

ECONOMIC PULSE

ITALY: CONDITIONS WORSEN SIGNIFICANTLY

The deterioration of the business climate surveys continued in May, particularly in the manufacturing sector, even though industrial production held up until April. Output rose 1.6% m/m, to its highest level since December 2007. However, the manufacturing PMI dropped 2.6 points to 51.9 in May, its sixth consecutive monthly fall. The sharp fall in this indicator shows up clearly in our barometer. The 'new orders' component fell steeply (-5.2 points, to 47.4) but the 'input prices' component also dropped (-5.7 points, to 81.4), following a record level in April. This said, the pace of increases in production costs remains high.

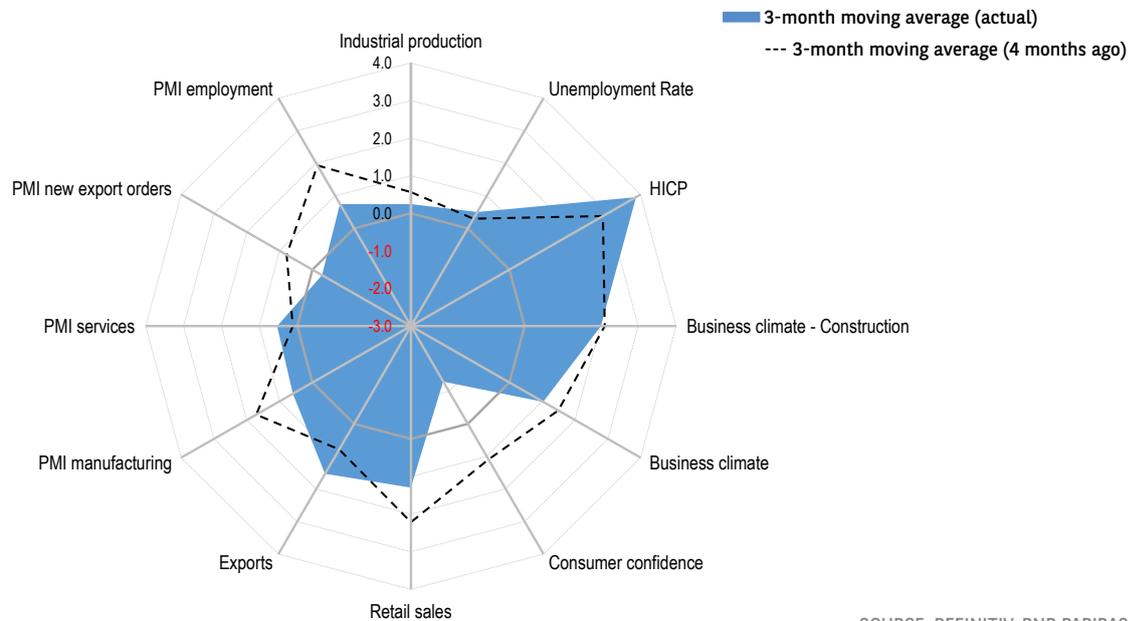
Private consumption, which had already contracted in Q1 (-0.6% q/q), is set to be fragile again in Q2. Retail sales declined for the second month running in April – and are down by a combined 1.2% during this period – while household confidence stays very low, having already plunged in the first quarter. The European Commission index recovered only slightly in May (from -23.9 in March to -22.0), pulled down by the "savings expectations" component for the next twelve months which has been at its lowest level since July 2017. This reflects consumers' concerns about the effect of inflation on their purchasing power.

Indeed, the harmonised index of consumer prices (HICP) rose 7.3% y/y in May, the highest figure since the current statistics began in 1990. Although energy price inflation is still elevated, the rise in prices is also accelerating for food and non-alcoholic beverages (7.5% y/y), hotels, bars and restaurants (6.0%), household equipment (4.5%) and, to a lesser extent, clothing (1.6%). However, second order effects, specifically a price-wage inflation spiral, seem unlikely in Italy for the time being. According to Istat, hourly wages rose 0.8% y/y in April, suggesting a fall in real terms of 5.5% in that month, a very significant drop that explains part of the fall in consumer confidence.

Overall, the recovery in the labour market has continued during the first half of the year, but first signs of a slowdown are showing up: employment fell in April (-12,150). This said, the unemployment rate dipped to 8.4% in April, while the youth rate also dropped, to 23.8%. The latter remains high but is nevertheless the lowest since December 2008.

Guillaume Derrien

ITALY: QUARTERLY CHANGES



SOURCE: REFINITIV, 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 -3 and +4. 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.