

The global outlook is dominated by the COVID-19 pandemic. The adverse impact of its necessary containment measures has caused an unprecedented demand and supply shock to international growth prospects.

The rapidly changing scenario makes extremely difficult to quantify the impact of the pandemic on Italian economy using the short-term indicators. The latter are conventionally released with a time lag with respect to the observation period.

First signals of COVID -19 economic effects are displayed by March consumer and business surveys -which deteriorated sharply- and February extra EU trade and retail trade.

Extra Eu trade was negatively affected by the sharp fall of exports towards China, while retail trade improved due to the increase of expenditure for food.

Inflation is approaching zero, driven by the fall in energy sector and especially in oil prices. Euro area consumer prices dynamics, although decelerating, remains higher than the Italian one.

The March monthly report includes the first focus on the COVID-19 economic impact. Further updated and focus, including scenario analyses and simulations, will be released in the next monthly report's editions.

1. WORLD TRADE AND PMI GLOBAL NEW EXPORT ORDERS (base Jan 2016=100)



Source: Istat

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



Source: DG ECFIN



THE INTERNATIONAL ENVIRONMENT

The global outlook is dominated by the COVID-19 pandemic, that from January has propagated to the rest of the World rapidly. The adverse impact of its necessary containment measures has determined an unprecedented demand and supply shock to international growth prospects. Financial markets reacted with a sharp increase of volatility and fall in assets prices. The outlook for World trade, which was already declining in January, worsened dramatically as suggested by the PMI Global new export orders of February and March (Figure 1).

In March, the €-coin sharply decreased even if it only reflects the initial effects of the fall in assets prices and the widespread deterioration in business and consumer confidence. In the same period, the Economic Sentiment Indicator (ESI), despite in many countries most survey responses were collected before strict containment measures were enacted, fell sharply in the euro area (-8.9 points). The record decline resulted from sinking confidence among consumers and in all the business sectors. The downfall was particularly strong in services and retail trade. Amongst the largest economies, the ESI dropped in Italy (-17.6) and Germany (-9.8), and fell significantly in France (-4.9), and Spain (-3.4).

THE ECONOMIC SITUATION IN ITALY

The rapidly changing scenario makes extremely difficult to quantify the impact of the pandemic on Italian economy using the available short-term indicators. The latter are conventionally released with a time lag with respect to the observation period. First signals of COVID -19 economic effects are displayed by March consumer and business surveys -which deteriorated sharply- and February extra EU trade and retail trade.

Extra Eu trade preliminary figures were influenced by the sharp fall of exports towards China (-21.6% with respect to the same month of the previous year) were the epidemic originated. Retail trade improved possibly due to the increase of precautionary expenditure for food in the first phases of the health emergency.

As for the business confidence climate, the index crashed from 97.8 to 81.7. The confidence index in manufacturing drastically reduced passing from 98.8 to 89.5.

In March, the consumer confidence climate slumped. The heavy deterioration affected all index components. More specifically, the economic climate current and future and the expectation on unemployment plummeted. These negative signals suggest that there might be in the coming months a deterioration in income, consumption and labour market figures.

In T4, gross disposable income of consumer households decreased by 0.2% with respect to the previous quarter in nominal terms and by 0.4% in real terms. Moreover, saving rate of consumer households was 8.2%, 0.1 percentage points lower than in the previous quarter.

In February, in comparison with the previous month, employment remained unchanged (58.9%) while unemployment decreased (9.7%, -0.1 p.p.) and inactive people slightly grew. However, in March the firm's expectation on employment deteriorated sharply including all sectors but construction.

According to preliminary estimates, in March the Italian consumer price index for the whole nation (NIC) increased by 0.1% both on monthly basis and with respect to the previous year (from +0.3% in February). Inflation is approaching the zero, driven by the fall in energy sector and especially in oil prices. Euro area consumer prices dynamics, although decelerating, remains higher than the Italian one.



COVID-19 IMPACT ON ITALIAN ECONOMY: PRELIMINARY ANALYSES

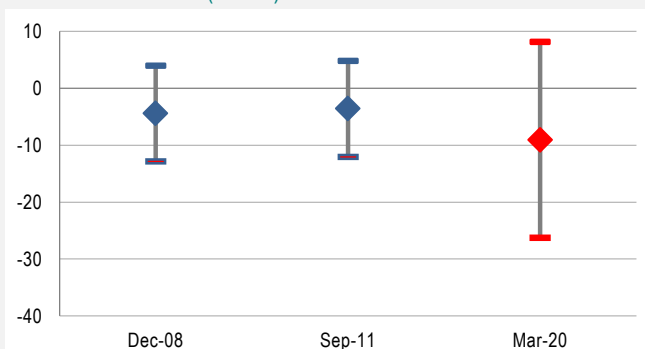
This focus presents preliminary analyses and simulations on COVID-19 economic impact on the Italian economy. It enlarges the scope of the analysis provided in the Istat [Memoria scritta dell'Istituto del 26 marzo](#) presented to the Italian Parliament.

In this study, we analyse the trends of most recent short term qualitative indicators such as business and consumer confidence and those derived from big data. Moreover, we provide quantitative evaluations of the COVID-19 economic impact, using Italian economy input output tables.

We concentrate our study on the period in which the necessary virus containment measures determined the interruption of 2.2 billion of firms activity (49% of the total Italian firms, 65% of exporting firms) and of 4 billion of workers (44.3%). This situation caused a sharp drop in consumer and business confidence, which reached the lowest values also in comparison with the previous economic crises.

