THE EPIDEMIC SPREADS TO THE ECONOMY

The outbreak of Covid-19 took hold in Italy earlier than in other EU countries, with strong negative effects on the economy. In Q1 2020, real GDP fell by 5.3%. The contraction affected all economic sectors: manufacturing, services and construction. Domestic demand had a negative contribution (-5.5%). Italian households become extremely cautious, reducing expenditures more than income: the propensity to save rose to 12.5%. The pandemic has dramatically hit the labor market: disadvantaged categories, such as low skills workers, those with precarious contracts and young people, are the most severely affected by the lockdown.

A WIDESPREAD CONTRACTION

The outbreak of Covid-19 took hold in Italy earlier than in other European countries. The Italian Government has rapidly acted, focusing on the necessary support to households and firms and approving a complex package, which increased the 2020 public deficit by EUR 75 bn. The measures taken to contain the spreading of the virus, together with the worsening of the global environment, had a huge impact on the economy, which at the beginning of 2020 had not yet recovered from the two previous recessions. In Q1, real GDP fell by 5.3% in real terms, falling 10% below the 2008 level.

The economic contraction was broadbased. Because of the quarantining of the entire population, services value added declined by almost 4.5%. The tourist sector, which accounts for more than 5% of total value added, also suffered from the significant decline of foreign travellers' expenditure, which fell by about 40% q/q in real terms, explaining 1% of the overall GDP contraction. Turnover of hotels and restaurants collapsed by almost 25% y/y.

The shutdown of productive sectors accounting for nearly 30% of national value added, together with the significant slowdown of global trade, had a severe effect on Italian industry, which had already declined by more than 1.5% in the previous one year and a half. In Q1 2020, manufacturing value added dropped by more than 9%. Production of means of transport and that of textiles products, clothes and shoes declined by almost 20%, while the pharmaceutical sector was the only to record a moderate increase of activity in comparison with the last three months of 2019.

In Q1 construction sector value added declined by almost 6%. From 2015 to 2019 this sector experienced only a moderate recovery, after the deep contraction recorded during the previous two recessions. As a consequence, at present, the value added is 40% below the 2008 level.

Available indicators point to an even bigger decline in Q2, although the decrease in the contagion made it possible to start easing the lockdown measures at the beginning of May. In April, manufacturing production declined by more than 20% m/m. As of mid-May, gas consumption for industrial use was down by almost 15% and electricity consumption by 6% compared with last year. In June, consumer and business confidence have only partly recovered the impressive decline recorded in May, remaining at a low level by historical standards. Additional measures are under discussion to support the recovery, which is expected to be moderate in the second half of the year.

FALLING CONSUMPTION AND INVESTMENT

In Q1, domestic demand excluding stocks subtracted 5.5% from GDP. Private consumption declined by 6.6%. Italian households have become extremely cautious. In Q1, gross disposable income fell by almost EUR 5 bn, less than expected given that the shutdown of economic sectors involved around 35% of employment, while consumption was cut by more than EUR 17 bn. Italian households took some benefit from the measures approved by the Government to support incomes (extension of unemployment benefits, allowances to more impacted workers, deferral of the deadline of taxes and social contributions, among others). In Q1, the propensity to save of Italian households rose from 7.9% to 12.5%, the highest value in the last fifteen years.

The negative contribution of domestic demand was also the result of the decline of investment (-8.1%), with expenditure in machinery and equipment falling by 12.4% and that in means of transport by 21.5%.

GROWTH AND INFLATION (%)

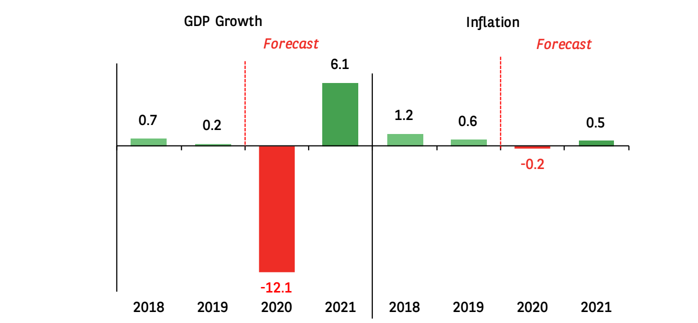

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

VALUE ADDED BY SECTOR

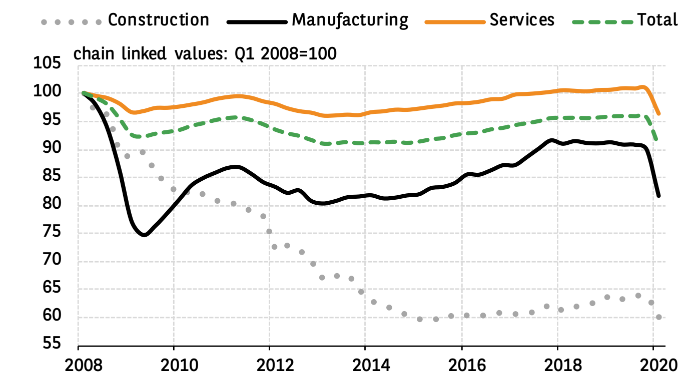

CHART 2 SOURCE: ISTAT DATA, BNP PARIBAS CALCULATIONSS

From January to March, Italian firms reduced their investment by about EUR 4 bn, despite public guarantees having been made available up to EUR 500 bn to facilitate access to bank credit. Business value added declined by almost EUR 15 bn, also suffering the contraction of exports, which was more important than that of imports (-8% versus -6.2%), with a 0.8% negative contribution of net exports to the GDP decline.

