ITALY

THE RECOVERY IS GAINING STRENGTH

At the beginning of 2021, the economic growth surprised on the upside. In Q1, real GDP rose by 0.1%. Private consumption declined, reflecting the disappointing evolution of income and a still high propensity to save, investment rose by almost 4%. The recovery turned out to be uneven, with industry and construction seeing a quicker rebound, while services continued to suffer. The economic growth is expected to strengthen in the coming months. The acceleration of the vaccination programme and a significant improvement in the health outlook have boosted optimism among consumers and businesses. In order to make the recovery long lasting, Italy has to improve the quality of human capital to balance the decline in productivity also due to an elderly work force.

A BETTER THAN EXPECTED RECOVERY

At the beginning of 2021, the economic growth surprised on the upside. In Q1, real GDP rose by 0.1%, after -1.8% in Q4 2020. Domestic demand subtracted 0.1%, while stocks added 0.6%. Net exports had a negative contribution, as imports rose more than exports. The annual GDP growth was -0.8%, from -6.5% in Q4 2019.

In Q1, the recovery turned out to be uneven, with industry and construction seeing a quicker rebound, while services continued to suffer. Construction has already recovered pre-pandemic levels, with an 8% increase in comparison to Q4 2019, thanks to fiscal measures designed to support the energy improvement and the seismic strengthening of buildings. In Q1, manufacturing value added recorded the third consecutive increase (+0.7%), although remaining about 2 percentage points below Q4 2019. Italian industry benefitted from the recovery of global demand, with exports bouncing back to pre-pandemic level. Production of intermediate goods strongly increased, with that of rubber, plastic and non-mineral metal products rising by more than 4% and that of chemical products by about 2%. In Q1, a still disappointing domestic demand brought services' valued added almost 8% below Q4 2019. Trade, transport and accommodation contracted by about 2%, further offsetting the moderate recovery of financial activities and information and communication services.

GROWTH AND INFLATION (%)

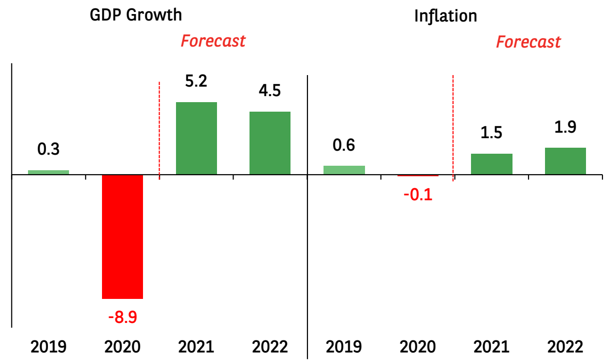

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

FEEBLE CONSUMPTION, STRONG INVESTMENT

In Q1, consumption fell by 1.2%, subtracting 0.7% from the GDP increase, reflecting the disappointing evolution of income. Labour market conditions remain uncertain. In Q1, the number of people in employment declined more than the number of hours worked, with labour units about 1.7 million below Q4 2019. Hourly contractual wages rose by 0.6% on annual basis, below inflation evolution. Private expenditure continued to be constrained by a still high propensity to save, as a consequence of the combination of fears about the evolution of the pandemic and the restrictions imposed to limit the spread of the virus. From January to March, households' bank deposits rose by almost €20 billion.

In Q1, the Italian recovery mainly reflected the strong rebound of investment, which rose by almost 4% q/q, with a 0.7% positive contribution to GDP growth, reaching the highest level in the last ten years. Expenditure on machinery and equipment increased by 3.5% and construction expenditures by about 5%. Italian firms benefitted from measures enacted to prevent a generalised tightening of credit, such as public guarantee on bank loans. Although the leverage index rose by about 2 percentage points in 2020, financial conditions of non-financial corporations strengthened. Firms' deposits rose to €480 billion or 38% of total financial debt, about twice as much as the 2008 level.