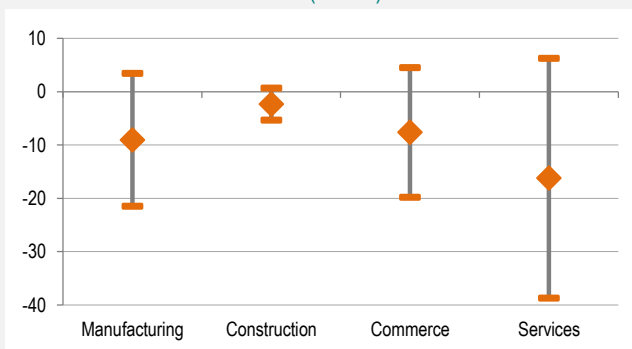
Time series comparison on all the indicators of the business and consumer survey provided a first impression of the size of the drop. Considering the distribution of all indicators (m-o-m), the median was the lowest in March 2020 compared to the other crises (Figure 8). Even the standard deviation, that provides a measure for dispersion, was the highest. Looking at the analysis by sector, the fall in confidence in March was higher for services and manufacturing (Figure 9).

8. BUSINESS AND CONSUMER SURVEYS DISTRIBUTION BY INDICATOR (m-o-m)



Source: Istat

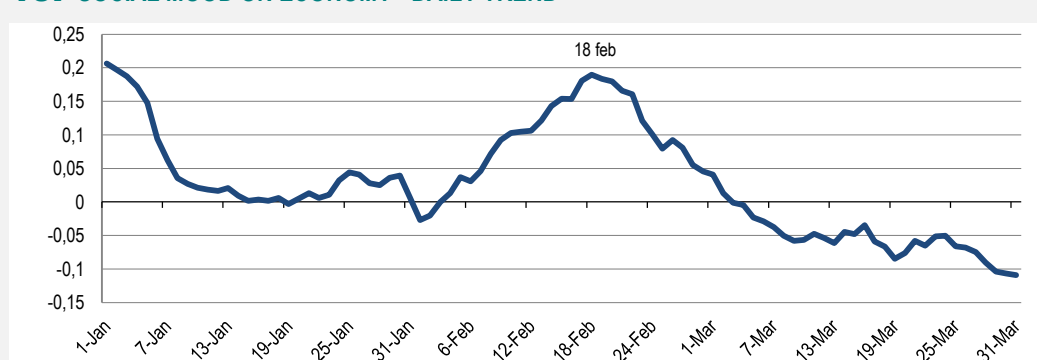
9. BUSINESS SURVEY DISTRIBUTION BY INDICATOR AND ECONOMIC SECTOR (m-o-m)



Source: Istat

The use of big-data offers the possibility of getting high frequency signals on people perception of the current crisis. The Istat Social mood on economy index¹, started to decrease the 18th of February and the trend has been continuing since the end of March (Figure 10).

10. SOCIAL MOOD ON ECONOMY - DAILY TREND



¹ Un indicatore sperimentale diffuso periodicamente dall'Istat che fornisce misure del sentiment italiano sull'economia derivate da campioni di tweet pubblici in lingua italiana e che vengono elaborati giornalmente.

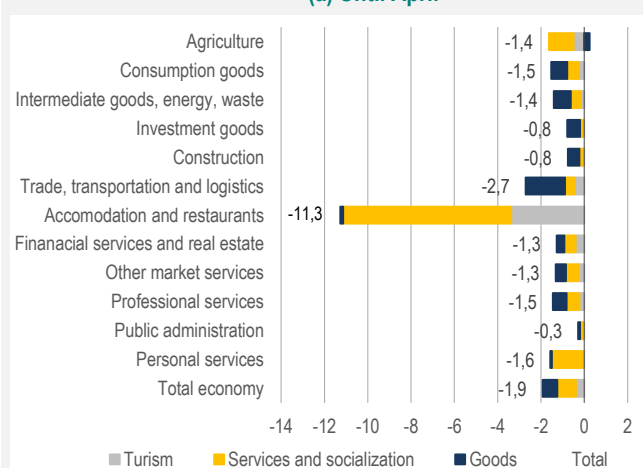


To measure the structural quantitative effects on the Italian economy, we use the Input-Output tables which provide a quantification of direct and indirect impacts on the economy through the analysis of intersectoral relationships. More precisely, for sectors in lockdown or for which we assume that the turnover is near zero (i.e. tourism) we evaluate the overall reduction of production and its impact on consumption.

We provide two different scenarios, the first in which the lockdown will be concentrated in March and April and the second in which the lockdown will last until June. In the first case consumption will be reduced by 4.1% on yearly basis in the second case by 9.9% (Figure 11). The consumption fall would determine a value added contraction by 1.9% and 4.5% respectively.

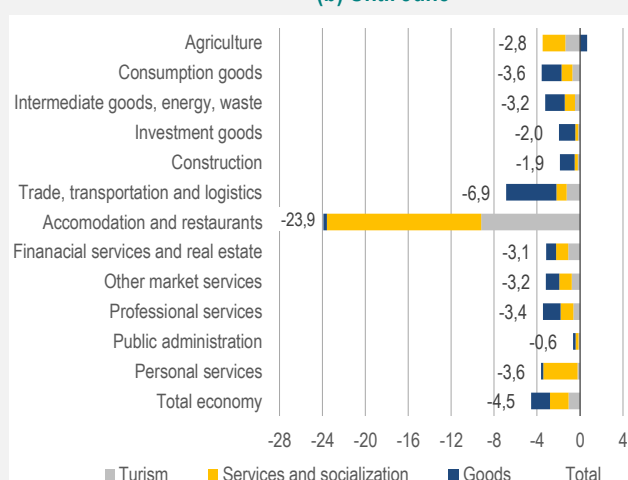
11. LOCKDOWN EFFECTS ON SECTORAL VALUE ADDED (% changes compared to the baseline scenario without lockdown)

(a) Until April



Source: Istat

(b) Until June



Source: Istat

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