Monthly Report
On the Italian Economy
12
DECEMBER 2018

International economy has become more uneven and signs of tempering momentum are emerging. The main factors behind the deceleration are the incomplete Brexit process and the impact of enduring “tariffs war” between the United States and China.

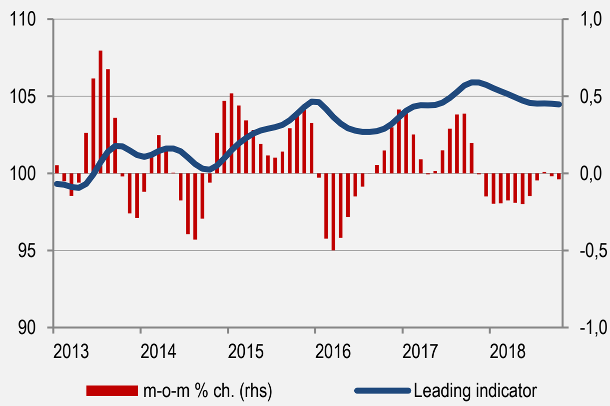
Recent trend in manufacturing sector confirmed the weakness of the Italian economic activity.

The employment rate has been stabilizing, while there was a marginal reduction in the unemployment rate. Although the employment returned to pre-crisis levels, the decrease of the unemployment rate was still very slow.

The fall in energy prices was the main driver of inflation deceleration in Italy and in the Eurozone but the inflation gap remained in favour of Italy.

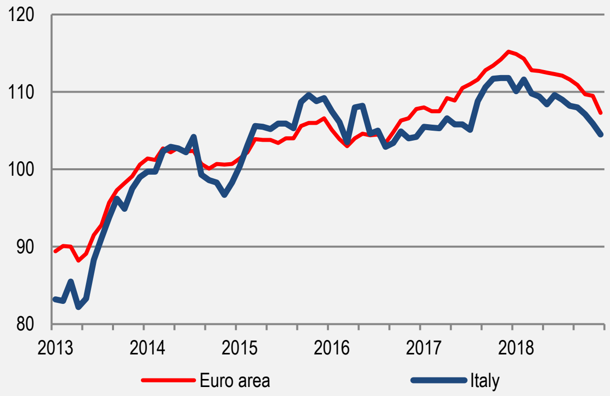
In December, the consumer and business confidence continued to show a widespread fall, with few exceptions, to all the components. The leading indicator decreased further suggesting that the weakness of the Italian current cyclical position will continue in the coming months.

1. LEADING INDICATOR
(base 2005=100 and % change)



Source: Istat

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



Source: DG ECFIN

THE INTERNATIONAL ENVIRONEMENT

In the past weeks, international economy has become more uneven and signs of tempering momentum emerged. The incomplete Brexit process and the impact of enduring "tariffs war" between the United States and China are negatively affecting global activity. In October, merchandise world trade in volume, according to the latest Central Planning Bureau monthly data, increased by 1.1% m/m recovering from the decrease of the previous month. Overall, the carry-over up to October (3.6%) continued to show a lower dynamism compared with the same period of 2017 (4.2%). Moreover, the December Global PMI relating to new export orders suggested that an acceleration of World trade in the coming months is unlikely.

According to the Eurozone Economic Outlook (EZEO) recently published by Istat, IFO and KOF, GDP growth in the Euro area is forecast to moderate in the first half of this year with domestic demand expected to be the main driver even if with a decelerating path.

For what concern the monthly data, in October 2018, seasonally adjusted industrial production rose by 0.2% m-o-m only partly recovering the -0.6% of the previous month. In November, both the German and the French output data were particularly disappointing (-1.9% m/m and -1.3% m/m respectively).

The economic deceleration has not yet been transmitted to the labour market. In fact, in November the unemployment rate touched the lowest value since October 2008 (7.9%). The latest results for the whole area (€-coin and Economic Sentiment Indicator) indicated that the business and consumer confidence were worsening.

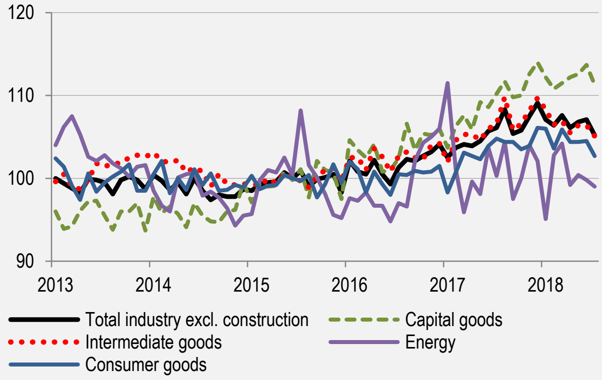
THE ECONOMIC SITUATION IN ITALY

In Italy, after the GDP decrease (-0.1% q-o-q) in Q3, new signals of deceleration were emerging. In November, in line with main European partners, the Italian industrial production fell sharply (-1.6% m-o-m, Figure 3). Overall, the output decreased marginally over the period September-November (-0.1% q-o-q) confirming the weakness of the economy.

In November, the employment rate has been stabilizing (58.6%), while there was a slight reduction in the unemployment rate (10.5%, 10.6% in October). The improvement in the unemployment rate however remained slower than that in the Eurozone as a whole.

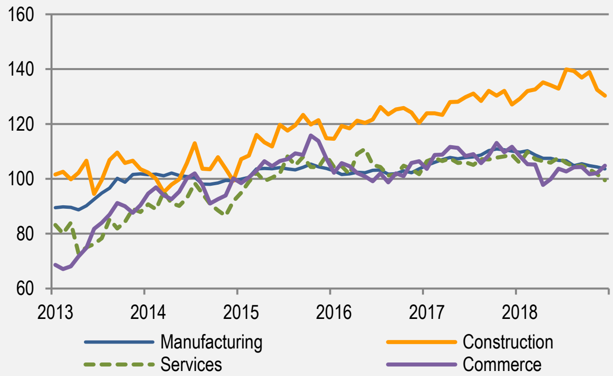
In December, headline inflation decelerated to 1.1% y-o-y (1.6% in November) driven by the fall in oil price. Core inflation (NIC excluding energy and unprocessed food), as joint effect of GDP growth losing momentum and import prices slowing down, decelerated to 0.6% showing lower dynamism than in the latest seven months average.

3. PRODUCTION INDEXES
(base 2015=100)



Source: Istat

4. BUSINESS CONFIDENCE INDICATORS
(base 2010=100)



Source: Istat

THE OUTLOOK

In December, the consumer and business confidence continued to show a widespread fall, with few exceptions, to all the components (Figure 4). The leading indicator decreased further suggesting that the weakness of the Italian current cyclical position will continue in the coming months.