Crédit Agricole Group economic and sector analysis

Prospects

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# Italy – Monthly News Digest

## Contents

## ☞ The lights turn red

After the strong recovery this summer, the economic slowdown caused by the health crisis started to become visible in the September data. Industrial output contracted by 5.3% in September relative to the August data, leaving a negative overhang of 2% in the fourth quarter of 2020. The same alarm was sounded by new orders and revenue in industry, which decreased by 3.2% and 6.4% respectively. While the decline of industrial revenue is mainly due to a decline in the domestic market (-4.9%), the contraction in new orders stems from both the domestic (-5.7%) and foreign (-7.3%) markets. Except for the capital goods segment, which is still showing some resilience (+0.9%), revenue in all other categories of goods has shown marked declines, with -3.5% for consumer goods, -5.6% for intermediate goods, and -7.3% for energy.

Industry is not the only sector showing signs of a setback. Construction output also decreased in October after its strong comeback this summer. The construction output index is set to decline 8.1% relative to August. Despite this decline at the end of the quarter, it apparently grew 50% in the third quarter.

The weakening of the domestic market also resulted in a 0.6% decline in imports in September. At the same time, exports rose 2.3%, driven by an 8.1% increase in exports outside the EU, which mostly offset the 2.1% decrease in exports within the European Union. With this positive figure in September, foreign sales recorded their fifth month of increases in a row, bringing their quarterly growth to 30%. However, they remain 4.2% below their pre-crisis levels. ISTAT also says that this trend remains positive, even when excluding effects from high-impact occasional exports, such as naval construction, which have significantly contributed to the increase in September's good results, helping raise exports in the non-automotive transport sectors by 28.7%. Other sectors that made a positive contribution include base metals and metal products, except for machinery and installations (+9.9%), pharmaceuticals, medical-chemical and botanical products (+8.2%), clothing, including leather and fur articles (+6.4%) and motor vehicles (+5.8%). The trade partners that contributed the most to the increased exports year-on-year are the United States (+11.1%), Switzerland (+15.7%), Germany (+6.0%), China (+33.0%), and Poland (+19.4%), while sales to OPEC countries (-14.8%), Spain (-7.2%), and the United Kingdom (-3.9%) fell.

☑ **Our opinion –** *Unsurprisingly, the business-cycle lights are gradually turning from green to red. What could have taken the form of a slump after the strong summertime recovery is expected to turn into a full-blown downturn, once the effects of the second lockdown have been factored in. Mobility data indicate that the economic decline is less than what was recorded during the April shock, yet still enough to jam up the machinery of the recovery, thus further delaying the normalisation of the situation. Economic stakeholders' perception remains partially detached from the reality of the pandemic and lockdown. The business confidence index continued to improve in October (rising from 91.3 to 92.9), both in industry and in retail. Household confidence, meanwhile, saw a dip from 103.3 to 102.0. This pessimism can be seen in anticipations of the country's economic situation and in the unemployment trend, while assessments of one's own personal situation are less negative. The Confcommercio index also remained unchanged in its last October forecast, with a large decline in service consumption hurting consumption overall. The November PMI is likely to tell us more about the lockdown's effects on the economy.*

*Originally published on 13 November 2020*

## ☞ Figuring out Christmas under COVID-19

Although the decree of 3 November setting the outlines of the lockdown by region will expire on 3 December, the government is planning a new decree to cover the holiday season.

Communications work has been underway for weeks and is intended to get the populace to accept that the holidays will be different from previous years. The stated goal is clear and seems to be the same across all European countries: avoid a third wave in January that could paralyse the country again.

For now, the government has stuck with the strategy launched in late October, namely a lockdown that varies by region. This approach is starting to bear fruit, with the infection curve declining. The country has been divided into three major zones (red, orange, and yellow), allowing for different social distancing measures and restrictions on freedom of movement. The system will not be overhauled, but Italy's leadership hopes that most of the country will move to yellow by the end of December.

Several issues are still unresolved with respect to the new decree, which is to be published on Monday. Although the government strongly recommends celebrating Christmas in small groups and has expressed its intent to disallow public gatherings, such as protests and vigils, it still must deal with the thorny issue of travel between regions. It might decide to allow only travel by close relations and friends, as well as allowing workers to return to their primary homes. The curfew looks set to be preserved, with an exception for Christmas night. Stores will also be allowed to be open longer hours for Christmas shopping, which could also mean extending the curfew until 11 p.m. Shopping centres could remain open on weekends and holidays. This loosening of restrictions will coincide with a strengthening of controls to avoid long queues and crowded streets. Entry limits on shopping streets are also being considered. Bars and restaurants are expected to close at 6:00 p.m.

