

ECONOMIC PULSE

ITALY: SUPPLY-SIDE CONSTRAINTS WEIGH ON INDUSTRIAL ACTIVITY AND THE TRADE BALANCE

Concerning the Italian economy, now that the presidential election is behind us, attention has focused again on the risks associated with surging inflation and the upcoming start of the normalisation process of ECB monetary policy. 10-year Italian government bond yields have risen by nearly 50 basis points since early February, and they could reach the 2% threshold very soon. The spread with the German Bund has also widened. Inflation continues to rise at a rapid pace in Italy, which is clearly shown in our barometer: Inflation hit 5.2% y/y in January, mainly driven by higher energy prices (+38.6% y/y). The rise in prices also accelerated for food and non-alcoholic beverages (+3.8% y/y), hotel and restaurant services (+4.1% y/y) and "furnishings and household cleaning and maintenance products" (+2.2% y/y).

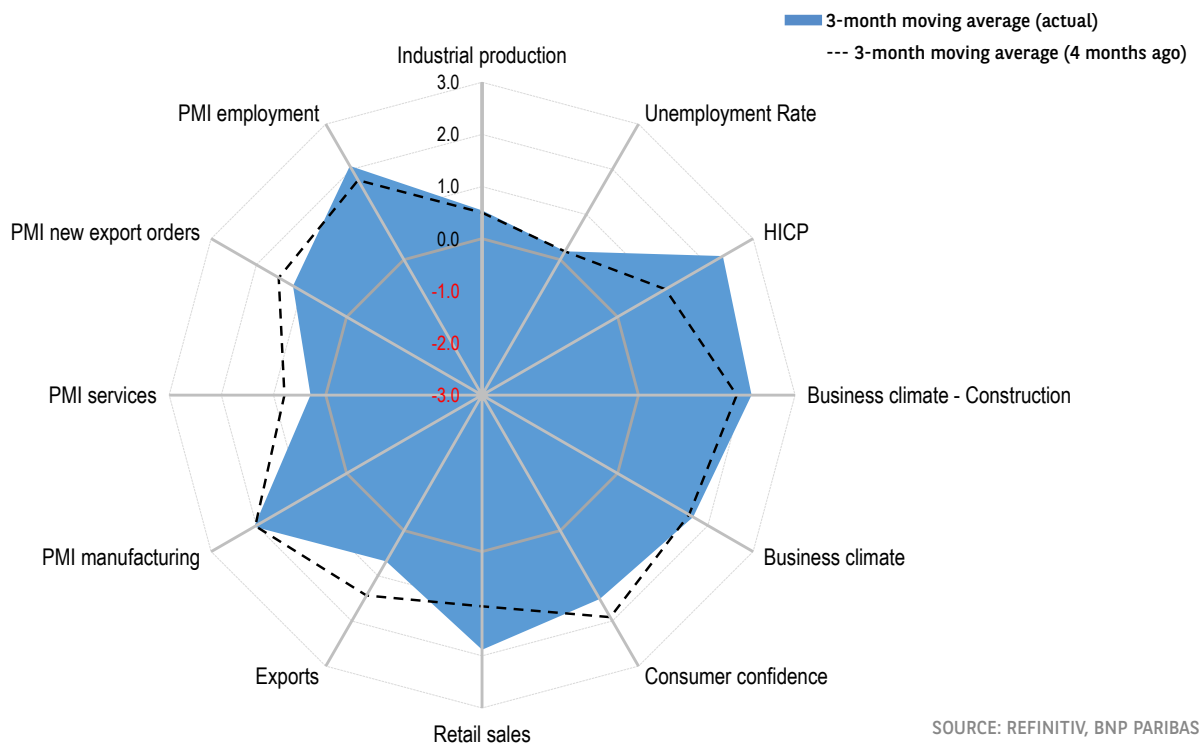
Although industrial production has levelled off for nearly the past six months (the index is holding stable on the Pulse), this seems to be due essentially to supply-side constraints, notably the delivery of materials, rather than insufficient demand. The latter is still going strong, as illustrated by the sharp increase in new industrial orders, up 15% compared to the end of 2019¹. Another positive sign comes from the construction PMI indicator, which jumped 4 points in January to 68.4, the highest reading since the statistical series began in 1999. Yet export growth has declined relative to imports, and the trade balance swung into a deficit for the first time since April 2012².

As to public finances, the debt-to-GDP ratio for 2021 is set to be lower than initially feared, thanks to the low cost of financing and the robust rebound in activity. Ignazio Visco, the governor of the Bank of Italy, recently welcomed this dynamic: the central bank is now expecting the stock of debt to decline to "about 150% of GDP at year-end 2021," which is four points below initial forecasts. Even so, it will be difficult to pursue fiscal consolidation this year since the government is likely to prepare new support measures to help companies and households cope with the rise in prices.

Guillaume Derrien

1. The most recent data is for November 2021.
2. If we exclude the deficit reported in April 2020, which was distorted by the first lockdown.

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.

