

ECONOMIC PULSE

ITALY: TOWARDS ANOTHER DIP?

Although real GDP held up in Q1 (+0.1% q/q), our barometer clearly shows that the economic outlook is worsening. Annual inflation rose again in June, going from 7.3% to 8.5%, while manufacturing output stagnated: although Italy's manufacturing PMI remained in the expansion zone at 50.9 in June, it fell for the seventh straight month and has been down 11.9 points over that period. The new manufacturing orders fell deeper into the contraction zone at 43.9 in June. Manufacturing activity would also be highly exposed if Russia were to cut off gas supplies completely – a more plausible scenario today – since 40% of Italy's gas imports come from Russia. However, improving conditions in the global logistics system are now showing through in both survey results – with a substantial improvement in the Italian PMI delivery times indicator in June – and hard data¹. Together with lockdown easing in China, this should support manufacturing output in Italy. Construction is also showing signs of flagging, due in particular to shortages of materials and their increasing price: the construction PMI fell sharply between February (68.5) and June (50.4). The sector's value added had previously rebounded very sharply in 2021 (+21.2%) and again in Q1 2022 (+5.8% q/q).

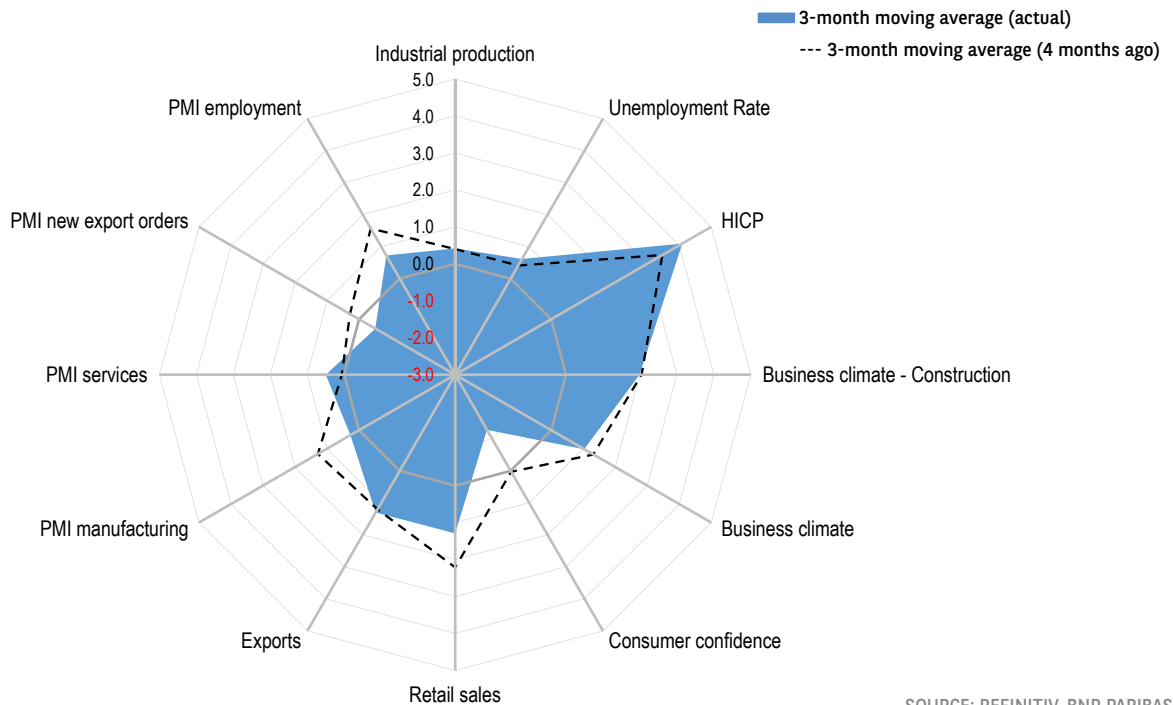
Developments in the labour market are also very mixed and less positive than the decline in the unemployment rate might suggest. The jobless rate has fallen steadily since October 2021 – from 9.2% to 8.1% – with the rate among young people (aged 15-24) down sharply from 28.7% to 20.5% over the same period. However, the labour force remains around 2% smaller than pre-Covid levels, which has amplified the fall in the unemployment rate.

At the same time, the war in Ukraine and the surge in inflation are gradually weakening the unity within Italy's ruling coalition. After Luigi Di Maio left the Five Star party because of differences of opinion about how to deal with the conflict in Ukraine, divisions have also appeared between parties about the future of the "citizen's income" in place since March 2019. The political climate is likely to remain tense until the parliamentary election scheduled for June 2023, and this is a source of concern for the country.

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1. See BNP Paribas Ecoweek,Pulse, *International trade: a few signs that tensions are easing*, 27 June 2022

ITALY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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 +5. 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.

