Crédit Agricole Group economic and sector analysis

Prospects

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Contents

☞ A frozen labour market in 2020

Fourth-quarter data shows the consequences of the pandemic on the labour market in 2020. 2020 was marked by a sharp economic contraction, estimated to be 8.9%. After the sharp decline in GDP in the first half of 2020, characterised by the shutdown of production during the first lockdown from March to April, the partial lifting of movement restrictions during the third quarter was reflected as a return to growth over the summer. The new restrictions enacted to address the second wave of the pandemic in the autumn led to a smaller economic decline in November, estimated to be 2% in the fourth quarter. In response to COVID, employment support measures, particularly by expanding the short-time work scheme and banning lay-offs, made it possible to limit the impact of the crisis on the labour market.

Against this backdrop, the effects of the economic decline are more visible in terms of hours worked, which fell 7.7% in the first quarter, 15.1% in the second quarter, and then jumped 21.0% in the third quarter. In the fourth quarter, they declined a further -1.5% from the previous quarter. This decrease in hours worked was mostly absorbed by the short-time work scheme, particularly for fixed-term contracts, for which lay-off procedures were suspended.

Between March and September, more than six million workers received at least one short-time work benefit, with the average number of hours covered being 263. Short-time work benefits peaked in April, when 5.3 million people were covered by the scheme. This number gradually declined during the summertime recovery, when it was slightly below one million. Though much smaller in extent, the second wave was accompanied by a renewed increase in hours covered by short-time work in October and November. However, the sector-by-sector breakdown of second-wave coverage differs from what was observed during the first lockdown. The number of hours covered per thousand hours worked hit 329.9 during the second quarter (with 330.6 in industry and 329.4 in services), whereas it was 92.5 during the fourth quarter of 2020 (with 63.9 per thousand in industry and 112.1 in services). The number of hours covered fell back to 86.1 per thousand in the third quarter (with 80.1 in industry and 90 in services). More of the economy remaining open during the autumn months compared to the first lockdown explains these differences in levels. In April, 45% of workers on short-time work benefits had no work at all. That share has been below 20% since June. Likewise, whereas industry – for which some activity was suspended – had made widespread use of the scheme, the trend seemed to be the reverse for services, which were much more heavily impacted during the second wave.

In January and February 2021, INPS data shows a decline in hours covered by the short-time work scheme compared to the trend observed in autumn. The new restrictions enacted in March are expected to result in another increase in hours covered. Overall, the cost of having the short-time work scheme cover unworked hours will lead to more than €27 billion in government spending for the period from April to November 2020. The extension in the short-time work scheme, with the temporary system expanded until December 2021, is expected to add to the cost. Some of this spending is to be financed with the help of the SURE fund (*Support to mitigate Unemployment Risks in an Emergency*), from which Italy is receiving €27.5 billion. This support in the form of €100 billion in concessional loans from the EU to the bloc as a whole is meant to support employment preservation schemes.

Despite the support measures, the economic decline resulted in a 2% fall in employment in 2020, or -456,000 units less than in 2019. It comes at the end of six years of uninterrupted job growth. The decline in the employment rate to 58.1%, however, was smaller (-1 point from 2019). The crowding-out effect of some of the assets in the labour market and the increase in the non-working rate (35.9%) that resulted led to a decline in the unemployment rate over the period, to 9.2%.

The reduced labour supply was concentrated in groups already considered vulnerable before the crisis. The decline in employment relates primarily to employees on fixed-term contracts (-391,000, or -12.8%), and to a lesser extent, freelancers (-154,000, or -2.9%). It is more concentrated in part-time work (-205,000, or -4.6%), thereby leading to an increase in involuntary part-time work. The decline in employment was particularly striking among women (-2.5% compared to -1.5% among men) and those under age 35 (-5.1% compared to -3.2% for ages 35-49 and +1.3% for those over 50). These are also the categories that saw the largest increase in the non-working rate.

