

Wage growth is expected to accelerate

The Italian economy surprised positively in the first quarter of 2023, with real GDP growing by 0.6% q/q. However, we expect this good performance to be followed by a slowdown in the second quarter and then a one-off contraction in the third quarter. Retail sales in volume have been gradually decreasing since the beginning of the year. In addition, high inflation will continue to affect household purchasing power.

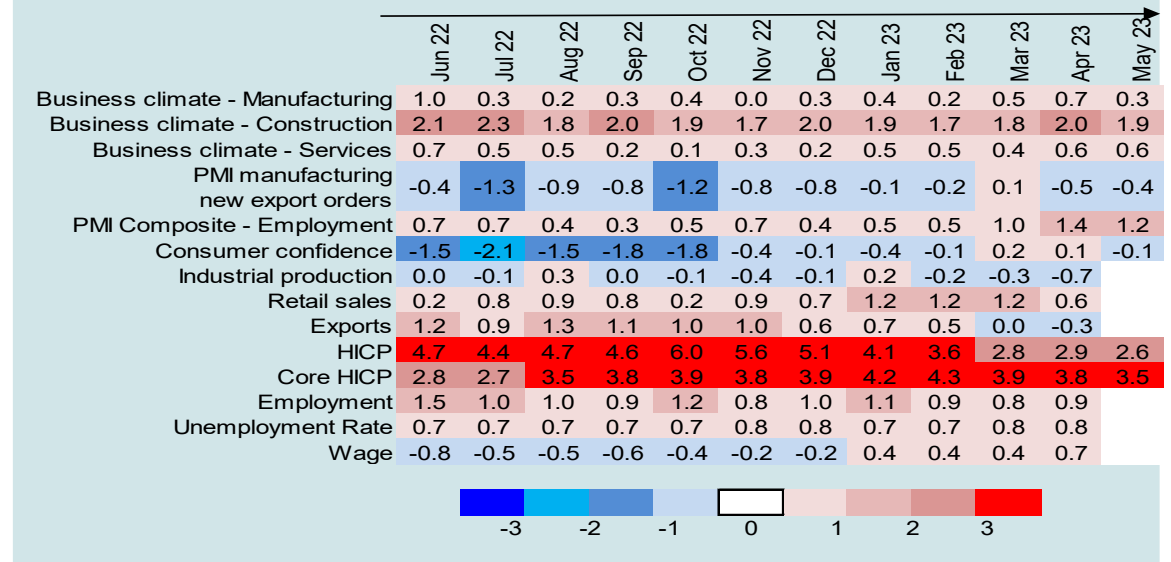
The rate of inflation in Italy (+8.0% y/y in harmonised terms in May) remains among the highest in the eurozone, mainly due to a sustained rise in energy prices (+11.5%). Nevertheless, the drop in headline inflation should accelerate over the summer. Indeed, energy prices have been falling sharply month-on-month since the beginning of the year, and this drop will gradually bring down the year-on-year rate (i.e. inflation rate).

The decline in industrial activity intensified in April, driven by the fall in the production of intermediate goods (-13.8% year-on-year), which now stands at its lowest level since summer 2020. The signals sent out by business surveys confirm the ongoing deterioration in the sector: the manufacturing PMI fell from 48.7 in April to 46.4 in May, a level similar to the one reached in 2020.

Nevertheless, the labour market remains buoyant. This, together with consumer price inflation, is fuelling wage growth. However, the latter remains moderate, with Istat reporting an increase in the basic hourly wage of 2.6% year-on-year in April. The rise in wages is likely to become more pronounced in the coming months, if the unemployment rate continues to fall and labour shortages increase. The latest quarterly survey by the European Commission, which aims to assess the main obstacles to production, reinforces this finding: the index relating to labour tensions was at its highest since the first quarter of 1990. Indeed, the unemployment rate for the working population as a whole fell to 7.8% in April, while the rate for young people (15-24 years old) is approaching the symbolic threshold of 20% (20.3% in April), which is a level comparable to the ones seen before the 2008 crisis. Employment also rose for the fifth consecutive month; it has now exceeded the previous peak reached in summer 2019 by nearly 1%.

Guillaume Derrien (article completed on 20 June 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	0.2	-0.1	3.8	1.1	0.7

Source: Refinitiv, BNP Paribas

