May 2024

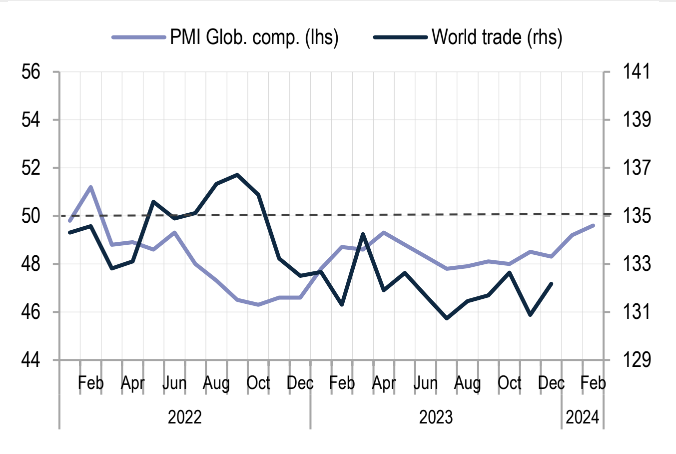
Note

ON THE ITALIAN ECONOMY

Istat

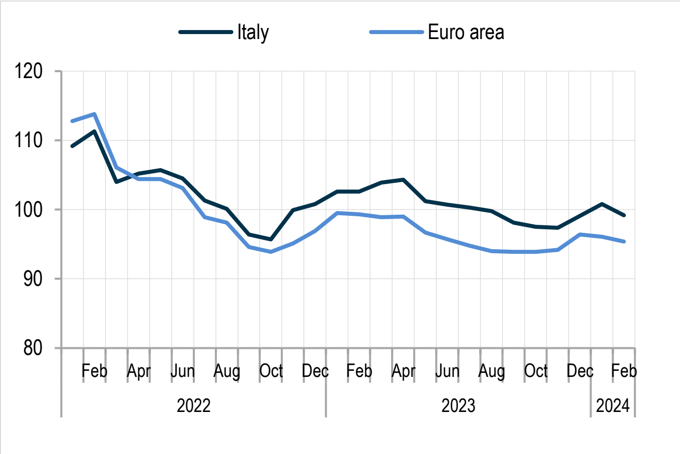
- In the first part of 2024, international economic activity continued to show some resilience. Inflation decelerated more rapidly than expected, and labor market conditions remained solid.
- Preliminary estimates for Italian GDP growth in the first quarter indicate an increase of +0.3%; the domestic component (excluding inventories) contributed negatively, while the net foreign demand provided a positive contribution.
- Between December 2023 and February 2024, exports in value remained stable, while imports decreased by 4.8%; these trends led to a further improvement in Italy's trade balance, which returned to positive territory since late 2022.
- In March, employment growth continues, involving both men and women and individuals of all ages, except for those aged 35-49; by professional position, employment increased among both permanent and temporary employees and among self-employed individuals.
- The dynamics of the consumer price index for all households (NIC) in the first four months of 2024 hovered around unity (0.9% in April, according to provisional data); the decline in energy prices (-12.0% in April) and food prices (+2.6% in April, down from +5.6% in January) continues, mainly thanks to the fresh component (+2.2%, down from +7.5%).
- After rising in March, business confidence declined in April across all economic sectors; consumer confidence in April confirmed the decline seen in March, marking the lowest value since November 2023.

FIGURE 1. MERCHANDISE WORLD TRADE IN VOLUME AND PMI GLOBAL COMPOSITE NEW EXPORT BUSINESS. Index base 2010=100; >50 = growth



Source: CPB and HIS

FIGURE 2. ECONOMIC SENTIMENT INDICATOR (ESI). Index base 2010=100; seasonally adjusted



Source: European Commission

THE INTERNATIONAL ENVIRONMENT

Modest global economic growth but with improving prospects. In the first part of 2024, international economic activity continued to show some resilience. Inflation decelerated more rapidly than expected, and labor market conditions remained solid, with unemployment close to historic lows. However, the performances of various countries remain heterogeneous.

World trade is rebounding but continues to grow below the long-term average. The global Purchasing Managers Index (PMI) for new export orders, which anticipates the trend of international trade (below the expansion threshold since February 2022), remained below 50 points in the first three months of this year but surpassed the threshold in April (Figure 1). According to the latest forecasts from the International Monetary Fund (IMF), the volume of global trade in goods and services is expected to grow by 3.0% this year (up from +0.3% in 2023), with a downward revision compared to January forecasts.