THE EMPLOYMENT IMPACT OF COVID-19

The pandemic has hit particularly hard the labour market. According to ILO estimates, in Q2 2020, the number of hours of labour lost worldwide due to the lockdown or the reduction in the economic activities is equivalent to 365 millions of full time jobs. The peculiarity of the current crisis compared to the previous ones lies not so much in its absolute impact, as in the fact that it mostly affects many already disadvantaged categories, such as low skills workers, those with precarious contracts and young people. This will have important medium-long term effects worldwide, and is expected to severely decrease households' future incomes, with important consequences also on inequality and social cohesion.

A recent analysis conducted among EU countries studied the effects on employment of the anti-contagion measures which in the vast majority, implies the lockdown of the activities deemed non-essential and several strict limitations on the others. The activities that could be carried out by telework have been allowed to continue operating.

In Italy, in the most acute phase of the contagion, people employed in the sectors locked down and without the possibility of using telework were 11.5% of total (against 10% on average in the EU, 14.5% in Spain, 9,5% in France and 8.3% in Germany). Young workers have been particularly affected by the measure: in the EU on average over a quarter of people employed in the closed sectors (28%) are aged between 15 and 29 years; on the contrary, the presence of under 29 years old is lower both in the essential sectors (around 16%) and in those that activated teleworking (around 15%). In Italy, where the percentage of young people employed is lower than the EU average (12% versus 18.2%), in these latter activities only 6 out of 100 employees have less than 29 years, while in the essential ones the level reaches 10%. On the other hand, in the activities involved in the lockdown, the under-29s accounted for 23.4% of the total employment. These figures are of the utmost importance, since the sectors closed during the lockdown will not be able to return to the pre-crisis levels of activity until a significant easing of the measures of social distancing and a substantial recovery of tourism will be assured, which in the absence of a vaccine, may take a while. In the meantime, the condition of the young people in the labour market will be rather difficult, especially in countries where, on the eve of the epidemic, youth employment levels had not yet returned to those preceding the 2008-2009 recession (Italy, Greece and Spain).

The sectors closed during the lockdown mainly employ the weaker categories of workers, such as the self-employed and those with fixed-term contracts. In the EU, on average, the self-employed workers account for 22% of the total in the sectors involved in the lockdown, and just 11% in those that continued operating in teleworking. In Italy the percentage reaches 31.3%, one of the highest in the area. The same applies to fixed-term contracts,that in Italy concern 33% of the employed in the sectors deemed as not essential during the most acute phase of the epidemic. These sectors also employ 30% of low skill workers (who attained at the most a primary school diploma). On the other hand, for the sectors where it was possible to continue the activity remotely, the employees with at most primary education were below 8%, and 47% had a tertiary degree.

PERCENTAGE OF SELF-EMPLOYED DURING THE LOCKDOWN

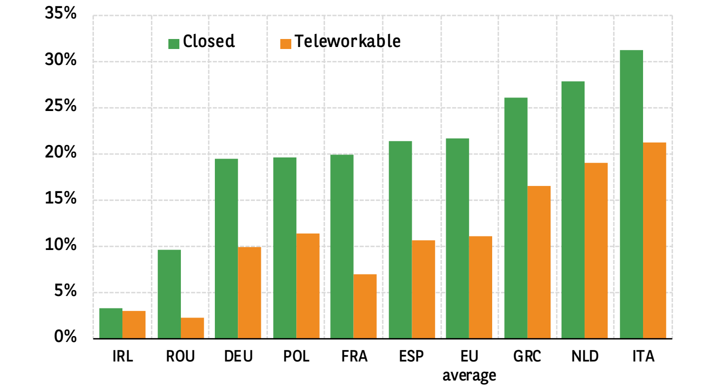

CHART 3 SOURCE: BNL CALCULATIONS BASED ON EU COMMISSION DATA

Although in a context of extreme difficulty, after the emergency phase, income support measures should be accompanied by policies aimed at supporting these workers and by investment in training and in education. The role of teleworking should also be revalued: it has given a competitive advantage to countries that, during the peak of the epidemic, have been able to convert "in-person activities" to telework faster and more efficiently than the others. Before the outbreak of the epidemic only 10% of workers in the EU could operate remotely on a regular or temporary base, with values below the average in Italy (4.3%) and higher in the Netherlands (around 25%), Finland (21%), France and Belgium (around 15%).

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