

ITALY'S ECONOMIC OUTLOOK 2020-2021

■ At the end of 2019, the Italian economy was in stagnation with few recovery signals coming from industrial production and external trade at the very beginning of 2020. Starting from the end of February the COVID-19 containment measures introduced by the Government has having a deep impact on the economy influencing production, investment and consumption decisions and very negatively affecting the labour market. The rapid spreading of the pandemic in most of the countries has also disrupted international trade and consequently determined a dramatic fall in Italian firms exports.

■ Istat promptly planned new activities to assess the COVID-19 economic impact using available statistical data information as well as innovative indicators¹. More precisely, Istat provided a constantly updated picture of the number of firms and employed people affected by the lockdown provisions. The main features of firms affected by administrative suspension of activities were highlighted. Moreover, preliminary estimates of lockdown impact on Italian value added in 2020 using input-output tables of real economy were provided². In May, a business survey to assess firms' current situation and economic perspectives during the pandemic has been started. The results will be released at the half of June. Eventually, the conventional economic indicators assessing the dramatic fall of GDP in the first quarter 2020 (-5.3% q-o-q) were published.

■ The current framework is characterised by high uncertainty and significant revisions of traditional economic indicators. Thus our forecasts have to be interpreted as a preliminary outcome coming from the use of available statistical information and forecasts models corrected to include the pandemic effects. Therefore we expect in the coming months that there will be forecasts revisions.

■ In our forecasts we make assumptions on the magnitude of production fall in the second quarter (that will be bigger than that in the previous quarter) and on the velocity of recovery in third and fourth quarter. Moreover we rely on the hypotheses that there will not be a second wave of contagion, the economic policy provisions will prove to be effective and the monetary policy will remain accomodative avoiding turbulences in the financial markets and credit crunch.

■ Under these assumptions, we forecast a strong GDP contraction in 2020 (-8.3%) followed by a recovery in 2021 (+4.6%, Table 1). This year, the fall of GDP will be determined mainly by domestic demand net of inventories (-7.2 p.p.) due to the contraction of household and NPISH consumption (-8.7%) and of investments (-12.5%). Net exports and inventories will also contribute negatively to GDP growth (respectively -0.3 p.p. and -0.8 p.p.). Employment trend, in FTE terms, will follow the GDP trend with a sharp fall in 2020 (-9.3%) and a recovery in 2021 (+4.1%). The trend of unemployment rate will be different because it reflects the ricomposition between unemployed and inactive people and the fall in hours worked. The households final consumption expenditure deflator will display a negative trend this year (-0.3%) and will marginally recover the next (+0.7%).

¹ See <https://www.istat.it/it/archivio/239854>

² See <https://www.istat.it/it/archivio/241033>, <https://www.istat.it/it/archivio/242505>

TABLE 1: FORECAST FOR THE ITALIAN ECONOMY - 2018-2021

(% change on previous year)

	2018	2019	2020	2021
Gross Domestic Product	0,8	0,3	-8,3	4,6
Imports of goods and services (fob)	3,4	-0,4	-14,4	7,8
Exports of goods and services (fob)	2,3	1,2	-13,9	7,9
DOMESTIC DEMAND (INCLUDING INVENTORIES)	1,1	-0,2	-8,3	4,4
Residential households consumption expenditure	0,9	0,4	-8,7	5,0
Government Consumption	0,1	-0,4	1,6	0,3
Gross fixed capital formation	3,1	1,4	-12,5	6,3
CONTRIBUTION TO GDP				
Domestic demand (net of Inventories)	1,1	0,4	-7,2	4,2
Foreign balance	-0,3	0,5	-0,3	0,3
Inventories	-0,1	-0,6	-0,8	0,1
Households consumption expenditure deflator	0,9	0,5	-0,3	0,7
Gross domestic product deflator	0,9	0,9	0,5	0,9
Compensation of employees per full-time equivalent	1,7	1,3	-0,7	-0,4
Full time equivalent employment	0,8	0,3	-9,3	4,1
Unemployment rate	10,6	10	9,6	10,2
Trade balance (level as % of GDP)	2,4	3,1	3,3	3,8

For more details please refer to the Italian version

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