

WINDS OF OPTIMISM BLOWING THROUGH THE ECONOMY

The economic recovery has gradually gained momentum, becoming increasingly more widespread for various components and sectors. The improvement in the overall scenario has boosted optimism among companies, supporting business investment. While manufacturing activity had begun to increase in H2 2020, the services sector benefited from an upswing in consumption in Q2, despite the still disappointing international tourism trends. A wind of surprising optimism continues to blow through the Italian real-estate market, driven mainly by home purchases by many families keen to improve their housing conditions. In Q2 2021, residential sales recorded +70% growth compared to Q2 2020, and +26.1% compared to Q2 2019.

A MORE RESILIENT ECONOMY

The Italian economic recovery has gradually gained momentum, becoming increasingly more widespread for various components and sectors. Real GDP rose by 0.2% in Q1 2021 and then accelerated to almost 3% in Q2. The annual growth rate climbed above 17%, as a consequence of the deep plunge recorded in Q2 2020. The carry over for 2021, assuming no further increase in the second half of the year, is 4.7%.

In Q2, the contribution from domestic demand was positive (+3.1%), while stocks subtracted 0.8% percentage points from overall GDP growth. Thanks to the improvement in health conditions, most restrictions introduced to contain the spread of the virus were eased. Although households remained somewhat cautious, consumption rose by 5%, after -1.1% in Q1, also reflecting the strengthening of labour market conditions. The number of persons employed rose by 338 thousand, despite remaining well below pre-pandemic levels. Consumers mainly increased their spending on semi-durable goods and on services, which had suffered strongly in previous quarters. The recovery of domestic and global demand has boosted optimism among companies, supporting business investment. In Q2, capital spending rose by 2.4%, after +3.8% in Q1. Investment has already recovered the losses incurred during the pandemic crisis, recording a 5% increase compared to Q4 2019.

From April to June, the contribution of net exports became positive (+0.3%, after -1% in Q4 2020 and -0.4% in Q1 2021), as exports were stronger than imports (+3.2% and +2.3%, respectively), thanks to a dynamic external environment.

A WIDESPREAD RECOVERY

Manufacturing activity began to increase in the second half of 2020, reflecting the improvement in the global environment. Exports have recovered fully from the major decline registered during the first half of last year. From January to July 2021, Italian sales abroad rose by almost 23% on an annual basis, compared to around +16% in Germany and France. Manufacturing output increased by 0.5% in Q4 2020, 1.3% in Q1 2021 and 1.5% in Q2 2021, slightly exceeding the pre-crisis level. The recovery of global trade mainly supported intermediate goods production, with strong increases in the electrical equipment sector, as well as for metal products and rubber, plastic and non-mineral metal products.

With the gradual lifting of restrictions, the services sector benefited from an upswing in consumption. In Q2, value added rose by almost 3%, after declining in both Q4 2020 and Q1 2021 (-2.3% and -0.4%). The overall figure reflects the strong rebound in hotel and restaurant activity. Turnover rose by 35% Q/Q, despite remaining more than 40 percentage points below Q4 2019 value, as this sector is still severely affected by disappointing international tourism trends. In Q2,

GROWTH AND INFLATION (%)

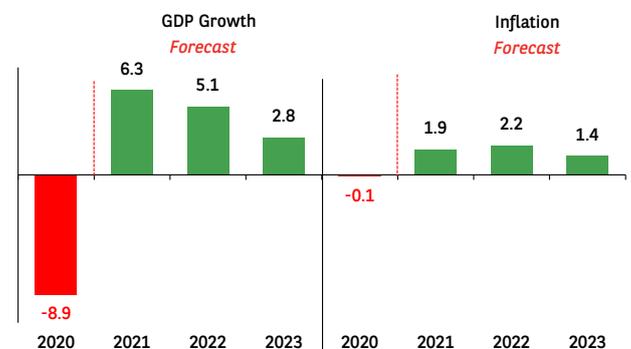


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

VALUE ADDED BY SECTOR

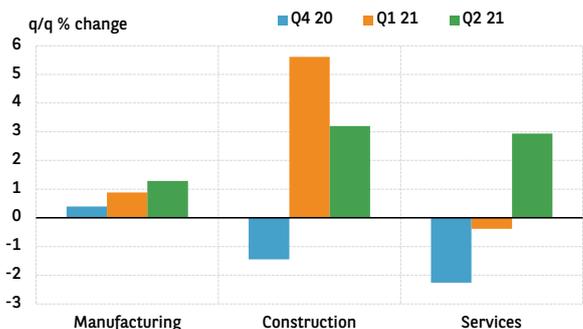


CHART 2

SOURCE: BNL CALCULATIONS ON ISTAT DATA

foreign travellers in Italy reached around 6 million, which is more than in Q2 2020 (4.8 million), but far below the 25.9 million recorded in Q2 2019. According to national account data, non-residents' spending increased from EUR 1.9 billion in Q1 to EUR 2.4 billion in Q2 21, which is around one fifth of pre-crisis values.

