ITALY: CAUGHT UP BY THE SECOND WAVE

After keeping the epidemic at bay for most of the summer, Italy is now facing a strong resurgence in the number of Covid-19 cases. Last Tuesday (October 13), the government decided to tighten health restrictions, including the closure of restaurants, cafes, and nightclubs at midnight.

Until now, the good management of the epidemic had helped the economy rebound more vigorously than in most neighbouring countries. This is particularly true for industrial activity. In August, industrial production reached its highest level of the year, partly driven by a strong rebound in automobile sales. The purchasing managers' index (PMI) for the manufacturing sector improved markedly in September (53.2), led by the new orders subcomponent which rebounded significantly (55.1). On the consumption side, retail sales have recovered strongly too. They rose 11.2% in August and were only 0.8% below February's level.

That said, deflationary pressures have continued to intensify for both goods and services. On a year-over-year basis, the Harmonized Consumer Price Index (CPI) fell 0.87% in September, the biggest drop since the start of current statistics (January 1996). Based on the same statistics, the services CPI (excluding tobacco) have been in deflation for the first time (-0.1%).

The unemployment rate stabilised, edging down to 9.7% in August. Nevertheless, youth unemployment (15-24 years) continued to climb, up to 32.1%. The rise in employment has been so far modest: less than a third of the jobs lost during the first half of 2020 had been recovered in August. Nevertheless, the size of the labour force remains well below its level at the beginning of the year, which has limited the rise in the jobless rate so far.

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QUARTERLY CHANGES

SOURCE: THOMSON REUTERS, BNP PARIBAS
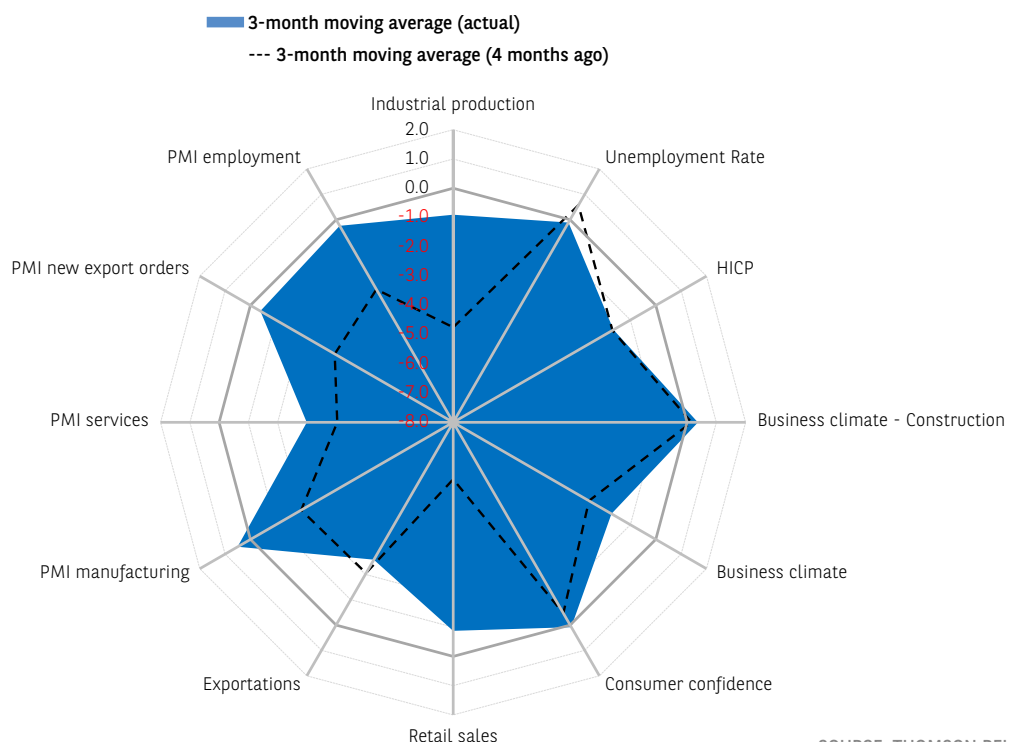
The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -8 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.