The integration of newcomers to the labour market is also problematic. Although the under-25 unemployment rate is still very high at around 30%, and slightly increased in 2020 by 0.3 points, the employment rate has fallen (by -2.1 points) for young people. The situation is even more critical for ages 20-24, with an employment rate that has fallen 4% to 28.7% and an unemployment rate that has risen 2 points to 27.7%.

Differences by education level, which were already present, have also widened. The decline in the employment rate for university graduates is lower (-0.3 points to 78.8%) than those less qualified who have secondary schooling (-1.4 points). The unemployment rate, which is down among those with degrees and those who graduated secondary school (-0.6 points) and slightly up among those less qualified (+0.1 points), and varies by 5.1% for university graduates, 9.0% for secondary-school graduates, and 13.5% for people for people with no more than a secondary-school diploma.

Surveys indicate that the reasons behind the increase in inactivity are a rise in the number of people who say they are discouraged (+85,000, +6,4% in one year). Family reasons (+85,000, +2.9%) and continued schooling are also on the rise, but the biggest increase is related to the pandemic and all that it entails (fear of infection, uncertain future due to COVID, delayed entry into the labour market; this factor accounts for +19%).

With respect to business demand for labour, it declined 1.7% in 2020. The economic recovery in the industry over the second half of the year helped limit the decline in manufacturing demand for labour to -0.1%, while it remained larger in services (-2.6%), which were more affected by the suspension of activity. The readjustment of labour factor needs occurred to the detriment of the part-time component, which suffered the biggest fall, equal to 3.6% (-2.5% in industry and -3.8% in services). After several years in positive territory, the balance in the number of employment contracts (new contracts minus contracts ending) went negative in 2020, for 115,000 fewer jobs. This decline is due to a decrease in new contracts, particularly short-term ones, as well as the non-renewal of fixed-term contracts that were ending. The lay-off freeze has led to a gradual decrease in the number of contract terminations beginning in March.

The decline in job positions particularly affects the service sector, with -110,000 jobs as of 31 December 2020 compared to -13,000 in industry; agriculture, on the other hand, saw an increase (+9,000 jobs). Unsurprisingly, the sector that saw the biggest job cuts was hospitality, with -200,000 jobs at the end of the year, resulting in a reduction in hires, particularly those on fixed-term contracts. It was followed by retail and transportation (-43,000 jobs).

The pandemic also led to the expansion of working from home, a new divide in the labour market between jobs which can be done remotely and those which cannot. The share of employees working from home, in companies that have made it possible, rose from 5% for the period before COVID-19 to 47% during the March-April lockdown, before stabilising around 30% beginning in May. Businesses that allow working from home accounted for only 21.3% of businesses during the first lockdown that had at least three employees. That percentage fell to 11.3% between June and November.

☑ **Our opinion –** *The pandemic has had a significant impact on the labour market, but those effects are still barely visible, mainly due to the extension of short-time work, which has helped limit the consequences of a large economic decline on labour demand. It primarily encouraged job retention due to the suspension of lay-offs. Because of the freezing of the labour market, only fixed-term components affected the flows of people outside the workforce. The crisis also generated crowding-out effects in the labour market, artificially depressing the unemployment rate. It further penalised the most vulnerable components of the workforce. This situation is set to continue throughout the first half of 2021. The phasing-out of support measures is expected to reveal the extent of the employment impact, particularly in terms of job losses. It is likely to be tempered by the strength of the recovery, but the growth-driven boost may prove insufficient if accompanied by a normalisation of the workforce participation rate. The rise in growth is likely to be accompanied by an increase in unemployment.*

Originally published on 26 March 2020

☞ Exports up in January

Driven by Eurozone partners, exports saw a 2.3% increase in January, after the decline seen at the end of 2020. Sales within the common market grew 4%, while growth in non-EU demand was only 0.4%. More than two-thirds of this increase is attributable to the sale of intermediate goods, which went up 5%. Durable (+5.2%) and non-durable (+1.6%) consumer goods were also up, unlike investment goods (-0.2%) and energy (-0.5%) which decreased slightly. Imports also recovered +1.2% in January, driven by energy purchases (+11.8%).

