



In the past few weeks, the global outlook is showing first signs of recovery due to the end of the lockdown and the effects of expansionary policy measures implemented in support to households and firms.

In May and June, the Italian indicators showed some improvements of economic activity following the strong decreases in March and April. In May, extra Eu exports increased and in June the confidence improvement was diffused to all sectors.

Recent data on incomes, consumption and labour market reflect the impact of expansionary policies, contrasting the fall of personal income that turned out in an increase of the saving rate in the first quarter and of retail trade in May. The decreasing trend of employment has continued although at moderate pace, while weekly working hours and unemployment rate increased.

In Italy, the deflationary trend started in May continued while inflation accelerated in the euro area, widening the gap of Italian inflation with respect to those of its main European partners.

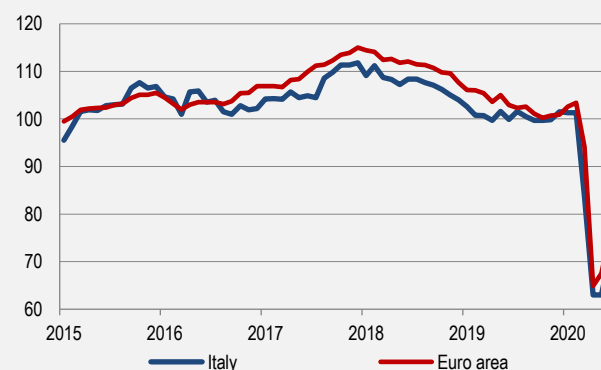
In the focus, the previous analyses on the pandemic's effects on firms are deepened. The main features and factors of production recovery are highlighted. Overall, the business sector is resilient although some critical obstacles to recovery are present for micro-firms and firms in highly affected sectors by the lockdown.

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



Source: Istat

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



Source: DG ECFIN

(a) In April the survey for Italy was not observed



THE INTERNATIONAL ENVIRONMENT

In the past few weeks, the global outlook is showing the first signs of recovery due to the end of the lockdown and the effects of expansionary policy measures implemented in support to households and firms.

The merchandise World trade in real terms (source: Central planning bureau) showed a historical decline in the World trade volume in April compared with March (-12.1%). The growth in World trade during the months February to April in comparison with the previous three months was -7.2%. None of the regions showed an increase, and the euro area displayed the most negative development (-13% exports, -11% imports). The outlook for World trade, however, as suggested by the PMI Global new export orders of May and June is gradually recovering (Figure 1).

In May, the euro area seasonally-adjusted unemployment rate was 7.4%, up from 7.3% in April 2020. In the same month when Member States began easing the COVID-19 containment measures, the seasonally adjusted volume of retail trade increased by 17.8% in the euro area. The perspectives for the area are generally improving.

In May and June, €-coin continued to fell although at decelerating pace. The index continued to be affected by the contraction in industrial production notwithstanding the improvement in business and consumer confidence. In the same period, the recovery of the Economic Sentiment Indicator (ESI), which had started in May, intensified (+8.2 points, Figure 2). The recovery was propelled by significant increases in confidence across all surveyed business sectors and among consumers. The largest gain, compensating for about a third of the combined losses over March and April, was registered in retail trade. At national level, the ESI recovered in all the largest euro-area economies.

THE ECONOMIC SITUATION IN ITALY

In April, the industrial production decreased by 19.1% with respect to the previous month although in marginal improvement in comparison to March (-28.4%). In the period February-April, the average production level decreased by 23.2% with respect to the previous three months with a fall diffused to all sectors.

In May and June, the Italian short-term indicators show some improvements of the economic activity following the strong decreases in March and April.

Extra Eu trade preliminary figures were influenced by the persistence of the end of COVID-19 pandemic containment measures in many regions. In May, in seasonally adjusted terms, exports increased by 37.6% and imports decreased by 2.4% compared with April. Over the last three months, seasonally adjusted data showed a 31.5% decrease in outgoing flows and a 26.9% decrease in incoming flows in comparison with the previous three months. As for the business confidence climate, the index grew from 52.7 in May to 65.4

In June, the consumer confidence index increased (94.3 to 100.6) with an improvement diffused to all components.

