

Prospects

N°20/099 – 12 May 2020

ITALY – Economic Environment

Flash – Q1 2020 GDP

- As Italy begins to partially ease its lockdown and resume manufacturing activities, there is little information available about the period impacted by the pandemic.
- The initial Q1 2020 GDP estimate from ISTAT reported a 4.7% decline in activity.** The growth overhang for 2020 stands at -4.9%, with all sectors contributing to the decline. The closure of certain service sectors that began on 11 March and the shutdown of manufacturing activities on 23 March impacted 54% of the value-added produced in the industrial sector and 31% in services.
- Although figures for the different components of GDP are not yet available, ISTAT indicated that the **drop in demand was caused by declines in both domestic and net foreign demand.** However, according to survey data, inventories have built up substantially and their contribution to growth is expected to be positive.
- The Q1 growth trend was characterised by activity that was recovering in January and February, with a very positive growth overhang for industrial output and retail sales (+1% and +0.9% respectively), which was able to partially offset the drop in activity in March.
- The only data we have for Q1 as a whole is employment data, which indicates a very limited decline in the number of individuals who are employed (-0.1% for the quarter). In March, the drop was only slightly more pronounced (-0.4% for the month) and the unemployment rate dipped sharply (8.4% after 9.3% in February) due to a substantial decrease in the labour force, which is the first sign of a reaction to the crisis. 7.3 million workers have been impacted by business shutdowns in the manufacturing and services sectors (44% of the total). The short-time work measures rolled out by the government in response to the crisis theoretically cover 90% of private-sector workers. In May, eight million employees are covered by the ordinary short-time work measures (*Cassa integrazione guadagni ordinaria*) for up to a maximum of 24 months, but the measures have been expanded to cover a larger number of potential beneficiaries for a period of nine weeks. For now, job losses are expected to be contained and employees are more likely to be impacted by reductions in their working hours.
- Ahead of the release of March's official industrial output growth figure, the estimate provided by Confindustria for March and April indicates a significant drop in activity (-25.4% and -26.1% over the month, respectively). This scale of decline is unprecedented in the post-war period. The industrial output growth overhang for Q2 is deeply negative (-40% qoq) and, although we are anticipating sharp rebound in activity in May and June, the decline in output in Q2 will be at least double the figure seen in Q1.**
- The first surveys available for April are signalling an unprecedented plunge in activity. Despite an improvement in the outlook (which is at its highest level in three months), it looks like the resumption will be very gradual. The high level of inventories, precautionary behaviour from consumers and investors, in addition to distancing and workplace cleaning measures are all hampering the prospects of a recovery. As such, the capacity utilisation rate will remain low.
- Collating all this information into our high-frequency, real-time GDP projection indicator gives us a GDP growth forecast of -9.9% qoq for Q2 2020. When this analysis, which is dominated by supply-side data, is combined with precautionary behaviour from consumers and investors, our forecast is pushed even lower.
- We are forecasting another, even steeper decline in GDP of -11.2% in Q2 2020. Average growth for 2020 is expected to be -10%.**

Completed writing on May 7, 2020

Italy: economic overview

Growth forecast

CRÉDIT AGRICOLE S.A.

Yearly average
(YoY, %)

Italy	2018	2019	2020	2021
GDP	0,7	0,3	-10,0	3,7
Households consumption	0,9	0,4	-11,2	5,0
Investment	2,9	1,4	-16,8	2,4
Change in inventories*	-0,1	-0,7	0,2	-0,7
Net exports*	-0,3	0,5	-0,6	0,6
Unemployment	10,7	10,0	10,7	11,7
CPI	1,2	0,6	-0,6	0,1
Government net borrowing	2,2	1,6	10,4	5,7