Giuseppe Conte had already decided that skiing holidays would not be allowed at Christmastime, despite protests from operators that worry they might lose 70% of their sales. The Prime Minister would have liked for this decision to be Europe-wide, but even if it isn't, the Alpine borders will probably be closed to keep cases from coming in. Anyone returning from a holiday abroad will need to undergo enhanced quarantine.

The announcement that secondary school classes would resume on 9 December is still suspended, as some regional presidents want a gradual return before normalisation after the holidays.

On Friday, the government is expected to provide an update on the red and orange regions. Tuscany is likely to go from red to orange. Lombardy and Piedmont are still unknown, although the numbers are going in the right direction. Calabria and Valle d'Aosta are expected to stay on a strong lockdown. Finally, Emilia-Romagna and the Marches could move to yellow.

This new decree is expected to be accompanied by new support measures adding to the long line of the Ristori decree, which makes over €10 billion in resources already deployed by the government in recent months.

The first Ristori decree, in effect since 29 October, made it possible to allocate €5 billion in support measures[1] with a six-week extension of the short-time work scheme, grants to sectors affected by government-ordered closures, in particular €400 million in red zones, a tax credit for commercial rents (€220.6 million), a one-time payment of €800 for sports workers and €1,000 for tourism workers, and two new rounds of €400 emergency income.

The "Ristori Bis" decree dated 10 November supplemented this scheme with an additional €2.9 billion to help some regions enter the red zone. The list of businesses entitled to grants was also expanded. One of the main innovations of the Ristori Bis decree is the suspension of social security and social assistance contributions in November for yellow zones, and November and December for orange and red zones, for the hardest-hit sectors of the economy. The 60% tax credit for commercial building leases for October, November, and December was also expanded (€243.3 million for 2020 and €78.1 million for 2021). The decree also cancels the second round of the IMU (municipal tax) for companies receiving grants and extends the deadline for paying the IRPEF, IRES, and IRAP taxes until 30 April 2021.

On 26 November, Ristori Ter increased the assistance to fight the second wave by €2 billion, of which €1.8 billion is meant to expand the support measures to the new red zones.

A Ristori Quater decree is being prepared. It is expected to be submitted to the Council of Ministers on the afternoon of Sunday 29 November, with the aim of being published in the Official Journal that same evening, to extend the tax deadlines that fall on 30 November. This new tax deferral, covering €8 billion, will make it possible to delay tax payments until 30 April 2021. The deferrals will cover an extension of tax advances due on 30 November (IRPEF, IRES, and IRAP), payments on 16 December (VAT, withholding, additional taxes) and the annual VAT advance on 27 December. At the request of the opposition, which nearly unanimously allowed the budget overrun to pass, the tax deferral will be expanded to all companies that lost revenue, not just those affected by government-ordered closures, with a loss threshold expected to ultimately be set at 33%. Besides the tax deferral, this new version may include a short-time work bonus of up to €1.6 billion for the holiday season and could extend the existing measures from previous decrees.

[1] See Monde – L'actualité de la semaine 23 October 2020

☑ **Our opinion –** *The arsenal of COVID-19 response measures keeps growing. The vote on the latest budget overrun, though it increases the cost of the crisis to public finance, is nonetheless reassuring when it comes to politics. Silvio Berlusconi's positioning forced the other opposition parties to unite with the government in exchange for concessions given for freelancers and small businesses. Partisan conflicts are still alive, but given the imperatives of the crisis, they gave way to a compromise. This is also true within the majority, which despite its disagreements, seems to have put aside for now the idea of a cabinet reshuffle. With respect to the regions, tensions between the national authority and the governors remain. This can be seen in some controversies on changing from one colour zone to another, but the pandemic monitoring system supported by Giuseppe Conte based on twenty-one zone categorisation indicators is proving successful.*

