

# ECONOMIC PULSE

## ITALY: OPTIMISM MODERATES

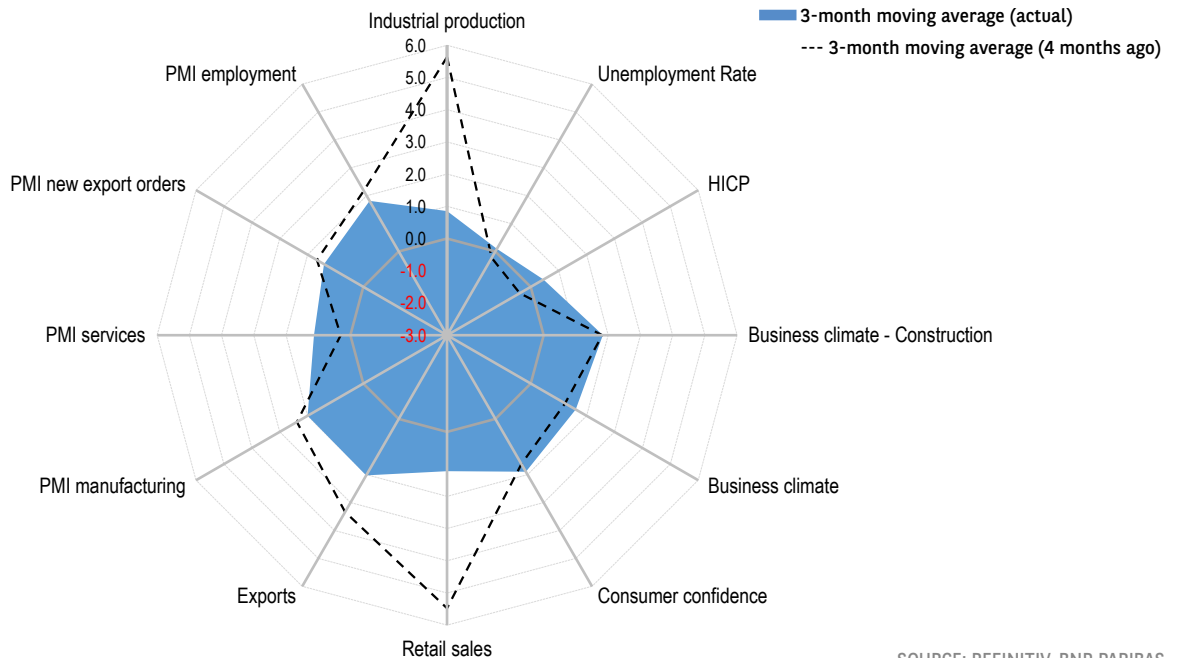
Despite more than 80% of the adult Italian population having received a full vaccination schedule, the government has decided to introduce new constraints to keep the Covid-19 epidemic under control. From 15 October, the use of a health pass (or a recent negative PCR test) has become mandatory for workers. Protests against this measure have erupted in the country's streets in recent days. At the economic level, the impact of this decision is likely to be felt most in the labour market, accentuating labour shortages, and particularly in the transport sector, where between 25% and 30% of workers still do not have the health pass, according to estimates from Confretra, the union for the industry.

Other downside risks will affect economic activity over the short and medium term: despite government aid, rising energy prices will eat into purchasing power and thus household spending. The harmonised index of consumer prices (HICP) shows inflation increased to 2.9% in September; however, price rises have been more limited than in most of Italy's European neighbours so far. Supply problems could also hit consumption of certain goods. New car sales fell sharply in Q3 2021, whilst retail sales were only a touch higher (up 0.5% q/q). The labour market trend remains uncertain too. The participation rate, which dropped swiftly during the lockdowns of 2020, is still significantly lower (by 1 percentage point) than at the end of 2019. This provides context for the drop in the unemployment rate, which nevertheless fell to 9.3% in August.

These risks should not, however, obscure the fact that the recovery in activity was solid in Q2 2021 (+2.7% q/q), and that households remain very optimistic. In September, Istat's consumer confidence indicator reached its highest level since 1988. Confidence in the manufacturing sector (as shown by the PMI report) has stalled somewhat, whilst the mood in the service sector has improved thanks to the ongoing relaxation of health restrictions and constraints on activity. The IMF has raised its growth forecast for 2021 from 4.9% to 5.8%. The figure for 2022 was unchanged at 4.2%.

**Guillaume Derrien**

### ITALY: QUARTERLY CHANGES



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 +6. 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.

