ECONOMIC PULSE

## ITALY: THE NEW COALITION GOVERNMENT WILL QUICKLY BE PUT TO THE TEST

The results of Italy's parliamentary elections have handed power to the right-wing coalition led by Giorgia Meloni. The new administration will quickly be put to the test, since it will take over an increasingly struggling economy exposed to a high risk of recession this winter. Our current forecast is that real GDP will fall by 0.4% quarter-on-quarter in the fourth quarter, followed by a 0.2% q/q drop in the following quarter. The industrial sector, the first section of the economy affected by disruption linked to the war in Ukraine and the rise in production costs, is experiencing a downturn. The manufacturing PMI fell by 0.5 points to 48 in August, its worst level since June 2020, when activity was severely restricted by measures in place to protect public health. Although the PMI for new manufacturing orders rose slightly (+0.1 points to 42.6), the employment index fell significantly again (-1.5 points to 50.5). Industrial production remained stable until July, but it should therefore lose ground this autumn in light of the worsening in the survey data.

Activity in services is not likely to be spared either: given households' decreasing purchasing power, private consumption is likely to shift over to "essential" goods. In July, household confidence was at its lowest since March 2013, before edging up in August. That said, views gathered among households (European Commission) and businesses (European Commission and PMI) show a very clear drop in anticipated inflation, which remains to be confirmed when the next inflation figures are published.

There are contrasting dynamics affecting the country's labour market. The unemployment rate fell back to 7.9% in July, almost 2 points below the prevailing level before the Covid-19 global pandemic. This equates to 482,000 fewer jobseekers than in the last quarter of 2019. Nevertheless, the working-age population is still a long way from a return to its level of three years ago (25,182,000 compared to a peak of 25,774,000 in April 2019), which inevitably suppresses the unemployment rate.

Guillaume Derrien

ITALY: QUARTERLY CHANGES

■ 3-month moving average (actual)
--- 3-month moving average (4 months ago)
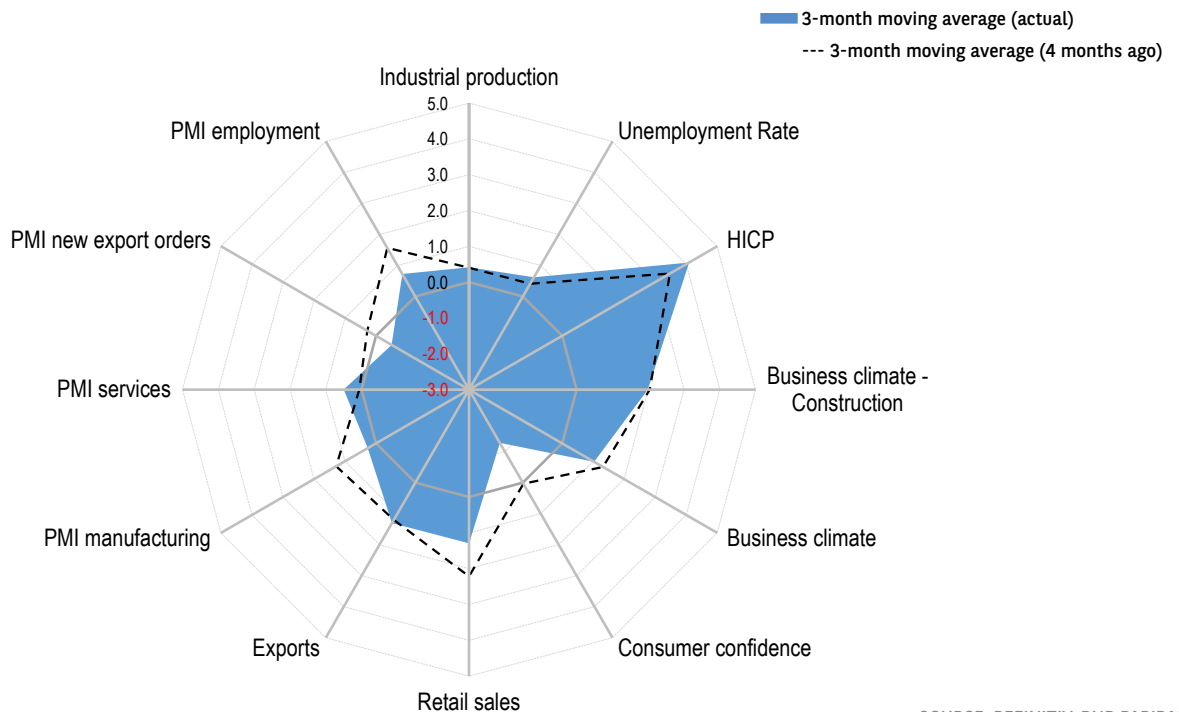
SOURCE: REFINITIV, BNP PARIBAS

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.

BNP PARIBAS

The bank
for a changing
world