*Originally published on 27 November 2020*

## ☞ Strong rebound in Q3

The second GDP estimate, published by ISTAT at the start of the week, revised third-quarter growth slightly downward from 16.1% to 15.9%. The institution also put out details of the factors behind this strong third-quarter rebound. It appears that the summertime economic recovery was driven both by domestic demand and by net exports, with a contribution of 13 and 4 percentage points, respectively. Inventory changes, meanwhile, were a drag on GDP growth, cutting it by 1 point. The growth overhang for 2020 stands at -8.3%. Household consumption recovered 12.4% relative to the second-quarter low, though it failed to reach its pre-crisis level (-7.2% relative to Q4 2019). The third quarter also featured a substantial recovery in investment. Gross fixed capital formation grew 30% over the second quarter of 2020, owing to a marked recovery in construction, which rose 45% from the previous quarter, as well as business investment, which grew 34.5%.

Economic growth was accompanied by a 21% increase in hours worked compared to the previous quarter, driven by an 11.9% increase in agriculture, 24.9% in industry, 45.9% in construction, and 18.9% in services. In October, the unemployment rate remained stable at 9.8%. The slight increase in the number of job seekers (+0.4%, i.e. +11,000) was offset by a decline in the active population (-0.2%). The marginal decrease in the number of people employed (-0.1%, or -13,000) had little influence on the employment rate, which remained stable at 58.0%. This decrease is due to a decline in employment among men, temporary employees, and freelancers, offset by increased employment among women and permanent employees. October also featured a higher unemployment rate among young people, which rose above the 30% mark (+0.6 point).

☑ **Our opinion –** *The positive trend in the economic data this summer was not contested by the strong third-quarter rebound. The Italian economy is proving to be resilient after the sharp springtime contraction. The strong recovery in manufacturing output was reflected in substantial recoveries in investment and exports alike. Despite exports growing 30% quarter-on-quarter, they did not return to their pre-crisis levels, and remain 8% below what they were in December 2019.*

*The biggest surprise was strong growth in construction investment, driven by both housing and public works, which recorded a 45% gain on average. Finally, consumption and import data were encouraging, but leave questions as to how well domestic demand will hold up. Consumption is still 7% below its pre-crisis level, and imports are 9% below their pre-COVID-19 mark.*

*Originally published on 4 December 2020*

## ☞ The calm before the storm?

After a slight decline in September, retail sales returned to positive territory in October, rising 0.6% in value terms and 0.2% in volume terms, driven by an increase in food sales. Non-food sales, meanwhile, recorded a slight rise in value terms, while holding steady in volume terms. This slight growth conceals uneven dynamics between product categories. Although sales of computing devices and telephones (+26.0%) and household appliances (+18.6%) saw the strongest increases, apparel such as shoes, leather articles, and travel goods (-9.2%) as well as paper goods, books, newspapers, and magazines (-7.6%) were sharply down. Small shops are still being hurt more than large ones, particularly when it comes to non-food goods. Online stores, however, saw very strong growth, rising 54% year-on-year.

☑ **Our opinion –** *October's slight increase in retail sales could prove temporary. This is because the lockdown measures introduced in November entail restrictions on the opening of stores in some regions, which is likely to translate into a dip in the retail sales index in November, except for online sales, which are expected to be only slightly affected. The effects of these new restrictions, however, are likely to be more diffuse than in April, because they affect different parts of the country in different ways. Some restrictions, however, could be loosened in December by the new emergency health decree that covers the holiday season. For instance, shopping hours are likely to be extended, and shopping centres will probably be permitted to open. Both Black Friday and* Italia Cashless*, a government initiative that enables consumers to receive a payment card bonus of up to 10% on their purchases for a total of €150 between 8 and 31 December, are expected to give a small boost to consumption.*

*But the Christmas spirit is not expected to bring any miracles. The strong recommendations issued to Italians that they not gather together during the holidays and the travel ban between regions will cast a pall on this season. According to a Confcommercio survey, only 74.2% of consumers will be giving gifts during the holidays, compared to 86.9% in 2019. The Institute estimates that consumer spending on goods in December is likely to be 12% less than it was last year, dropping from €81 to 73 billion.*

*For restaurants and hotels, there is no upturn in the offing. The closing of ski slopes, the requirement for restaurants to shut down at 6:00 p.m., the ban on opening during the evenings at Christmas and New Year, and the limitation on food service in hotels to room service are expected to reduce the consumption of those services, even in regions where the health situation is expected to improve to yellow. Additionally, Italians are likely to purchase Italian products, but tourists are likely to rule out a trip to Italy. People from abroad will need to quarantine once they enter the country.*