THE PANDEMIC IS OVER IN THE REAL-ESTATE MARKET

Despite the bleak forecasts at the beginning of the pandemic, a wind of surprising optimism continues to blow through the Italian real-estate market, mainly driven by the purchase choices of many families



wishing to improve their housing conditions after the months spent in lockdown during the pandemic crisis. According to a recent survey conducted by Nomisma (an Italian institution specialising in the field), 3.3 million Italian families seem to be willing to buy a new home within the next 12 months. Among them, however, only about 800 thousand appear to have an adequate income that will enable them to actually proceed with a purchase, which is more than recorded in the surveys conducted before the pandemic.

The resilience that has characterised the Italian real-estate sector during the first months of the pandemic, and the reactivity seen subsequently, will probably make it possible for the sector to close the long Covid parenthesis with unexpectedly brilliant performance. In fact, all of the main indicators have recorded positive growth rates since the end of 2020.

This year, the number of transactions will probably converge towards to projections made before the pandemic, with a cumulative decline not exceeding 4% in the two-year period from 2020 to 2021, compared to the pre-crisis scenario.

In Italy, the residential market continues to be dominated by private individuals, who account for around 95% of the demand and 87% of the supply. In the first half of 2021, 54.2% of the sales made by individuals were financed by taking out a mortgage, and in 75% of these cases, this involved the purchase of a residential home. The market's good dynamic is also apparent from the gradual decrease in the average discount applied to sales, which reached 9.3%, falling from 10.1% in the previous quarter.

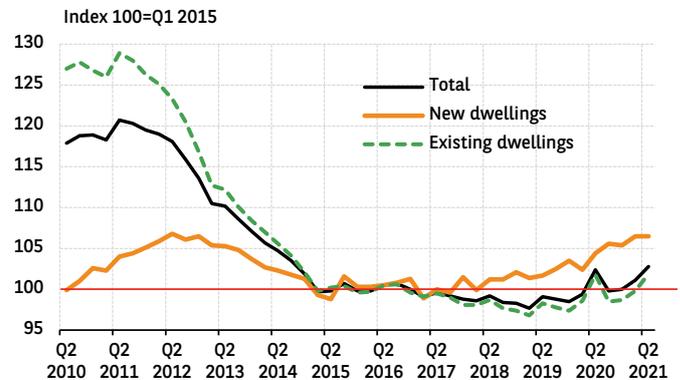
In Q2 2021, residential sales showed +73.4% growth, compared to the same quarter of 2020, and +26.1% growth compared to Q2 2019. In non-capital municipalities these values were higher (+81.6% with around 62 thousand houses sold and +31.3% with almost +33 thousand homes sold, respectively). In the capital municipalities, house transactions rose by 58% YoY (over 23 thousand more homes purchased than in Q2 2020 and almost 9 thousand more compared to Q2 2019, +16.1%). Compared to Q2 2019, house transactions in the main northern cities rose by 14.6%, and in the central regions by 34.2%.

The recovery in transactions evident from the comparison between 2021 and 2019 data involves all of the size classes, but mostly the largest ones (over 145 square metres). Between April and June 2021, home transactions in the top eight Italian cities increased by 14% compared to Q2 2019, with the greatest increases recorded in Genoa and Rome (+32.7% and +19.4%, respectively). Florence, Palermo and Turin recorded more moderate growth rates, but still in double digits. The increases in Milan, Naples and Bologna remained below 10% compared to 2019.

The indications on the price side are also positive, although the latest data shows a slowdown that is more evident in the southern regions and in some of the main northern cities, including Milan. According to Istat preliminary estimates, in Q2 2021 home prices in Italy rose by 1.7% QoQ, and by 0.4% YoY (this was +1.7% in Q1 2021). The increase on an annual basis was due mainly to the prices for new dwellings (+2.0%, down from +4.0% in the previous quarter), while prices for existing dwellings increased slightly (+0.1%, and was +1.2% in Q1 2021).

Assuming a zero change in prices in the second part of the year, the growth rate for home prices in 2021 would be +2%, a value that has never been reached with available data (2010). In the northwest and northeast regions, home prices rose by 0.1% and 0.3% YoY, respectively (from 1.8% and 2.3% in Q1 2021, respectively). In the central regions, home prices rose by 1.2% (compared to 1.4% in Q1 2021), while in the

HOUSE PRICES



GRAPHIQUE 3

SOURCE: BNL CALCULATIONS ON ISTAT DATA

southern regions and on the islands they fell by 0.2%. Among the main cities, in Milan home price growth slowed down to +1.4% YoY in Q2 2021, from +5.2% in Q1. The positive trend is entirely attributable to existing dwellings, for which prices increased by 3.6% YoY, while prices for new dwellings fell by 8.8% YoY. On a quarterly basis, the different dynamics are confirmed, with prices for new dwellings decreasing by 14.2% compared to the previous quarter, while prices for existing dwellings were up by 3.2%. In Rome, home prices in Q2 2021 recorded a negative growth rate (-0.5% in Q2 compared to +1.7% in the previous quarter).

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