

ECONOMIC PULSE

ITALY: ECONOMIC IMPROVEMENT, BUT UNEMPLOYMENT ON THE RISE

Italy's cyclical improvement continues. This is reflected in our pulse, with several indicators rising above their long-term average. This is especially true for indices pertaining to industrial activity. The Purchasing Managers Index (PMI) for the manufacturing sector rose to its highest level in 21 years. Industrial production stalled this winter, but should pick up again this spring. Household consumption was also fragile this winter, as shown in the trend decline in retail sales in the chart. That said, a rebound in private consumption, at least for durable goods, was observed in March: new vehicle registrations jumped to the highest level in two years.

Although the health situation remains uncertain, the number of new Covid-19 cases has declined after peaking in mid-March (242 cases per 100,000 inhabitants on 13 April, down from a peak of 392 cases on 22 March). This should allow the economic recovery to continue. Moreover, the coalition government led by Mario Draghi signed off a new fiscal stimulus of EUR 40 bn on 15 April, which comes on top of the EUR 32 bn stimulus package announced last month.

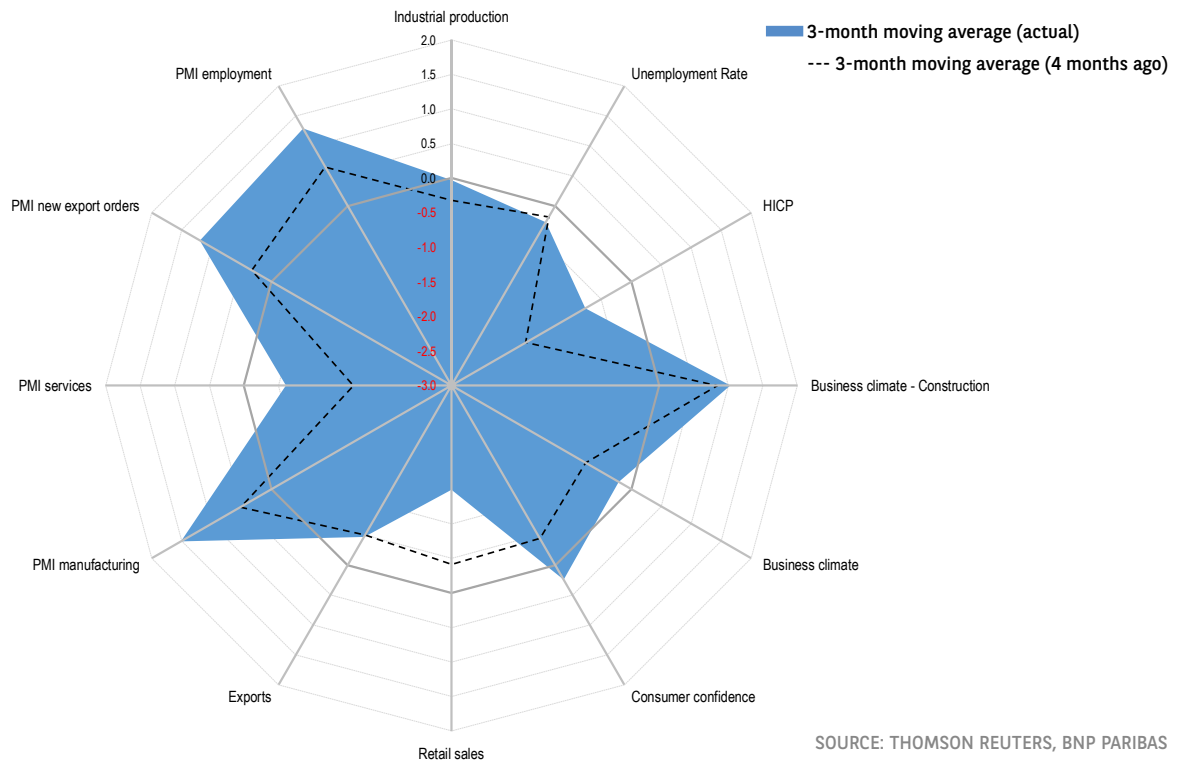
Yet the labour market situation must be monitored closely. Despite massive government aid, the health crisis is beginning to take its toll on unemployment. The unemployment rate was 10.2% in February.

Although this was slightly lower than the January figure, it is higher than the pre-pandemic level. At 56.5% in February, the employment rate has been the lowest since December 2015. More positively, the composite employment PMI suggests that hiring will resume again.

Inflationary pressures accelerated in Q1 2021, and the most probable scenario is that this trend will continue in the short term. The consumer price index (CPI) rose 0.8% year-on-year in March. A large part of this increase can be attributed to the upturn in transport prices (due in part to the recent increase in oil prices) and to a lesser extent to hotel & restaurant services and healthcare products.

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 -3 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.

