Monthly Report
On the Italian Economy

8

AUGUST 2020

In the second quarter, the World GDP decreased sharply mostly due to the lockdown effects. After the fall in March and April, however the monthly indicators signalled a progressive recovery of the economic activity in many countries.

Following a contraction in Q2, World merchandise trade rebounded in June.

The Italian GDP fell in the second quarter but the monthly indicators starting from May underline a recovery.

In June industrial production, manufacturing new orders and external trade continued to recovery. Exports increased both in Eu and extra Eu markets.

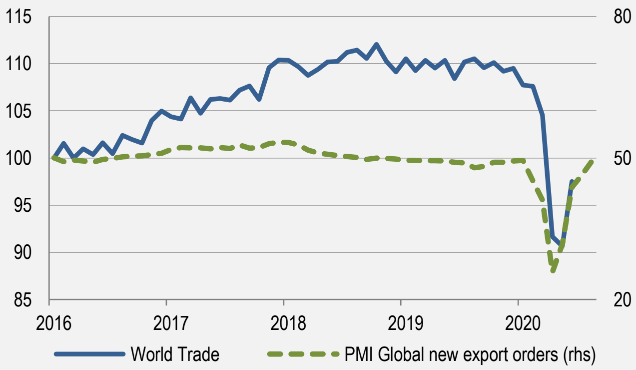
In August business confidence confirmed the positive trend diffused to all sectors although with various intensity.

After a drop in the second quarter, in July employment and worked hours recovered while unemployment rose.

In August, the consumer price negative trend increased and yearly figure falls back to its lowest value since April 2016

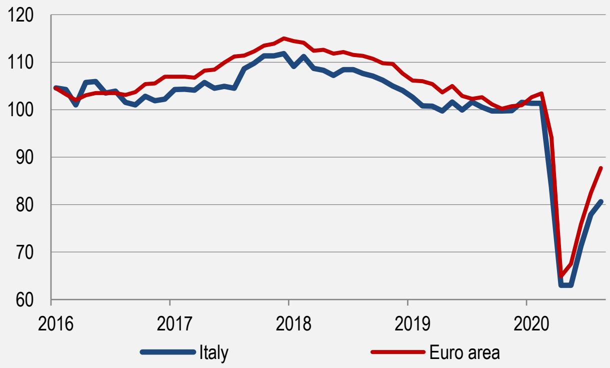
The monthly report includes an analysis on Italian productivity and investment illustrating key issues that would be important to address in the framework of the Recovery Plan.

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



Source: CPB and IHS

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 second quarter, the World GDP decreased sharply mostly due to the lockdown effects. After the fall in March and April, the monthly indicators signalled a progressive recovery of the economic activity in many countries. Following a contraction in Q2 (-12.5%), World merchandise trade rebounded in June with a sharp growth of 7.6% compared to May (Central planning bureau data). Data on PMI new export orders have reinforced their recovery (Figure 1).

In the United States, GDP collapsed by 9.1% in the second quarter experiencing a record fall. There has been a recovery over the summer, bringing a strong increase in business climate indicators. Also in the euro area in Q2 the GDP displayed a sharp drop (-12.1% with respect to the previous quarter) but monthly indicators are showing a recovery.

In August, the qualitative indicators for the euro area still gave mixed signals, the €-coin decreased further (to -0.64, from -0.50 in July), reaching levels recorded in 2009. In the same period, the Economic Sentiment Indicator (ESI), following the historical slump in March and April, continued to recovery (+5.3, Figure 2). It resulted from a sustained improvement of industry, retail trade, and, in particular, services confidence. By contrast, confidence edged down in construction and remained broadly stable among consumers. Amongst the largest euro-area economies, the ESI increased significantly in France (+9.3), Germany (+5.9), and Italy (+2.7). By contrast, the ESI suffered a setback in Spain (-2.5).

THE ECONOMIC SITUATION IN ITALY

In the second quarter the GDP decreased by 12.8% to the previous quarter. Both internal and external demand components contributed negatively. Compared to previous quarter, final consumption expenditure decreased by 8.7%, gross fixed capital formation by 14.9%, imports and exports by 20.5% and 26.4% respectively.

Starting from May, the Italian economy has been characterized by diffused signal of recovery for industrial production, extended in June to the manufacturing new orders and external trade increased by +14.4% (m-o-m) for outgoing flows and by +16.1% for incoming flows. Exports rose both for EU countries (+13.3%) and non EU countries (+15.6%).

