

ECONOMIC PULSE

ITALY: SHARP SLOWDOWN AHEAD

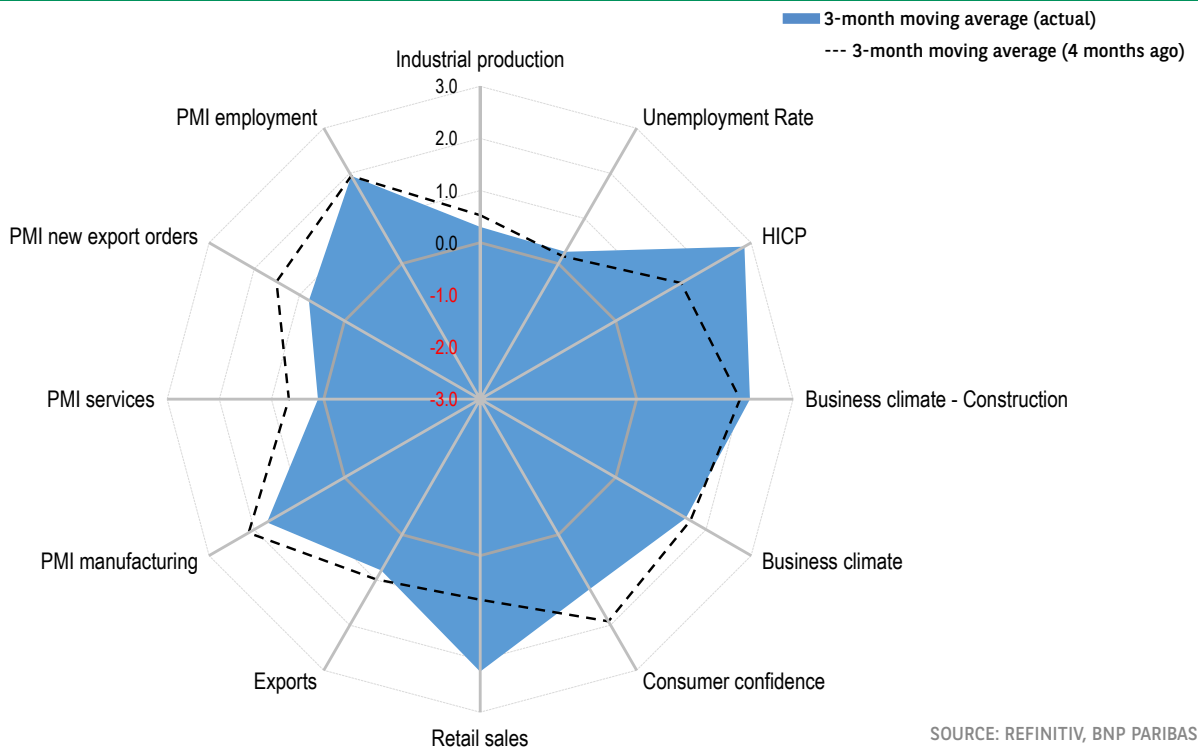
Italy's industrial output fell 3.4% month-on-month in January. There is now a high risk that GDP will contract again in Q1 because of the war in Ukraine and the impact of surging commodity prices on Italy's economy. Italy is particularly dependent on Russian gas, with almost 45% of its imports coming from this country. Even if Rome is planning to carry out a drastic shift in its gas imports – sourcing gas from other countries like Algeria and Azerbaijan – and to increase its LNG consumption, these changes will take time to materialise. As a result, inflation is likely to remain very high in 2022 and the spill over of price pressures to sectors other than energy is likely to gain traction, a trend that was already in place before the Ukraine conflict began. Inflation hit 6.2% y/y in February, primarily because of higher energy prices, but there were also significant increases in the prices of food and non-alcoholic beverages (+4.9% y/y) and hotels and restaurants (+4.0% y/y). The Italian government has announced EUR 6 billion of additional funding to ease the pain of higher energy prices, but this will not fully offset the increase in bills for consumers and businesses.

On the upside, the government will take some comfort from the latest 2021 growth estimates unveiled last week by Istat, which were better than expected. Real GDP growth was 6.6% in 2021 (versus 6.0% according to the initial estimate), although this only partly makes up for the record 9.1% contraction in 2020. The most positive aspect of the report is the increase in investment. Gross fixed capital formation (GFCF) hit a 13-year high in Q4 2021, mainly driven by high levels of expenditure in construction (13.9% higher in 2021 than in 2019¹). That increase backs up recent strong statistics regarding business confidence surveys in the construction sector. Besides, the construction sector PMI shows that activity levels have remained strong in Q1 2022, hitting an all-time high of 68.5 in February. The construction sector is therefore, for the time being, spared from the slowdown that is affecting most areas of the industry sector.

Guillaume Derrien

1. Combined expenditure on housing and on other buildings and structures.

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 +3. 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.

