

## Inflation is finally abating

Italy is still facing mixed developments but is likely to take advantage of the ongoing decrease of inflation.

The Composite PMI weakened to 48.2 (-0.7pp) in August due to a sharp decline in the Services index, which crossed the contraction threshold for the first time in 2023 (49.8, -1.7pp). The Manufacturing sector reported a fifth consecutive month in contraction, despite a slight upturn (45.4, +0.9pp). Improved production conditions (delivery times, input prices) were not matched by either a brighter outlook or sustainably higher output. This is reflected by the decline in the value added of the sector in the national accounts for four quarters in a row.

Employment has displayed resilience despite the economic slowdown, with the unemployment rate standing at 7.6% in July (-0.3pp YTD), although the month was statistically disappointing (+0.1pp). This is well below the pre-Covid levels, but structural weaknesses remain, such as the differential in employment and participation rates between men and women (about 18pp). The basic hourly wage growth slowed to +3.2% y/y in July (-0.1pp) but still narrowed the gap with the price growth.

The good news lies in the significant ease of inflation over the summer, as HICP decelerated from 6.7% y/y in June to 5.5% in August and turned closer to the Eurozone average (5.2% y/y, whereas the gap reached 3.1 pp in December 2022). These positive developments are further reinforced by the underlying inflation (4.0% y/y), which is significantly lower than the Eurozone overall (5.3% y/y). Besides, Italian inflation is expected to be close to the 2% target in Q4.

This should bolster household sentiment which, despite a slight summer dip (106.5 in August vs. 108.6 in June), stands above the past year average (100.7). This contrasted with the downward trend in business sentiment (97.8 in August, -1.3 pp monthly).

Finally, the combination of a downturn in investment (-1.8% q/q) and a subdued private consumption, amid higher prices and interest rates, resulted in a surprise contraction of GDP in Q2 (-0.4% q/q), amplified by the negative contribution of public spending (-1.6% q/q). This could constitute a technical backlash following the good Q1 figure (+0.6% q/q), which is in turn likely to prompt a rebound in Q3, and thereby allow the country to escape a technical recession.

Anis Bensaidani (completed on 20 September 2023)

### Italy: economic indicators monthly changes

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

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)			
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0,4	-0,2	0,6	-0,4	0,7	0,3	0,1	3,8	0,9	1,1

Source: Refinitiv, BNP Paribas



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