



DATI ALLA MANO

I PODCAST

UNDERSTANDING THE ECONOMIC TRENDS

What do we mean when we talk about the economic situation? The term is often used as a synonym for 'current economic situation'. But is that correct?

I am Cristiana Conti, and this is Dati alla mano (Data at Hand), a podcast by Istat, the National Institute of Statistics, where I work in the Directorate for Communication, Information, and Services to Citizens and Users. This initiative is part of a public communication project.

In this episode, we will talk about short-term economic indicators: what they are, what they include, and how to understand them.

It is not a static photograph, but a dynamic footage. The economic situation is the synthesis of different elements at a given moment. The most well-known components for non-experts are gross domestic product, prices, and employment. And when we talk about a period-over-period change in economic data, we refer to the variation compared to the immediately preceding period – which can be a month or a quarter depending on the type of primary survey. For example, for gross domestic product, it is the previous quarter; for prices, it is the previous month. The set of these variations tells us where we were and in which direction we are heading. And, at least in theory, it should place us in a phase of the economic cycle. Economic cycles have been discussed for many years – since the 18th century, to be precise – and it is the way to indicate the alternation of periods of expansion where the economy grows, and others of contraction where gross domestic product decreases, companies do not invest, there is a stall in consumptions, and unemployment increases. Many different hypotheses have been formulated regarding the reasons for this alternation, but the question I am seeking an answer to is this: do short-term economic data help us predict the future developments of our economy? Do they really help us understand which phase of the economic cycle we are moving towards? I asked Stefano Menghinello, who directs the Department of Economic, Environmental, and National Accounts at Istat.

Cristiana. Welcome Stefano.

Stefano. Thank you, hello everyone.

C. Does the analysis of the economic situation help us predict what will happen to our economy?

S. Well, it must be said immediately that major economic crises have never been anticipated.

C. So what?

S. Well, we can say that short-term indicators can give us guidance for the short term. They do not have long-range predictive capability.

C. So we cannot understand if the economic cycle is about to change and if we are moving from expansion to contraction?

S. It's more complicated than that. In Italy, for example, in recent years, the cycle only had slight fluctuations. If we look at GDP trends – Gross Domestic Product – we can see only small movements.

We have wide fluctuations in individual sectors, but at an aggregate level, we are just next to stagnation. So it is simplistic to speak generically of expansion or contraction. It depends on the point of view; it is different if you look at the macro or micro level. Furthermore, the structural factor must be taken into account.

C. What do you mean?

S. I mean that short-term changes don't tell us everything about the economy's performance, structural factors also matter: the size and solidity of companies, the presence of infrastructures, the availability of technologies... in reality, today the distinction between short-term and structural aspects is more nuanced than before.

C. So there are many data to observe in order to properly understand how we are doing.

S. Yes, Istat produces a note on the performance of the Italian economy every two months – you can find them all on our website – and from there you can already see how many variables need to be taken into account.

C. Can you tell us about some of them?

S. Let's start with prices. It's important to consider not only consumer prices but the entire supply chain.

C. What do you mean by supply chain?

S. The supply chain is the set of prices whose variations Istat detects. Therefore, it also includes producer prices for industry and construction. The first ones are the prices of industrial products, those that a company charges to another company. To be clear, think for example of a company that needs to buy energy from another company that produces it. The latter are the prices of residential and non-residential buildings, meaning homes but also railways, roads, bridges

C. Whereas consumer prices are those of goods and services purchasable by citizens.

S. Exactly. But producer prices also need to be monitored to understand how our economy is moving, because they can influence company choices and can trigger inflation.

C. Interesting.

S. And that's not all. Import prices are also part of the supply chain, telling us if and how much the costs for the country are increasing for the purchase of goods and services that we must obtain from abroad. This aspect is important too.

C. I see. On this point, I have another question for you: how interconnected are we? That is, how much does what happens abroad influence our economy?

S. Quite a lot. An example is this last crisis in German industrial production, which had also consequences on our economy because Germany is our main trading partner. Therefore, the decline in German demand has certainly affected us.

C. Are these the negative aspects of globalisation?

S. It must be said that globalisation is also changing shape. Today I would rather speak of regionalisation. Trade flows are polarising around China and the United States.

C. So what happens in these two poles impacts countries that have privileged economic relations with one or the other.

S. Exactly. And still speaking of international economic relations, export data somewhat anticipate production data. If exports increase, industrial production will also increase shortly. In this case too, it is better to take into account sector by sector.

C. I understand. But for what concerns industrial production – the one that went into crisis in Germany – I read that observing how it moves is important to properly understand how we are doing...

S. Certainly, because we measure the variation over time in the volume of industrial production, and this has a direct specific weight – if more is produced, it is because there is an adequate workforce and a target market that buys, and all of this helps the economic system to run – but it is also important because it has implications in activating the tertiary sectors.

