

ECONOMIC PULSE

ITALY: THE INDUSTRIAL RECOVERY GATHERS PACE

As shown in our barometer, manufacturing activity has continued to strengthen at the beginning of the year. The manufacturing PMI index reached 55.1 in January, the best reading since March 2018. Italian industry is probably benefiting from activity in the US, which is stronger than in Europe. Around 10% of Italian exports go to the US, a comparatively higher share than German exports to this country (IMF figures). However, the recovery in the sector is not only driven by external demand: industrial domestic orders had been in December at their highest level since March 2011.

In contrast to this summer – when the rebound in industrial activity was led by consumer goods output – the current recovery in demand comes mainly from intermediate and capital goods. Meanwhile, the service sector remains heavily impacted by restrictions introduced to tackle the Covid-19 crisis: the services PMI (44.7) remains well below the 50 threshold indicating an expansion in activity.

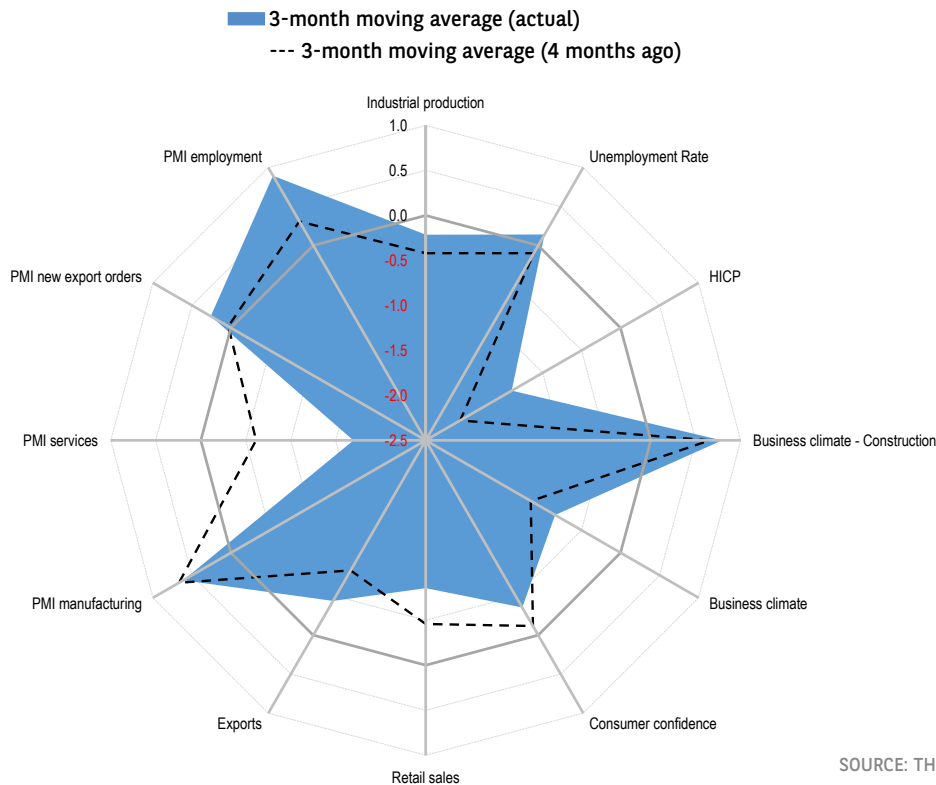
As in many European countries, inflation has bounced back in Italy in recent months, mainly due to higher prices in transport and

accommodation and food services. On a year-on-year basis, the Consumer Price Index (CPI) moved back into positive territory in January (0.69% y/y), whilst the core measure (excluding energy and unprocessed foods) rose at the fastest pace in a year (0.78% y/y).

The rapid formation of a coalition government led by Mario Draghi has prevented the country from sinking into a deeper political crisis, even though the health situation remains fragile. So far, the coalition, which gathers parties from across the political spectrum, seems to have reassured financial markets and the spread with the German Bund has continued to narrow. However, the new government will face various challenges in the coming weeks, including that of finalising the national recovery plan. The precise details and sources of financing of this plan will need to be sent to Brussels before the end of April.

Guillaume Derrien

QUARTERLY CHANGES



The indicators in the radar 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 -2,5 and +1 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 compared to the dotted area signals an improvement.