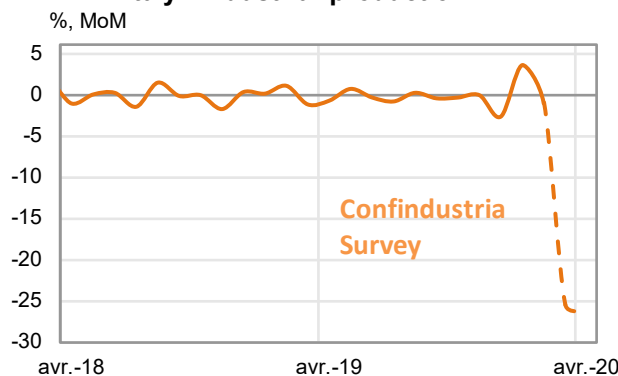
* Contributions to GDP growth

Source : Crédit Agricole SA, forecast

Quarterly growth
(QoQ, %)

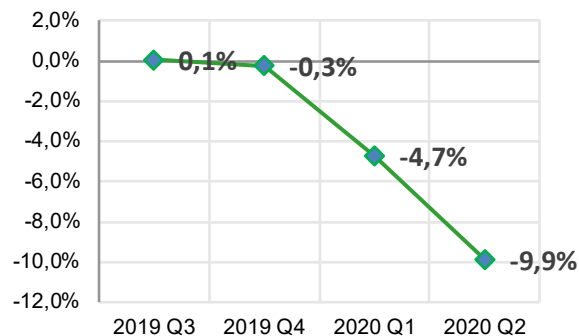
2019				2020				2021			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
0,2	0,1	0,1	-0,3	-4,7	-11,2	6,6	0,5	1,4	1,3	1,1	1,0
-0,1	0,0	0,3	-0,2	-6,5	-13,5	11,0	1,5	1,0	0,9	0,9	0,9
2,0	-0,2	0,0	-0,1	-5,7	-17,2	4,0	-1,5	3,8	2,7	1,3	0,8
-0,7	0,1	0,3	-0,7	0,7	0,6	-0,9	-0,6	-0,1	0,1	0,1	0,1
0,6	0,0	-0,4	0,6	-0,5	-0,9	0,3	0,3	0,2	0,2	0,3	0,2
10,3	10,0	9,8	9,7	9,2	10,3	11,4	12,0	12,1	11,8	11,6	11,2
1,0	0,9	0,3	0,3	0,2	-0,3	-1,0	-1,1	-0,7	-0,3	0,6	0,7

Italy : industrial production



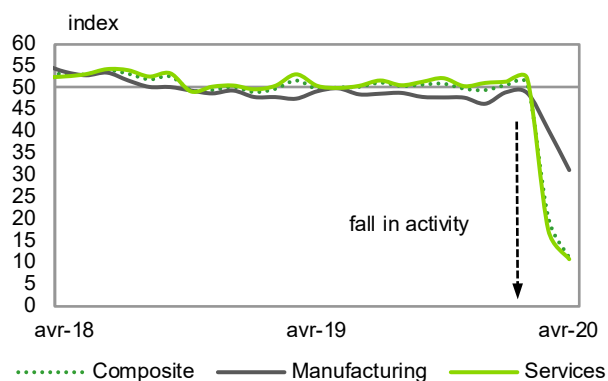
Sources : Eurostat, Crédit Agricole S.A.

% QoQ High-frequency real-time GDP forecast



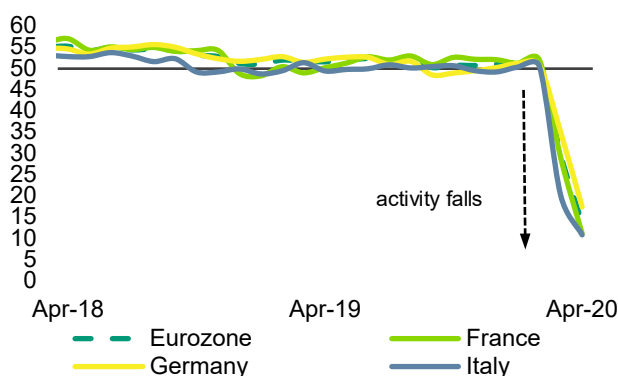
Source : Crédit Agricole S.A.

Italy : PMI index



Sources : IHS, Crédit Agricole S.A.

EMU : PMI Composite index



Sources : IHS, Crédit Agricole S.A.

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