The disinflation process continues thanks to the decline in energy commodity prices and still restrictive monetary conditions. However, in the first four months of 2024, Brent prices have resumed growth (averaging $86.7 from January to April compared to $82.6 in 2023), driven also by geopolitical tensions, while natural gas prices have continued to decrease (averaging $74.3 from January to April compared to $102.9 in 2023).

Despite the different growth prospects and timing of the reversal of monetary policy cycles, the exchange rate between the euro and the dollar has continued to fluctuate around 2023 levels, averaging $1.08 per euro between January and April.

Moderately positive results in China, where in the first quarter of 2024, GDP grew by 1.6% quarter-on-quarter, accelerating from 1.2% in the previous three months. Despite the figure being higher than expected and consistent with government objectives, the Chinese economy still faces some challenges related to the real estate sector and the high indebtedness of the private sector and local governments.

Decelerating GDP growth in the United States. US economic activity in the first quarter of this year increased by 0.4% quarter-on-quarter, a significant slowdown compared to the previous quarter (+0.8%). Fixed investment, private consumption, and public spending contributed positively to growth, while the increase in imports and inventories had a negative impact. Consumer inflation continued to show some downward rigidity (3.5% year-on-year in March), and labor market conditions remained solid.

In the euro area, recent macroeconomic data has exceeded expectations. Eurozone GDP in the first three months of 2024 increased by 0.3% quarter-on-quarter, a sharp acceleration compared to the previous two quarters (+0.1% in both). This result reflects significant heterogeneity at the country level, with Spain growing by 0.7% on a quarterly basis, while France and Germany grew by 0.2%. Available data suggests that economic activity was driven by a rebound in foreign trade, while domestic demand, despite showing positive signs in some countries in the area, remained overall stagnant.

The disinflationary process in Europe has continued. In April, consumer inflation remained stable (2.4% year-on-year); services, which are characterized by some stickiness, slowing down to 3.7% after being at 4.0% in each of the previous five months. In this context, with inflation very close to the target, the European Central Bank is expected to start the expansionary monetary policy cycle from June, while the Federal Reserve may postpone the first interest rate cut to September.

The growth prospects for the euro area remain uncertain. In April, the Economic Sentiment Indicator (ESI) returned to decline, dropping to 95.6 from a previous 96.2 (Figure 2). Business confidence has worsened in all major macro-sectors, reaching new lows in industry and construction since 2020. ESI deteriorated significantly in France (-4.8) and more moderately in Italy (-1.3), while it improved considerably in Spain (+2.3) and in Germany (+1.5).

THE ECONOMIC SITUATION IN ITALY

In the first quarter, according to preliminary estimates, Italian GDP recorded an increase of +0.3%, the third positive quarter-on-quarter increase after the decline registered in the second quarter of 2023, summarizing an increase in value added in all economic sectors. On the demand side, the domestic demand (excluding inventories) negatively contributed to GDP growth, while the net foreign demand provided a positive contribution.

Industrial production declining... As for the manufacturing sector, the significant decrease on a month-on-month basis marked by the industrial production index in January was followed by stability in February and a new decline in March (-0.5% compared to the previous month), resulting in a sharp slowdown in the first quarter (-1.3% compared to the Q4 2023). This decrease was due to the decline of durable consumer goods and capital goods (respectively -3.1% and -2.3%). Non-durable consumer goods and energy goods, on the other hand, experienced a more moderate and similar slowdown (respectively -0.9% and -0.8%). The performance of intermediate goods was almost stationary (-0.1%).

...but not in construction. In February, after the strong increase in the previous month, the construction sector recorded a decline in production (-3.9% the seasonally adjusted MoM variation), interrupting the growth of the previous four months. However, on a quarterly basis, the increase in the index remains strong (+3.6% between December 2023 and February 2024 compared to the previous quarter). The strong growth in the construction sector had been anticipated by the results of non-residential building permits, which in the fourth quarter of 2023 had recorded a marked increase on a MoM basis (the surface area of buildings showed a MoM variation of +28.3%). On the other hand, the growth on a MoM basis in the residential sector was milder, both in terms of the number of dwellings (+0.1%) and the usable living area (+0.6%). Overall, for the year, the residential sector showed a decline compared to the high levels of the previous two years.