Year-on-year, exports were also in negative territory, down 1.7% from January 2020. Among the sectors contributing to that decline were clothing, including leather and fur (-23.1%), for which sales to the United Kingdom and Switzerland declined year-on-year, as well as refined petroleum products and food products (-7.2%). However, sales of motor vehicles (+6.5%), as well as electrical appliances (+5.3%), agricultural products (+8.4%), and electronic and optical equipment (+0.8%) rose. Looking at trade partners, exports to the United States and United Kingdom saw a decline in January, while those to China grew sharply.

☑ **Notre opinion –** *January's export growth was still being driven by European markets. Non-EU demand, after propelling the recovery in sales abroad, seems to have slowed at the start of the year; but this slowdown may prove temporary. The recovery across the Atlantic will pick up the slack from the Asian markets, even as the United States begins to exit from the crisis and may be a new growth driver for European exports. The positive trend is also expected to continue in February as shown by the PMI export orders index, which saw its second consecutive month of increases in February.*

Originally published on 19 March 2020

☞ The country prepares for the third wave

Italy was expected to move close to the red zone beginning Monday. With the new emergency health decree having just come into effect in early March, the government is considering a new system to address the rampant spread of variants. The number of new cases has topped out at 20,000 since the start of March, indicating a clear acceleration in the curve of new infections, leading to renewed strain on hospitals. In order to better address this new wave of the pandemic, regions and provinces where weekly new cases exceed 250 per 100,000 residents are to automatically go into the red zone. For this reason, Lombardy, Piedmont, and Friuli-Venezia are expected to join Campania, Molise, and Basilicata, which are already in the red zone. Emilia-Romagna and Marche might also be locked down, while the situation is also tense in Lazio and Venezia.

The possibility of a nationwide lockdown has not been ruled out, but new measures are expected to supplement the existing system, and national measures may be taken by 15 March. There are two opposing sides within the government. The PD, M5S and LEU are for a more restrictive policy, while FI, the Lega, and IV want broad measures without further penalising restaurants and shops in regions with the lowest spread rates. Among the options being considered are: moving the curfew from 10 p.m. to 8 p.m., switching to the orange or even the red zone at weekends, which would also involve closing restaurants and bars, as well as shops for regions still in the yellow zone. The reopening of cinemas and theatres planned for 27 March could also be jeopardised, even as the government seems to be preparing the population for a new early lockdown during the Easter holidays (3, 4, and 5 April), similar to what was done during the year-end holidays.

To address this new tightening of restrictions, the government is expected to extend some support measures with the new *Sostegno* decree, currently being prepared to continue on from the previous *Ristori* decrees. The text of 26 articles is expected to mostly renew the measures put in place in 2020, with a few changes including €1 billion in refinancing for citizens' income, the renewal of the €600 "babysitter bonus", and the extension of paid parental leave to allow parents to handle the closing of schools. As for employment, the ban on lay-offs will be extended to 30 June 2021. The short-time work scheme will also receive increased funding. Grants for business revenue losses are also expected to be renewed, but they will be awarded by a different method. Companies with a VAT number will be able to receive a grant of up to €150,000, if their revenue over the January-February 2021 period is 33% less than that of the same months in 2019. They will no longer go by the *Ateco* sectoral classification. Tax payments for the period from 8 March 2020 to 30 April 2021 will also be temporarily suspended for businesses, but are expected to resume beginning in June 2021. Lastly, a new €2.1 billion fund was allocated to ordering more vaccines.

