

# ECONOMIC PULSE

## ITALY: DISINFLATIONARY PRESSURES IN SERVICES INCREASE

The economic recovery has been stronger in the industrial sector than in services, the former benefitting from a sharp rebound in consumer goods spending, particularly durables. Moreover, the impact of health measures on industrial activity is lower than for services.

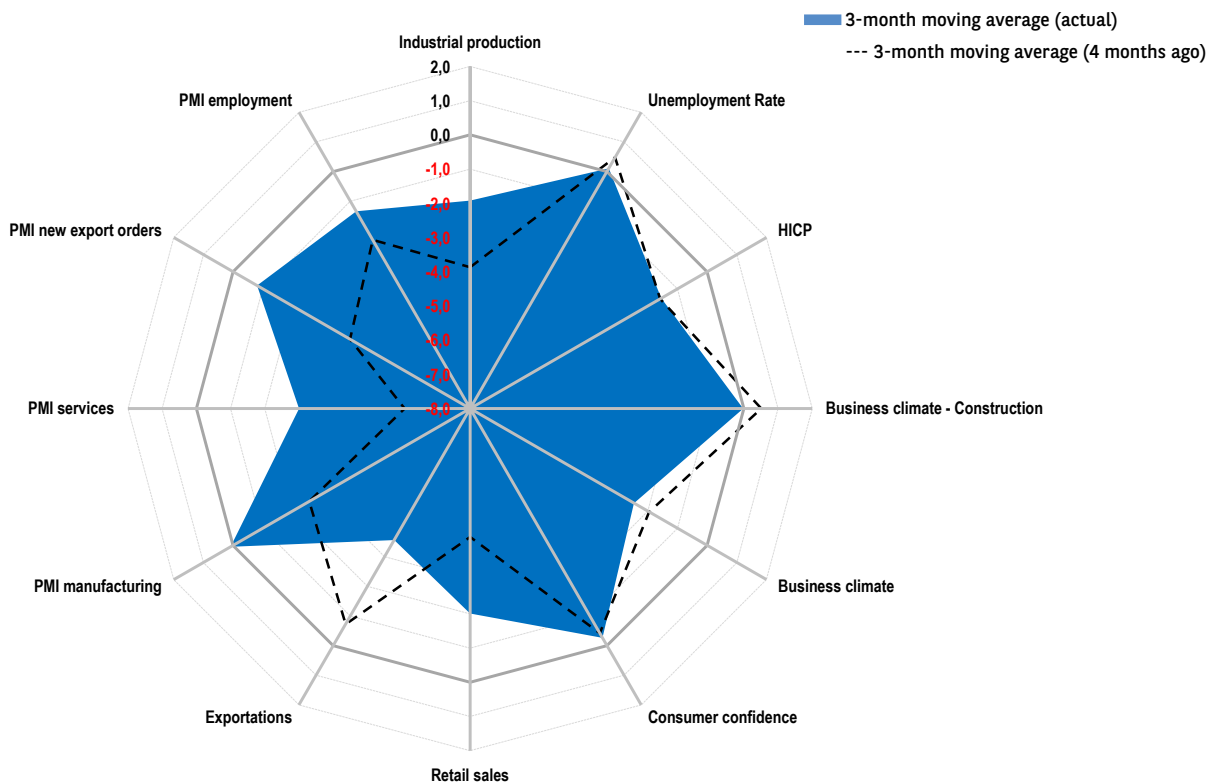
In contrast to other countries such as Spain and France, the Italian manufacturing sector PMI climbed again in August, rising 1.2 points to 53.1. The improvement of this indicator over the summer is clearly visible in our barometer. The sub-indicator for new orders reached an eighteen-month high at 56.3. Industrial production rose again in July (+7.4% month-on-month) and was 5.3% below the level in February.

By contrast, the services PMI fell to 47.1 in August, below the expansionary threshold (50). The drop in services activity this year is having a noticeable impact on prices. In August, services inflation (excluding tobacco) was at the lowest level since the current data began in January 1996. This downward pressure on prices was spread across a number of sectors (transport, communications, leisure, food).

The overall CPI fell 1.3% month-on-month and -0.5% year-on-year. Indeed, aggregate demand is held back by a sharp increase in households' savings rate and the deterioration in the labour market. Employment edged up in July (+84 990), but this offset only a small part of the jobs lost over the previous months (-556 460 between February and June). The unemployment rate climbed to 9.7% in July. As in many countries, the extension of the temporary layoff scheme has helped contain the number of corporate bankruptcies and redundancies. However, some are inevitable given the huge economic shock in the first half of the year. The second estimate of real GDP showed a 12.4% drop in economic activity in Q2, although this was a slight improvement from the initial figure (-12.8%).

**Guillaume Derrien**

### 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.

