

## Activity is slowing down, as is inflation

Economic growth is slowing down in Italy. After contracting by 0.4% q/q in Q2, economic activity only grew by 0.1% q/q in Q3, almost standing still in that quarter. This small rebound was led by consumer spending (+0.6% q/q, contribution of 0.4 percentage points) and foreign trade (+0.8 points). Nevertheless, these positive developments were counterbalanced by significant destocking. For its part, investment recorded a quarterly change of -0.1% in Q3.

This quasi stagnation in activity is also reflected in the results of business surveys. According to the S&P Global PMI report, the services sector struggled to return to expansionary territory in November (49.5; +1.8 points) and the manufacturing industry is experiencing increasing difficulties. The sector's PMI index reached its lowest level in five months (44.4; -0.5 points) due in particular to the deterioration of the new orders component. In addition, the employment sub-component recorded its strongest decline since July 2020 (48; -1.6 points).

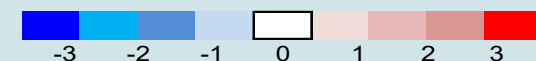
Harmonised inflation, meanwhile, recorded one of the sharpest falls on record in the Eurozone in November (-1.2 pp, at 0.6% y/y). This is mainly due to the increased deflation in energy prices, combined with a sharp slowdown in the prices of industrial goods (excluding energy) and services. This price moderation ultimately allowed the inflation and wage curves to cross in October, with the latter rising by 2.9% y/y, compared with inflation of just under 2%. This increase in real wages, combined with an unemployment rate that is still historically low (7.8% in October), should buoy private consumption in Q4 2023.

This should benefit GDP growth for the last quarter of the year. We are forecasting growth of +0.1% q/q, which would mean that Italy's annual average growth rate in 2023 would slightly exceed that of the Eurozone (0.7% compared with 0.5%). We then expect a modest recovery in 2024, ranging between 0.2% and 0.4% per quarter, which would still leave Italian annual growth slightly above that of the Eurozone (0.9% compared with 0.6%).

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### Italy: economic indicators monthly changes\*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
Business climate - Manufacturing	0,3	0,4	0,2	0,5	0,6	0,2	-0,1	-0,2	0,1	-0,1	-0,1	-0,2
Business climate - Construction	2,0	1,9	1,8	1,9	2,1	1,9	2,0	2,2	1,8	1,9	2,1	2,0
Business climate - Services	0,2	0,6	0,5	0,4	0,6	0,6	0,6	0,6	0,7	0,6	0,7	0,6
PMI manufacturing	-0,8	-0,1	-0,2	0,1	-0,5	-0,4	-1,2	-1,0	-1,7	-1,4	-1,4	-1,3
new export orders												
PMI Composite - Employment	0,4	0,5	0,5	1,0	1,3	1,2	0,6	0,0	-0,7	0,4	-0,1	-0,1
Consumer confidence	-0,1	-0,3	-0,1	0,2	0,1	-0,1	0,1	-0,1	-0,1	-0,2	-0,6	-0,4
Industrial production	0,0	0,2	-0,2	-0,3	-0,7	-0,3	0,0	-0,2	-0,4	-0,2	-0,1	
Retail sales	0,7	1,2	1,1	1,2	0,6	0,5	0,7	0,5	0,4	0,1	0,0	
Exports	0,6	0,6	0,2	-0,2	-0,8	-0,3	-0,3	-1,0	-0,2	-0,9		
HICP	5,1	4,1	3,6	2,7	2,9	2,6	2,0	1,8	1,5	1,5	-0,1	-0,7
Core HICP	4,0	4,2	4,4	4,0	3,9	3,5	3,2	3,0	2,3	2,4	2,1	1,7
Employment	1,0	1,2	1,0	0,9	1,0	0,9	0,9	0,8	1,3	1,2	1,0	
Unemployment Rate	0,8	0,7	0,8	0,8	0,8	0,8	0,9	0,8	0,9	0,9	0,8	
Wage	-0,2	0,4	0,4	0,4	0,7	0,6	1,4	1,2	1,2	1,2	1,1	



\* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.  
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

### GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
-0,2	0,6	-0,4	0,1	0,4	0,1	0,2	3,9	0,7	0,9	1,5

Source: Refinitiv, BNP Paribas