Weak retail sales. In the first quarter of 2024, on a MoM basis, retail sales remained flat in value while decreasing in volume by 0.4%, driven by a reduction in both food (-0.6%) and non-food (-0.2%) goods.

Foreign trade remains weak. Between December 2023 and February 2024, both Italian exports and imports showed a weak dynamic. Compared to the previous three months, exports in value remained stable, while imports decreased overall by 4.8%; compared to the same period of the previous year, the reduction was respectively over 2% and 12%. These trends resulted in a further improvement in Italy's trade balance, returning to positive territory since late 2022.

As for exports, during the period considered, there was a decrease in sales value to the EU (-2.5% year-on-year), particularly to major destination markets such as Germany (-6.4%) and France (-4.3%), which together account for over 40% of exports to the European area, alongside a modest increase to non-EU markets (+0.8%). More specifically, there was a significant increase in sales to the United States (+9.6%), especially for pharmaceutical products, machinery, and other transport equipments, along with exports to Turkey (+10.9%) and OPEC countries (+20.3%); on the other hand, there was a decline towards the United Kingdom (-3.3%), Switzerland (-1.9%), China (-43.7%), and Russia (-17.3%); towards this last market, exports decreased by over 40% in the last two years.

The employment growth continues in the first quarter... In March, employment growth continues, with the number of employed reaching 23,849,000 units. The increase involves both men and women and individuals of all ages except for those aged 35-49; by occupational position, employment grows among both permanent and temporary employees, as well as among the self-employed. The employment rate, at 62.1%, shows an increase of 0.2 percentage points compared to February.

Unemployment decreases compared to the previous month (-2.8%) due to a decline mostly affecting men, spread among those under 35 and over 50; on a monthly basis, the total unemployment rate, which in the Euro area remains stable at 6.5%, decreases by 0.2 percentage points (to 7.2%), while the youth unemployment rate decreases by -2.3 points (to 20.1%).

Compared to February, the inactivity rate remains stable at 33.0%.

Quarterly data overall confirm monthly trends: comparing the first quarter of 2024 with the previous one, there is an increase in the level of employment by 0.2%, totaling 56,000 employed, spread across both genders, among only permanent employees, and among those over 35 years old.

The employment growth observed in the quarterly comparison is associated with a decrease in the number of unemployed individuals (-2.1%, equal to -40,000 units) and an increase in inactive individuals (+0.3%, equal to +40,000 units).

In the year-on-year comparison, there are 425,000 more employees (+1.8%) with the employment rate increasing by 1.0 points compared to March 2023. The year-on-year trend of the number of unemployed remains negative, decreasing by 148,000 units, or 7.4%. Compared to the previous year, the unemployment rate decreases by 0.7 points overall and by 3.0 points among youth; there are also decreases in the number of inactive individuals (-1.7%, equal to -213,000 units) and the inactivity rate (-0.6 points).

...as well as contractual wages. In the first quarter of 2024, contractual hourly wages increased by 2.8% compared to the first quarter of 2023, a higher value compared to the consumer prices growth rate (+1.0% in the same period), confirming the trend reversal already observed in the last quarter of 2023. In the private sector, a much higher dynamic is confirmed in industry (4.7%) compared to services (2.3%). The proportion of employees awaiting renewal in the private sector (contractual tension index) decreased to 16.7% in March (it was around 40% throughout 2023 and until February). Based on information available at the end of March, the wage growth in the private sector in 2024 is expected to exceed 3% in both industry and services, and given the likely absence of renewals in the public sector, it would be around 2.4% for the entire economy.

The latest indications from confidence surveys show, in April, a clear worsening of expectations regarding employment trends in all sectors, particularly in construction and retail trade, except for manufacturing

Consumer inflation remains at low levels... The dynamics of the Consumer Price Index (CPI), which experienced a significant decline throughout 2023 (from +10% in January to +0.6% in December), have hovered around unity in the first four months of 2024: 0.8% in January and February, 1.2% in March, and according to provisional data, 0.9% in April, with the acquired growth for 2024 amounting to 0.6%.

...and is slowing down in many categories of goods. Prices of energy goods have recorded significant year-on-year declines: -20.5% in January, -17.3% in February, -10.8% in March, and -12.0% in April. Until March, this trend reflected similar dynamics for both unregulated and regulated energy prices, while in April, despite a year-on-year reduction in the former by -13.9%, there was a 0.8% increase in regulated energy prices.