In the first quarter, gross disposable income of consumer households decreased by 1.6% with respect to the previous quarter, while final consumption expenditure decreased by 6.4%. The saving rate was 12.5%, 4.6 percentage points higher than in the previous quarter.

In the labour market, in May, in comparison with the previous month, the decrease in employment continued – at a slower pace – and unemployment returned to grow, against a marked drop of inactivity. The unemployment rate rose to 7.8% (+1.2 percentage points).

In Italy, the deflationary trend started in May continued while inflation accelerated in the euro area widening the gap of Italian inflation with respect to its main European partners. According to preliminary estimates, in June 2020 the rate of change of the Italian consumer price index for the whole nation (NIC) was +0.1% on monthly basis and -0.2% with respect to June 2019.



Focus

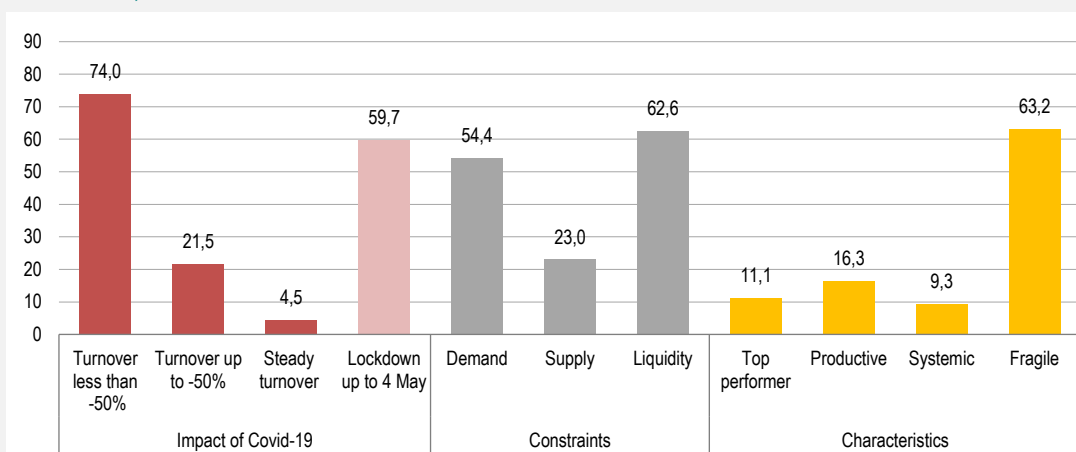
RISKS AND EVOLUTION OF THE ORGANISATION OF THE FIRMS ALONG THE CRISIS

Due to additional data request on Italian economy performance during the pandemic, Istat conducted specific surveys to complement information coming from traditional indicators. Particularly, in May, Istat run a business survey for firms with more than 3 employees (worth 90% of total value added and ¾ of total employment). The survey sample included about 90 thousand firms.

This focus provides a deeper analysis than that whose results Istat published the 15th of June. It utilizes also economic data available for 2018 on Italian firms coming from statistic register Frame-SBS.

Pandemic impact on firms was sudden and exceptionally intense, causing serious survival risks. The 38.8% of Italian firms (equal to 28.8% of employment, about 3.6 million employees, and 22.5% of value added, about 165 billion of euro) claimed the existence of economic and managerial factors which put at risk firms survival within the year. In particular, the possibility of operative default is determined mainly by the sharp fall of revenues (over 50% with respect to the same period of 2019, Figure 3), for 74% of firms and by the lockdown for 59.7% of firms.

