

ECONOMIC PULSE

ITALY: A VERY FRAGILE RECOVERY

The chart below incorporates data that largely covers the lockdown period and thus continues to display historically low averages.

Industrial output and retail sales both plunged in April – by 19.1% and 10.5%, respectively on a month-on-month basis – bringing the average for the past three months to -42.7% and -28.8%. Furthermore, the latest labour market figures show a misleading decline in the unemployment rate of 6.3% in April. Indeed, this was due to a record contraction in the labour force (-757,975); employment also fell sharply (-274,080). The Italian statistics office (Istat) did not provide an explanation to this drop in the labour force but it acknowledges some difficulties in conducting the survey due to the sanitary measures. Job seekers may have been discouraged by lockdown measures and the impossibility to go to employment agencies, which temporarily led to this fall in the labour force. This trend should reverse in the coming months.

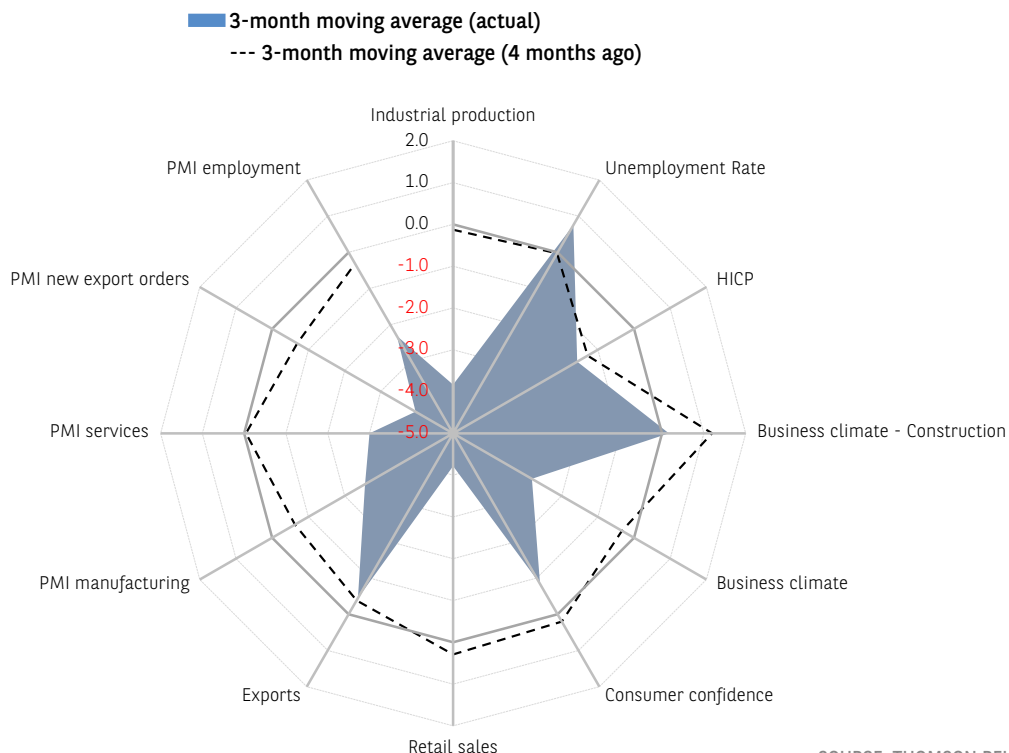
The more timely surveys confirm that the economy has recovered very gradually since May, in line with the easing in business restrictions. The composite purchasing managers index (PMI) improved from 10.9 in April to 33.9 in May, but remains deep in contraction territory. The services PMI rose only from 10.8 to 28.9. Economic activity should continue to recover as the pandemic regresses in both Italy and Europe. Italy has reopened its borders to European tourists since 3 June.

Nonetheless, the OECD in its latest Economic Outlook forecasts a 11.3% decline in Italian GDP in 2020, based on its most optimistic scenario (a single wave of the virus) and a 14% decline under a worst-case scenario (second wave of the virus). In 2021, the rebound would be 7.7% and 5.3%, respectively.

Note: The European Commission business climate and household confidence data were not available for Italy in April. The average is calculated using the results for March and May.

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QUARTERLY CHANGES



The indicators in the radar and surprise charts are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -3 and 3 in almost all cases. 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 signals an improvement. In the right pane, the surprise is an actual outcome that differs from the market forecast.

