ECONOMIC PULSE

ITALY: THE RECOVERY AT A STANDSTILL

The marked improvement in the barometer shows that the rebound in economic activity was encouraging up to mid-October, before the epidemic picked up speed again. As in other countries, the pick-up in activity was concentrated in the industrial sector. The manufacturing PMI reached 53.8 in October (its highest level since March 2018), driven by a marked improvement in the new export orders component (+4.5 points to 55.8). Conversely, the services sector PMI fell by 2.1 points to 46.7.

Industrial activity has been supported in part by stronger external demand, which allowed for a significant rebound in exports. Moreover, and given that the recovery in exports was stronger than imports, the trade balance has improved significantly. After seasonal adjustments, the September trade surplus was the biggest since the current data series began in January 1993.

However, there are now fears of a fresh drop in economic activity in Q4, as predicted by Italian employers' federation Confindustria[1]. This drop in GDP may nevertheless be less significant than in other countries,
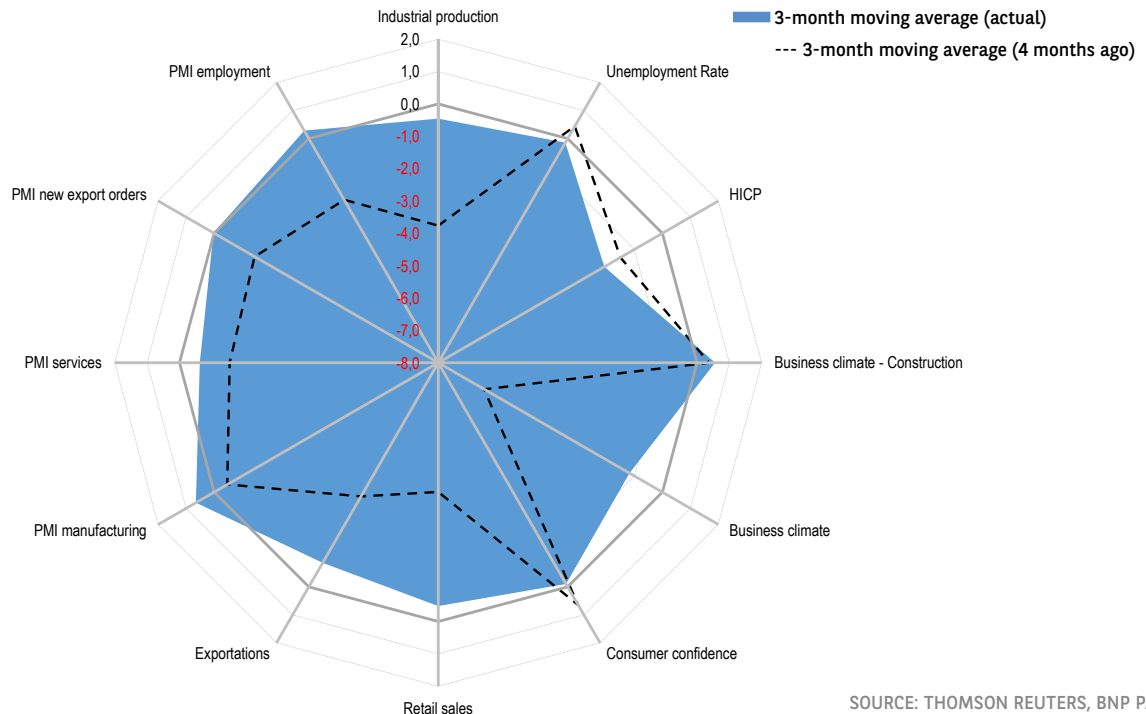
1. Pil Italia: allarme Confindustria: "nuova recessione a fine anno", Wall Street Italia, 23 November 2020

due to the introduction of less severe restrictions and a weight of the industrial sector that is higher than in France or Spain most notably. That said, in its latest October forecasts, the European Commission predicted that Italian GDP will drop by 9.9% in 2020, followed by a 4.1% rebound in 2021.

To deal with the extension of the health crisis, Giuseppe Conte's Government approved this week a new fiscal package of EUR 40 billion for 2021, to cover additional expenditure linked, amongst other things, to an extension of the temporary unemployment scheme, the purchase of vaccines, and enhanced support to businesses. Therefore, the public deficit for 2021 has been revised upward to 7.0% of GDP, which will push public debt to 155.6% by the end of next year.

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QUARTERLY CHANGES

■ 3-month moving average (actual)
--- 3-month moving average (4 months ago)

SOURCE: THOMSON REUTERS, 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 -8 and +2. 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.

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