

## Falling unemployment and inflation boost household morale

Real GDP growth should halve in the second quarter compared to the previous quarter, at 0.3% q/q, before a further slowdown in Q3. Industrial production (down 0.5% over the first two months of Q2) and retail sales (slightly up by 0.1%) demonstrate the fragility of activity in the country. The composite PMI for new export orders also continued to deteriorate in June (-4.4 points to 43.3).

Inflation slowed but less drastically than in Spain and France in particular. After a peak at 12.6% in November 2022, the annual increase in the HICP declined during the first half of 2023 to 6.7% in June, which remains a high level. As the main contributor to this drop, the fall in inflation in energy goods intensified in June, going from 11.5% the previous month to 2.1%. A shift in energy prices to deflationary territory seems likely this summer, in the wake of producer prices, which were already down 4.3% year-on-year in May.

Services prices are now the driving force behind inflation in the country, which should nonetheless fall below the 2% threshold in the fourth quarter of 2023, according to our current forecasts. The latest PMI indices, as well as European Commission surveys, suggest a more pronounced decline to come inflation in services, although its magnitude will be mainly conditional on wage increases in the sector. The slowdown in growth in Italy and the eurozone should also dampen price increases in the capital goods and consumer goods segment.

Nevertheless, household confidence is recovering, buoyed by the fall in inflation and the resulting improvement in savings prospects. The dynamism of job creation and the drop in the number of jobseekers also favourably affect consumer morale: according to the European Commission's survey, the outlook for unemployment at one year fell in June to its lowest level since 2018. Indeed, after stagnation in recent months, the unemployment rate in the country fell back to 7.6% in June. Employment rose for the sixth consecutive month to 1% above the last cyclical peak in June 2019.

Guillaume Derrien (article completed on 20 July 2023)

### Italy: economic indicators monthly changes



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)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
1.0	0.4	-0.1	0.6	0.9	0.3	0.2	3.8	1.3	1

Source: Refinitiv, BNP Paribas