C. Can you help me with an example?

S. let's think about an industrial sector - let's take the manufacturing industry - if production increases, there will be more work for those who distribute products and for those who sell at retail. There could be more work for those who provide IT or marketing consultancy...

C. Okay, now it's clear. You mentioned retail sales and that made me think of household consumption. Those are also an indicator of a thriving economy.

S. In reality, a balance between consumption and saving capacity would be desirable. And this balance is also influenced by the overall climate of confidence.

C. Istat also surveys that, right?

S. Yes, we survey the business and consumer confidence every month. These data are then integrated into the bimonthly report on the performance of the Italian economy.

C. How does the climate of confidence generate economic consequences?

S. As for consumers, the climate can reflect on spending behaviour: if there is uncertainty, if people are fearful about the prospective scenarios, perhaps they do not make investments or they postpone them. As for companies, the climate of confidence is expressed in terms of economic planning, inventory management, orders, and hiring.

C. Ok, thank you Stefano for this chat, everything is clear now.

S. See you next time.

Talking about economic indicators cannot ignore an overview of employment. So, when I met Nicoletta Pannuzi in the office – who is the Central Director for social statistics and welfare at Istat – I asked her and two of her colleagues some questions: Federica Pintaldi and Andrea Spizzichino. I am presenting our dialogue as I recorded it.

(interview insert)

Question. Andrea, if unemployment decreases, it's always good news. Right?

Answer. *In general, a decrease in unemployment is considered good news. But it is not good news if, at the same time, the inactive population increases, meaning people who stop looking for work and are therefore no longer counted as unemployed.*

It is not good news when the decrease in unemployment is associated with an increase in precarious or low-quality work and also leads to a decrease in real wages.

Finally, it is not good news when general unemployment decreases but youth unemployment does not, which may remain high or even worsen.

Question. Nicoletta, at this point in history, data shows that employment in Italy is growing more than GDP, what does this mean?

Answer. *Well, employment contributes to GDP growth, but growth is not necessarily proportional or even simultaneous because it is also influenced by other factors.*

In recent months in Italy, the number of employed people has grown more than the hours worked, and the hours worked have grown more than the added value – which is the value of what has been produced net of the costs incurred to produce it – in other words, employment has increased but labour productivity has decreased, and it has decreased precisely in those sectors – primarily manufacturing – which contribute the most significant share of GDP.

Furthermore, employment has increased mainly in traditionally low-productivity sectors: trade, transport, catering, construction... therefore employment is growing more than GDP, basically because it is increasing in sectors characterised by a large workforce, often employed in low-skilled, low-wage professions, and with a lack of productive factors, such as advanced machinery, new technology, etc. And then, especially the "older" workers (over 50) increased - due to the effect of demographic dynamics and interventions that delayed the retirement age. Thanks to them, we observed a compensation related to the decline recorded among younger people, also highlighting the need for continuous training that allows workers to keep pace with the ongoing transitions, especially from a technological point of view.

Question. Federica, why in Italy, on the one hand, there are companies that cannot find workers and on the other hand, there are people who cannot find work?

Answer. *In Italy, over the last three years, we recorded a growth in the number of company job vacancies, and it is the phenomenon we call "mismatch" between labour demand and offer, i.e., the failure to meet the needs of companies with those of workers. This depends on several factors: from the lack of candidates with adequate skills, to the gap between the proposed working conditions and those desired by workers, but also to territorial differences between labour demand and offer... for example, imagine a company in Lombardia that is looking for metalworkers, but if those interested in that work live in the South, the relocation costs risk being higher than the salary).*

It must be considered also that the potential labour offer in Italy is largely made up of residents in the Mezzogiorno, the South, women, young people, those with low educational qualifications, and people not very interested in relocation... the difficulty in moving, especially for women, is usually linked to family care.

Furthermore, companies often cannot even meet the demand for professional figures with high skills, important figures in a labour market that is affected by digital transformations and innovation processes. In this case, the progressive population ageing does not help, nor does the emigration abroad of our qualified young people.

The alignment between labour demand and offer requires investment in continuous training of workers and the improvement of working conditions – wages, hourly flexibility and work environment – also to ensure the innovation needed to improve the productivity of our country.

In conclusion, to understand how our economy is performing, many indicators, not just the short-term ones, need to be taken into account: for sure Gross Domestic Product, but also the entire price chain, industrial production, foreign trade, and retail sales, without forgetting the importance of structural aspects such as the robustness of our companies, the capacity for innovation, and the presence of adequate infrastructure and technology. Finally, last but not least, the climate of consumer and business confidence.

I am Cristiana Conti, and this was Dati alla mano (Data at Hand), a podcast from the National Institute of Statistics. This episode was produced with the support of Storielibere.fm
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Stefano Menghinello, Nicoletta Pannuzi, Federica Pintaldi, and Andrea Spizzichino worked on this episode.