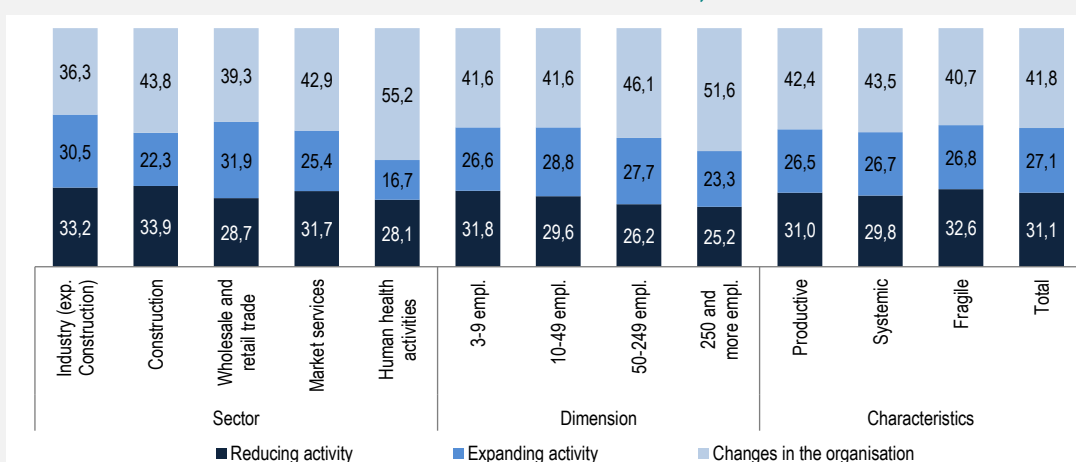
3. IMPACT, CONSTRAINTS AND CHARACTERISTICS OF FIRMS AT RISK OF OPERATIVE DEFAULT



Source: Istat

The Italian productive system is facing the exceptional economic situation using heterogeneous strategies according to dimensions and dynamisms (Figure 4). Over one third of firms (about 360 thousand units, 24.3% of employees, 21.2% of value added) declared to not have adopted any strategy to face the crisis.

4. FIRMS' ORGANISATION STRATEGY BY ECONOMIC SECTORS, SIZE AND CHARACTERISTICS



Source: Istat



To assess on the recovery expectations for manufacturing sectors, the info of the ad hoc survey released in May was merged with trends of monthly industrial production index up to April. The quartiles of growth rate distribution with a decreasing order of industrial production index has been elaborated in the period April-February and then compared with the information on firms at survival risk, the crisis effects and the reaction strategy (Table 1). This analysis offers the full picture of the various sectors.

TABLE 1 MANUFACTURING FIRMS' ORGANISATION STRATEGY BY SECTORS (a)

Sectors	IPI - quartiles (% Feb-Apr)	Firms at risk	Crisis' effects				Planned strategy		
			Liquidity	Demand	Supply	Expand activity	Reducing activity	Increasing activity	Changes in the organisation
	(a)								
Food products, beverages and tobacco products	1	28.9	41.6	59.6	29.9	16.2	30.3	35.1	34.6
Textile	3	48.2	60.0	67.7	24.3	5.2	30.0	31.6	38.4
Wood, paper and printing	1	38.8	59.9	65.4	32.3	5.8	32.3	32.1	35.6
Chemicals and pharmaceuticals	1	20.1	37.4	62.2	46.9	15.7	30.0	32.5	37.5
Rubber and plastic	2	23.9	50.2	70.1	27.6	9.9	33.7	30.8	35.5
Non-metallic mineral products	4	34.5	61.7	57.2	30.2	8.9	37.1	27.5	35.3
Basic metal and metal products	3	28.9	57.1	55.5	39.0	8.2	41.1	25.8	33.2
Computer, electronic and optical products	2	28.7	47.0	65.9	35.3	10.5	29.8	33.3	36.9
Machinery and equipment n.e.c.	3	25.1	45.4	67.0	32.9	9.5	32.3	32.9	34.8
Transport equipment	4	32.2	55.9	69.9	32.8	7.8	39.1	28.5	32.4
Furniture	4	39.0	63.9	66.6	30.5	6.4	33.1	30.0	36.8
Other manufacturing	4	44.7	54.1	66.8	31.4	5.3	29.3	33.8	37.0
Reparing	2	26.4	51.9	47.5	29.7	14.9	30.7	26.9	42.4
Total manufacturing		33.3	53.4	61.7	32.0	9.5	33.3	30.8	35.9

Source: Istat

(a) Calculation on industrial production monthly indexes. The first quartile represents the most favourable situation, the fourth the worst.

Overall, Italian firms proved to be resilient in the aftermath of the pandemic crisis despite the presence of critical issues for some firms and simultaneous demand and supply constraints.

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