

Prospects

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Italy – Monthly News Digest

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Unemployment is falling again

In October, the number of people in employment in Italy rose by 0.2% over one month (+46,000 units) and 0.9% over one year. The employment rate also rose to 59.2%, which is a very high level by historical standards. The growth in employment was driven by fixedterm contracts (+6,000 units), but mostly by the growth in the number of self-employed workers (+38,000). Over one year, employment growth was driven by a rise in salaried employment (+231,000 units) and permanent employment contracts (+181,000), while fixed-term contracts declined (-15,000 units).

The number of jobseekers fell by -1.7% in relation to September (-44,000 units) and the inactivity rate rose to 34.3% (+25,000 new inactive persons between the ages of 15 and 64, an increase of 0.2% on September). The unemployment rate declined by 0.2% to 9.7% in October.

Employment growth has come with a reduction in both the number of persons out of work (-9.7%, -269,000 units) and in the number of people aged 15 to 64 not in the workforce (-0.4%, -49,000 units).

☑ Notre opinion – After rising in September, when the unemployment rate stood at 9.9%, the number of jobseekers as a percentage of the working age population fell once more in October. The increase in September was partly due to temporary factors such as the introduction of the universal basic income (and the requirement for beneficiaries to be actively seeking employment), which increased the number of individuals seeking work. The impact of the enactment of the 'Dignity decree', which encourages employers to transform fixed-term employment contracts into permanent contracts, seems to have faded in October, after a year in which the creation of precarious jobs slowed. The annualised balance of permanent employment (difference between recruitment and dismissals over the past 12 months) surged from +33,000 in September 2018 to +378,000 in September 2019), while the balance of fixed-term employment shrank from +178,000 to -194,000 over the same period. Looking forward, PMI surveys show a slowdown in hiring in industry and expansion in the construction and services sectors.

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Q3 marked the end of inventory adjustment

ISTAT has confirmed its preliminary growth figures: in the third quarter of this year, GDP rose by 0.1% in volume over the quarter, leaving a carry-over of 0.2% for 2019. Growth was up 0.3% against Q3 2018. External demand once again made a negative contribution of 0.4 points of GDP due to the sharp rise in imports (+1.3%, up from +0.9% in Q2) and a moderate decline in exports (-0.1%, after a rise of 1.2% in Q2). Inventory reduction, which has dragged down economic growth for the past fourth quarters, came to an end in Q3 and inventories made a positive contribution of 0.3 points to GDP growth.

Domestic demand added 0.2 points to GDP growth. Private consumption picked up with a rise of 0.3% over the guarter (0.1% in Q1), driven by durable goods and improvement in semi-durable consumption(services, which account for 50% of spending, was stable against Q2. Investment was down -0.2%, reflecting a slight rise in construction (0.2%) and a decline in productive investment (-0.5%, with a -2% drop in transport).

On the supply side, added value was down in both in agriculture and industry, with falls of 2% and 0.2% respectively. Added value in services and construction rose by 0.1%.

☑ Notre opinion – The Italian economy continued to stagnate in Q3. Strong consumption figures came as a surprise given weak consumer confidence (the indicator fell sharply in November). This could mark a turnaround in the recent trend of converting additional purchasing power into savings rather than spending.

Businesses finally began to rebuild inventory in Q3 after four quarters of stock reduction, but the environment does not suggest restocking will remain stable for the medium term. For this to happen, domestic demand will have to be stronger to offset the steady decrease in foreign demand. The contraction in productive investment confirms uncertainty among firms, whose confidence levels remain very low. The slight improvement in industrial orders in August and September could lead to an increase in added value in manufacturing in Q4 (after two successive falls), but opinions on domestic and foreign orders continued to decline in surveys in November.

The rise in imports in Q3 masked contrasting trends: consumer goods imports were stronger in Q3 than in Q2, while capital goods purchases rose less strongly than in Q2. Imports of intermediate goods and energy weakened. This confirms the slowdown in industrial output in Italy. The contraction in exports affected all types of goods except intermediate goods, the increase in which was stable against Q2. We are maintaining our growth forecasts of 0.2% on average for 2019 and 0.4% for 2020.

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Recovery in industrial orders

Industrial orders have now seen an increase for two months. After 0.8% in August, the index accelerated to 1% in September month-on-month, with this impetus concerning both domestic orders (+0.7%) and foreign orders (+1.5%).

