large firms.
- According to Confindustria's sector-level associations, energy costs, intermediate input prices and geopolitical uncertainty constitute the main constraints on competitiveness. Conversely, product quality, high levels of specialisation and well-established technical capabilities are identified as key sources of competitive advantage. The green transition emerges as an ambivalent factor, generating both opportunities and potential competitive pressures, depending on sector-specific characteristics and on the scale of the investments required.