*Originally published on 4 December 2020*

## Vaccines: the light at the end of the tunnel

The Italian government unveiled its vaccination plan in early December, a move in advance of the vaccination campaign that is expected to begin once the various vaccines have been approved by European health authorities. A preliminary document submitted by the Minister of Health to Parliament sets out the phases of this vaccine campaign, which will be totally managed by the government. Vaccination will not be mandatory, but access to the vaccine will be free and will prioritise people exposed to the virus, as well as those deemed to be most at risk. Italy will receive 202 million doses in all, 28 million of which will be available in the first quarter. During the first phase, which is set to cover the first quarter, they will be allocated to health care and social workers, residents and staff of senior care facilities, and people over the age of eighty, who account for 5% of the vaccine-eligible population.

The government's foremost goal is to reduce the pandemic's deadliness, which is particularly high in Italy due to its age pyramid, and to protect and increase the resilience of the health system. Of the 28 million first-phase doses, 16 million will come from the AstraZeneca laboratory, 8 million from Pfizer, and 1 million from Moderna. While AstraZeneca announced that it would be ready for January without details on the dates when it would be approved by the EMA, BioNTech/Pfizer and Moderna expect a response for the first approval on 29 December and the second on 12 January.

The second phase, which is expected to take effect in the second quarter, involves 57 million doses and aims to cover 15% of the population. It is expected to cover people age sixty and over and those who suffer from comorbidity risks, as well as groups most exposed to serious illnesses. The vaccination campaign for some of the country's teachers is expected to begin in phase 2, then will extend into phase 3. That phase is likely to cover up to 50% of the population. Finally, access to the vaccine will be expanded to the whole population in the fourth quarter and is expected to continue into 2022.

The logistical challenge of vaccination was also discussed. The Pfizer-BioNTech vaccines (30% of doses available in phase 1), which require storage at very low temperatures (-70°) will be delivered to 300 vaccination points, with hospitals being a priority among them. For the AstraZeneca vaccine, which requires standard storage between 2° and 8° (50% of doses in the first phase), the government is expected to adopt a hub-and-spoke distribution model, centred on a national storage site that will serve second-tier local sites. The government has estimated that 20,000 people would be needed to carry out the vaccination campaign, and announced that it planned to rely on the support of the armed forces as well during the first phase. Vaccination clinics, family doctors, and pharmacies are expected to be mobilised in the second phase.

☑ **Our opinion –** *The vaccination plan submitted by the Italian government is nothing out of the ordinary, adopting a gradual strategy to prioritise vaccinating the most vulnerable segments of the population, theoretically reaching 90% of the population by the end of 2021. In practice, these goals are highly ambitious, with all the uncertainties that could hinder the execution of this strategy. First, the availability of the doses could be delayed past their scheduled times. The first vaccine candidate that could be given the go-ahead by the EMA is Pfizer-BioNTech's, with the Italians only getting 8 million doses in phase 1, which is expected to cover only 4 million people. It would make it possible to vaccinate health care workers (1.4 million people), but not all 6 million people affected by phase 1.*

*The available Moderna doses, which could also receive its approval in early January, are even less in number. A large share of the success of phase 1 of the campaign therefore lies in the availability of the AstraZeneca vaccine, but the recent controversy involving AstraZeneca's trial has raised fears of delays in its general use. One point in its favour is that the vaccine candidate, designed in partnership with Oxford University, was recently approved by the scientific journal The Lancet.*

*The second uncertainty lies in how likely Italians are to get on board with the mass vaccination campaign, which is expected to ultimately provide collective immunity on a national level. Polls show that on average 60% of Italians trust the vaccine and are ready to get vaccinated, according to a Quorum/YouTrend survey released on 5 December. This rate is slightly higher than what is seen in France, for instance, but this trust remains fragile because a November survey by Ipsos indicated that 42% of those polled wanted to know more about the vaccine's effectiveness before making a decision. The Quorum/YouTrend survey for Sky TG24 also indicates that 75% of Italians estimate that the vaccine is part of the solution, but will not end the health emergency. On this issue, they may be right. The light at the end of tunnel is in sight, but it's a very long tunnel.*

*Originally published on 11 December 2020*

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12, place des États-Unis – 92127 Montrouge Cedex

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