Orders rose 0.3% YoY, with opposite trends in the domestic market (+2.3%) and foreign market (-2.3%). The highest growth was posted in the electrical and non-electrical equipment sector (+21.4%), followed by pharmaceutical products (+12.6%) and textiles (+6.9%). The worst performer was the transport industry (-20.0%).

☑ Our opinion – The rebound in orders is undoubtedly good news for Italian industry. That said, the difficulties are far from being overcome: industrial output declined 2.1% YoY in September and the latest trend is still downwards, driven primarily by the fall in the production of intermediate goods and, more recently, consumer durables. However, there has been an upturn in the production of non-durable consumer goods and capital goods since July.

While it is too early to predict a stabilisation in the industrial sector, the level of orders (particularly those from abroad) and preliminary estimates for the national accounts, which anticipate a slight rebound in the added value generated by industry in Q3, are encouraging signs. However, leading indicators point to a still opaque outlook for industry: in October, business confidence was at very low levels, whereas opinions on domestic and foreign order books improved slightly. October PMI indicators suggest the same momentum.

Originally published on November 22 2019



Decline in industrial output in Q3

Italy's industrial production index experienced a further fall in September. It fell 0.4% compared to August (-2.1% year-on-year). Industrial output declined 0.5% in Q3 vs. Q2.

September data confirm the annual trend for the different types of goods: the production of consumer goods rose 0.7% in September (+1.2% year-on-year), whereas energy and intermediate goods declined 1.1% and 1% respectively (-0.1% and -5.2% year-on-year). Meanwhile, the production

of capital goods rose 0.6% in September (-2% year-on-year).

The manufacture of coke and petroleum products (+9.6%), the food, beverage and tobacco industry (+7.8%) and the manufacture of computers and electronic and optical products (+6.4%) are the sectors which posted the biggest rises year-on-year. The mining industry (-11.2%), textiles, clothing and leather (-8.1%) and the metal industry, as well as metal products (-7.1%) posted the worst performances.

☑ Our opinion – The downward trend in the industrial sector continues in Italy. The decline in the production of intermediate and capital goods stems from depressed domestic demand and an international environment affected by the China-US commercial conflicts. ESI surveys among the manufacturing sector in Q3 identified demand as the main obstacle to production (staff was the second concern in Q2, but this influence lost momentum in Q3). Moreover, the level of industrial orders (domestic and foreign) has declined to levels equivalent to 2016.

However, the production of consumer goods still shows positive annual changes in light of a consumer durables cycle which is in its last stages, but is holding up well. At the time of the publication of preliminary GDP estimates in Q3 (0.1% vs. Q2), ISTAT indicated an increase in industry's added value, which would be excellent news, as the sector has been hard hit since the summer of 2018 (-0.2% year-on-year in Q2). In terms of forecasts, leading indicators point to a still opaque outlook for industry: in October, business confidence was at very low levels, but seems to be stabilising, and the October manufacturing PMI indicated a decline in activity in the sector for the twelfth consecutive month in October.

Originally published on November 15 2019





New indicator based on Twitter

ISTAT presented its new indicator based on Twitter and *big data*. "Social Mood Index" provides a daily measure of Italian sentiment on the economy, based on samples of public *tweets* in Italian, captured in real time. The observation period covered by the index runs from 10 February 2016 to 30 September 2019.

The index production procedure selects and processes only *tweets* whose text contains at least one word belonging to a set of sixty key words (prepared by experts in the field and derived mainly from the consumer confidence survey). ISTAT also indicates that the phenomenon captured by the

"Social Mood" index is much broader and less defined than the traditional consumer confidence survey. The procedure analyses, with the help of "sentiment analysis" techniques, an average of around 55,000 tweets per day.

ISTAT also comments that, unlike traditional surveys where the statistician selects the samples and sets the questions, the data generated from Twitter cannot be controlled. Moreover, it is estimated that 9 million Italian Twitter users were active on a monthly basis in 2018, which is far from being considered representative of the Italian population.

☑ Our opinion – The seasonally adjusted series captures the growth rate, leaving aside the seasonal effects. It shows a fairly significant rebound in Q3, which is very difficult to compare to another variable measured more traditionally. With regard to the actual index series, it shows seasonality exclusively on an annual basis, with positive peaks in January and in the period end of March-beginning of April, and a negative peak during the summer months.

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