REAL GROWTH OF COMPONENTS
GDP, Q1-2021/Q4-2020

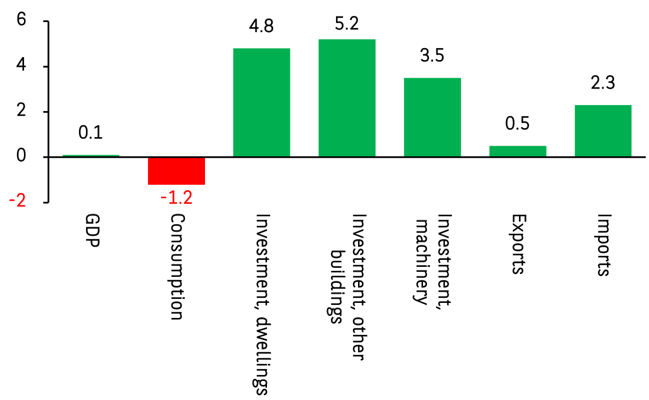

CHART 2 SOURCE: ISTAT

A RECOVERY THAT IS STRENGTHENING

The economic growth is expected to strengthen in the coming months. The acceleration of the vaccination programme and a significant improvement in the health outlook has driven up optimism among consumers and businesses. The easing of restrictive measures on mobility supports private expenditure, which also benefits from an improvement of income evolution and an increasing propensity to consume. In April, the number of both employed and unemployed persons increased, while that of inactive people declined. Consumption is also supported by a higher use of bank loans. The annual growth rate of bank consumer credit rose from -3% at the beginning of 2021 to +0.3% in April. From January to April, retail trade increased by 8.4% y/y, with a stronger demand for non-food items. In May, services PMI swung back into positive territory. Manufacturing continues to benefit from the favourable evolution of global trade. In April, exports rose by almost 3.5% m/m. Italian sales abroad have totally recovered the loss accumulated during the first part of the crisis, supporting industrial production, which increased by almost 2% m/m in April.

IN ITALY THE POPULATION SHRINKS AND GETS OLDER

The Covid-19 pandemic has shown the importance of an in-depth knowledge of the age structure of a population in order to make healthcare systems more resilient and education programmes more effective in endowing the different age groups with adequate skills in order to enter or remain in the labour market in a productive way.

Italy is one of the countries suffering the most from the growth in the number of elderly people in proportion to the other age cohorts, and to the contraction of the population. The number of residents has been declining for seven years in a row, decreasing to 59.258 million in 2021, 384 000 less than in 2019, mainly due to the birth rate decline. In 2020, only 404 000 children were registered, about one third less than the peak of 577 000 observed 12 years earlier. The drop in births is due both to structural factors - i.e. a reduction in the female population in childbearing age (conventionally set between 15 and 49 years old) - and to the reduction in the average propensity to have children. Estimates indicate that had the fertility rate remained at 2019 levels, when there were 420 000 births, there would have been around 413 000 births in 2020. The structural effect linked to the ageing of the female population alone has led to a reduction, all things equal, of at least 700 000 births. The remaining 9 000 missing births over 2019 would result from a lower propensity to have children.

Indeed, after reaching a peak of 1.46 children per woman in 2010, the total fertility rate undertook a declining trend leading to 1.24 children per woman in 2020 (the second lowest value in the last 20 years, after that of 2003). The reduction in birth rates affected all areas in the country. The Covid-19 pandemic has stopped the gradual lengthening of life expectancy at birth. After an extraordinary progress recorded since 1950 (when the average life expectancy was 66.5 years), life expectancy at birth stood at 82 years in 2020, 1.2 years below the 2019 level. It declined to 79.7 years for men (1.4 years less than the previous year) and to 84.4 for women (one year less than in 2019).

The increase in life expectancy at birth over the years has led to a significant increase in the share of the elderly population in total: the over 65-year old, in particular, reached 23.5% in 2020 (they represented 8.1% of the total Italian population in 1950). This figure is expected to increase up to 2049 (when this age group might end up accounting for 33.9% of the total population) and then gradually decrease.

WORKFORCE EDUCATION IN THE PRODUCTIVE SYSTEM

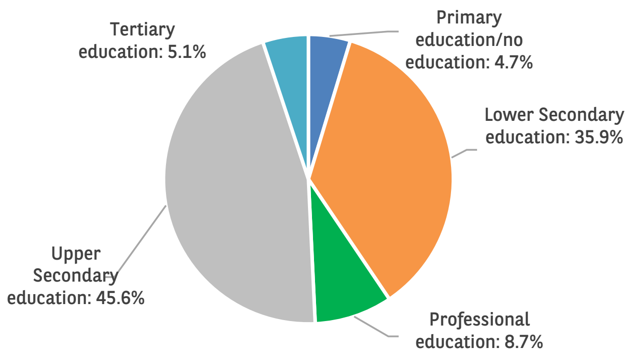

CHART 3 SOURCE: BNL CALCULATIONS ON ISTAT DATA

By contrast, between 1950 and 2020, the weight of the 0-14-year old age group more than halved, from 26.7 to 11.8% of Italian population. Among the elderly in Italy, 17,935 people were over 100 years old in January 2021.

In Italy, the analysis of the relationship between the age structure of the population and the quality of human capital is of great interest, owing to the growing presence of elderly workers in the production system, and because the average education of the employed is still low, even though the younger cohorts are on average more educated than the older ones. Italian workers' average age obviously reflects that of the general population. According to the latest Istat data, over 33% of the employed in Italian firms are over 50 years old, 52.6% are between 30 and 49 years old and only 13.6% are 15 to 29 years old. The large presence of the over 50 in the business system is not a problem per se; however, it may have negative consequences on productivity and propensity for innovation when accompanied by a low level of education, which is the case in Italy. According to Istat data, only 5.1% of staff in Italian firms have at least a tertiary education background or an academic diploma. This is an extremely low percentage, while employees who do not have education at all or have at most a primary school diploma make up 4.7% of the staff, and those having obtained a lower secondary school diploma, 35.9%. As expected, the percentage of less skilled employees (primary school or no qualification) is concentrated among older workers: (69.4% are over 50 years old); however, it is also not negligible in the 30-49 years old age group (over 27%) while it is quite small among younger staff (about 3%).

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