The growth in food prices has significantly slowed down since February, from +5.6% in January to +2.6% in April, due to the reduction in prices of both processed foods (from +4.5% to +2.8%) and, more notably, unprocessed foods (from +7.5% to +2.2%). The acquired inflation for 2024 for total food was 2% in April. Inflation related to the "shopping basket", a synthesis of prices of food items, household, and personal care products, which had been declining since the beginning of 2023, further reduced in the first months of the year, dropping from +5.1% in January to +2.4% in April, with the acquired inflation for 2024 amounting to +1.8%.

The year-on-year dynamics of service prices are at their lowest levels since May 2022. After declining in the second half of 2023, service prices stabilized around +3% in the first four months of 2024, reaching lowest levels since May 2022. The acquired inflation in April stands at +2%. Among services, prices for recreational, cultural, and personal care services continue to show high growth rates (+3.2% in the first three months of the current year and +3.8% in April). The dynamics of transport service prices, which averaged +4.2% in the first three months, reduced to +2.9% in April. Housing-related service prices, on the other hand, have seen slightly fluctuating year-on-year dynamics around an average of +2.7% in the first four months of the year (+2.8% in April), almost one percentage point lower than the 2023 average (+3.6%).

Underlying inflation (core inflation for consumer goods for the entire national collective excluding energy and fresh food), which has been progressively declining since March 2023 when it reached 6.3%, dropped below 2.5% since February (+2.3% in both February and March), recording 2.2% in April, when the acquired inflation for 2024 reached +1.7%.

Inflation in Italy is lower compared to the Euro Area average. Inflation measured by the Harmonized Index of Consumer Prices (HICP) in the first four months of 2024 averaged around +1%; the acquired inflation in April 2024 is +1%. Its dynamics continue to be lower compared to the Euro Area average, with a differential of -1.6 percentage points in the first three months of 2024 and -1.4 points in April. Compared to other major countries, it is 1.4 percentage points below Germany and France (+2.4%) and 2.4 points below Spain (+3.4%).

The decline in import prices continues… In February 2024, import prices continued to decrease, recording a year-on-year change of -5.5%. This trend reflected the decline in energy prices (-21.8%), a significant reduction in imported intermediate goods prices (-6.2%), almost no change for consumer goods (-0.3%), and increases for capital goods (+1.1%). Overall, import prices excluding energy decreased by 2.6% in February compared to a year earlier.

... as well as industrial production prices. Regarding industrial producer prices, which have been declining year-on-year since April 2023, they continued to decrease in the first three months of 2024, with an average year-on-year decrease of -10.4% (-9.6% in March). The decline was particularly pronounced in the domestic market (-13.6%) lower in foreign markets (-2.1% in the euro area and -0.7% in other markets). Excluding the energy sector, producer prices decreased by 1.9% in the first quarter of 2024. In the first quarter of 2024, construction prices for buildings decreased by 0.4% year-on-year (+0.3% for residential buildings and -1.35% for non-residential buildings), and those for roads and railways by 2.1%.

Expectations for consumer prices are moderate. Regarding expectations for consumer price, in April households expectations for both reducing and increasing inflation over the next twelve months compared to the previous twelve months are essentially balanced, with a strengthening compared to March in expectations of higher inflation. As for manufacturing, in April, intentions to raise prices over the next three months slightly outweigh those to lower them, with indications of stability for the majority of companies (83.7%)

THE OUTLOOK

Both business confidence and consumer confidence are declining. After the increase recorded in March 2024, business confidence decreases in April, returning to the level of February. The decline in the overall indicator represents a widespread deterioration of confidence in all economic sectors, albeit with different intensities: milder in manufacturing and more pronounced in construction, retail trade, and market services. In particular, in manufacturing, both judgments on orders and expectations about production levels have worsened, with stocks considered to be in decline. The construction sector has experienced a deterioration in all components; for market services, the worsening of judgments on orders corresponded to a positive evolution of opinions on business trends.

In April 2024, the consumer confidence index decreases for the second consecutive month and records the lowest value since November 2023. The reduction in the index is mainly due to the deterioration of expectations about the general economic situation (including expectations about unemployment), the family situation, as well as a significant deterioration in opinions about the possibility of saving in the future.

For technical and methodological information

Roberta De Santis

tel.+39 06 4673 7294

rdesantis@istat.it

Claudio Vicarelli

cvicarellii@istat.it

tel. +39 06 4673 7313