In August, Business confidence climate, confirmed its growing trend while the consumer confidence slightly improved. The economic, the current and the future climates increased while the personal one lessened only slightly.

In July, after four months of declines, employment returned to grow and the increase of unemployment continued against a drop of inactivity. On a monthly basis, the increase of employment (+85 thousand) concerned mostly women. The unemployment rate rose back to 9.7%.

According to preliminary estimates, in August the Italian consumer price index for the whole nation (NIC) increased by +0.3% on monthly basis and by -0.5% on annual basis. The enlargement of the deflation, still mainly caused by the drop of prices of energy products (from -9.0% in July to -8.6%), was mostly due to the further decrease of prices of services related to transport. The prices of processed food including alcohol and those of unprocessed food continued to increase.

PRODUCTIVITY AND INVESTMENT

This focus presents an analysis of productivity and investments trends in Italy in the past decade comparing with the main European countries. Starting from the '90, the Italian productive system has been experiencing persistent low productivity growth rates with adverse impacts on economic performance and development perspectives.

In the period 2010-2019, the labour productivity gap with respect to Italian main European partners widened. In 2019, labour productivity in Italy increased by 1.2 percentage points compared to 2010, while in Germany France and Spain it increased by about 8 percentage points (Figure 7).

This outcome was partly due to, next to stagnating total factor productivity, a contraction in capital accumulation process since 2014. In 2019, the share of gross fixed investments on GDP (current prices) was 18.1% lower than the euro area average (22.0%).

This figure masks a heterogeneity among the various investments components. In fact, in 2019 the index of investments, base 2010=100, was 104 for machinery, equipment and armaments, 78.6 for constructions and 110.9 for intellectual property products (IPP) that include R&D expenditure.

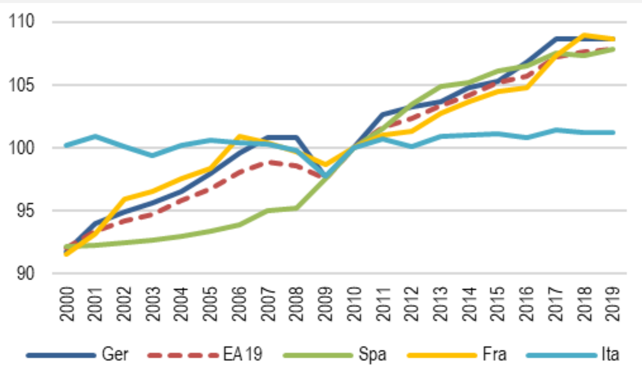
In 2019, Italy had a greater percentage of investment in machinery, equipment and armaments than its main European partners (37.9% with respect to 35.8% in Germany and 29.4% on average in euro area, Figure 8). Despite some improvements in the past few years, however, the Italian share of investments has remained lower than the euro area average for constructions (44.8% and 47.9% respectively) and intellectual property components (17.0% and 22.3%).

Looking at the institutional sectors, the Italian public administration investments decreased by 18.9% over the past 10 years while private sector investments increased in the same period by 3.5%.

The fall of public investments in constructions, which in 2010 accounted for the 58.3% of total investments, has been particularly strong (-29.3%) despite a recovery in 2019.

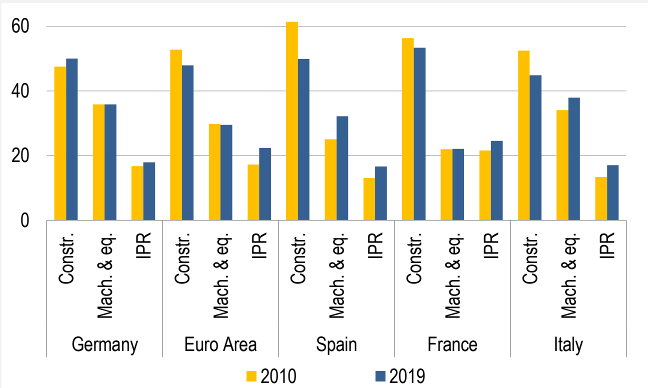
The sanitary emergency has been putting a drag on the Italian investments recovery process. In the second quarter, the gross fixed investments decreased by 14.9% with respect to the previous quarter.

7. REAL LABOUR PRODUCTIVITY PER HOUR WORKED-MAIN EUROPEAN COUNTRIES AND EURO AREA
(2010=100)



Source: Eurostat

8. INVESTMENT BY ASSET – MAIN EUROPEAN COUNTRIES AND EURO AREA
(Year 2010, 2019 share on total investment)



Source: Eurostat

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