

ECONOMIC PULSE

ITALY: TOWARDS SLOWER GROWTH IN Q4 2021?

After two solid quarters, Italian GDP growth is expected to slow in Q4 2021. Real GDP rose 2.7% q/q in Q2 2021 and 2.6% q/q in Q3¹. Yet there was an encouraging catching-up movement through the fall, which led the European Commission to revise strongly upwards its 2021 growth forecast, to 6.2%, from its previous outlook of 4.2% last spring. While a new epidemic wave could weigh on activity in the coming weeks, Italy is currently facing a level of contamination lower than most other European countries.

The main concerns are concentrated in the labour market, which continues to struggle to recover from the impact of the Covid-19 pandemic. Although the unemployment rate has fallen below pre-pandemic levels (9.2% in September 2021, compared to a 2019 average of 10%), the labour force is still far below the 2019 level. Employment has contracted by nearly 600,000 (-2.6%) compared to the level of summer 2019. As to inflation, it accelerated rapidly in October (up 3% y/y), but this is not as high as in Spain or Germany. Moreover, three quarters of the annual increase in the consumer price index is due to higher energy prices.

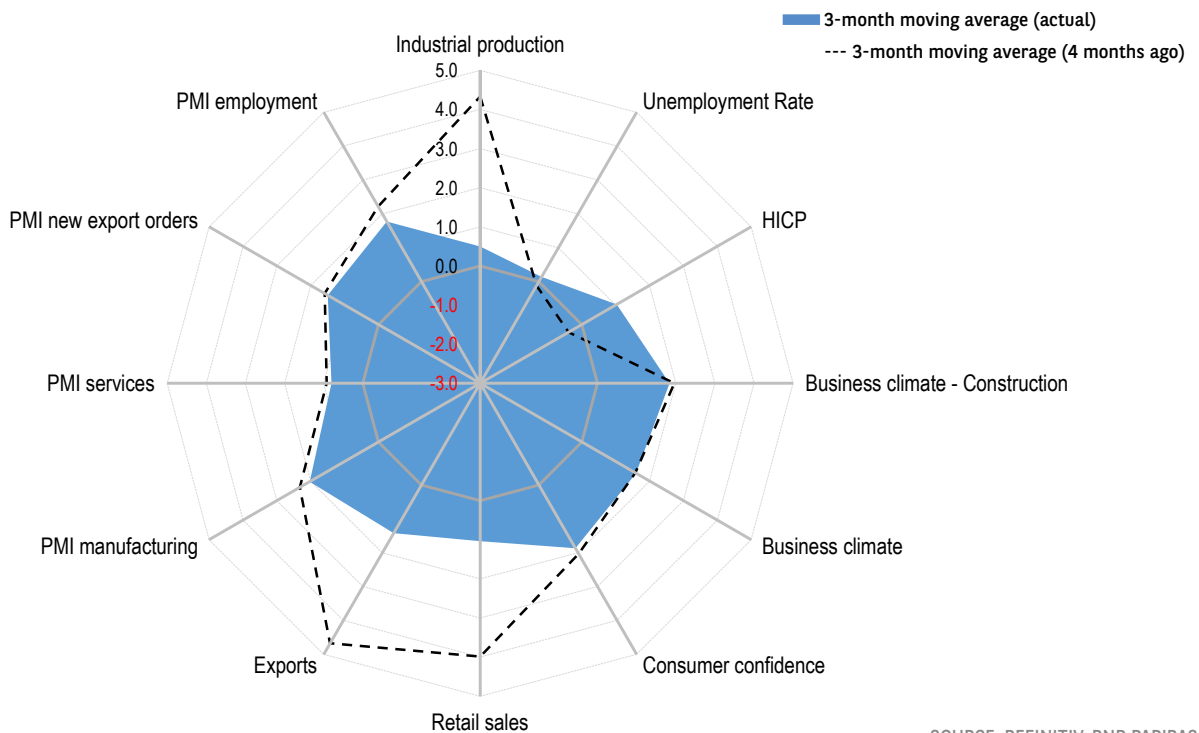
As to consumption, the situation is mixed. In September, retail sales in volume (i.e. deflated for the upward impact of surging inflation) returned to levels comparable with winter 2020, but automobile sales continue to trend lower, in part due to supply chain problems and the extension of delivery times in the sector.

For the moment, however, none of these obstacles have had a concrete impact on household confidence: the European Commission's index declined slightly in October, but is still holding at the second highest level since the statistical series began in 1985. Business confidence has deteriorated more rapidly since August (the composite PMI dropped 4.9 points between August and October), mainly in the services sector. Business optimism in the manufacturing sector remains solid: the manufacturing PMI has stabilised at about 60 since the beginning of 2021.

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1. The second estimate of Q3 GDP will reveal the components of demand and should be released on 30 November.

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.