☑ **Our opinion –** *Italy is preparing to enter a third wave of the pandemic, propelled by the arrival of variants. A new phase of restrictions is expected to end the gradual reopening observed in early January. This new closure will have consequences on first-quarter growth, which is expected to once again be cut short by the expected economic decline in March and April. Companies, particularly in industry, will need to continue their business, but the closure of retail networks will hurt consumption as it did before.*

Originally published on 12 March 2021

Details of national accounts

The publication of account details by ISTAT confirmed the 1.9% decline in GDP over the fourth quarter compared to the previous quarter, leaving a positive overhang of 2.3% for 2021.

Year-on-year, GDP contracted 6.6% compared to the fourth quarter of 2019.

Domestic demand took 1.3 points away from GDP growth, while changes in inventories added 0.3 percentage points. Despite a 1.3% increase in exports, a 5.4% increase in imports resulted in foreign demand taking away 1 percentage point.

Marked by successive phases of restrictions that grew stronger during the holiday season, end consumer expenses contracted 2.7% during the fourth quarter. Service consumption saw the biggest decline, about 6.1%, which cut household consumption by 3 points. Durable goods consumption, meanwhile, dropped 4.9%, while semi-durable and non-durable consumer goods respectively declined 2.6% and 2%.

Investment growth remained zero over the fourth quarter. Construction investment saw a negative change, with the housing component dropping -2.8% and infrastructure down -1.6%. Investment in machinery, meanwhile, rose 3.3%, driven by transportation, which increased 13.1%.

Household consumption is 9.9% below where it was in the fourth quarter of 2019, after being 7.3% below it at the end of the third quarter. The investment situation has only deteriorated slightly compared to the second wave, sitting at -1.2% compared to pre-crisis levels, as opposed to -1.4% at the end of the third quarter, after falling 18% in the second quarter. Exports were 8.1% below where they were in the fourth quarter of 2019, while the recent increase in imports helped make up the gap, with -7.1% for Q4, compared to -11.3% in Q3.

For each sector, added value declined in most subsectors, except for business services which increased 1.1%. The largest declines were seen in services (-2.5%), particularly related to retail, transport, and hospitality (-5.3%), as well as in the arts, performances, and other services subsector (-8.5%) which were badly hurt by the health restrictions. Added value in agriculture also contracted during the quarter, declining by about 2.8%.

Similar to what was observed in the industrial output indices, the decline in industry remained moderate, with -0.3% for non-construction industry, and zero growth for the manufacturing sector. Construction, however, declined 2.5%. In terms of levels, the sector stands above its 2019 performance, rising +2.7% compared to the fourth quarter of 2019. Along with ICT, these are the only subsectors that saw a year-on-year increase. The second wave cancelled out some of the third-quarter recovery in services, which declined year-on-year by 7.4%, driven down by retail and food services, which stand at 14% below pre-crisis levels. However, the decline is largest in the entertainment sector, which lost nearly 20% of its value compared to the end of 2019.

Hours worked fell 1.5% from the previous quarter, reflecting decreases equal to 0.3% in agriculture, 1.8% in industry, 2.9% in construction, and 1.4% in services. At the same time, per capita employee compensation rose 0.1% from the previous quarter, with increases of 3.7% in agriculture, 1.5% in industry, 1.1% in construction, and a 0.5% decline in services.

☑ **Our opinion –** *The demand factors tell us more about the fourth quarter's growth profile and the effects of the second wave. The closures of shops, particularly during the holidays, dealt a blow to household consumption, which resulted in a decrease in added value in retail and distribution. Industrial output proved resilient despite its observed decline in November. It was partially export-driven, but also contributed to the increase in imports, propelled by purchases of intermediate goods and capital goods from abroad. This trend was reflected in business investment, which grew and continued to withstand November’s decline in business confidence, as well as December's drop in orders. The overhang for 2021 remains positive, despite the economic decline at the end of the year. This overhang was higher than expected during our last forecast, which, all other things being equal, should enable a slight improvement in the 2021 Italian growth outlook.*

Originally published on 5 March 2021

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