

Rapporti di previsione - Centro Studi Confindustria

WHAT KIND OF ECONOMY IN ITALY AT THE END OF THE CRISIS?

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SUMMARY AND MAIN CONCLUSIONS

Alessandro Fontana
Chief Economist of Confindustria

Once the recovery is over, real growth will begin. The rise in Italian GDP in 2021 is stronger than expectations: the CSC forecasts +6.1%, 2 points higher than the April estimates, followed by a further +4.1% in 2022 (Table A). The large upward revision is explained by the more limited impact of the Delta variant of Covid, in part due to the effectiveness and capillarity of vaccinations in Italy, which led to a relaxation of containment measures; and also by the ISTAT revisions regarding the first quarter of 2021. This strong recovery of GDP, amounting to over +10% in the two years, after almost -9% in 2020, would bring our economy back to pre-crisis levels in the first half of 2022, ahead of initial expectations.

	2020	2021	2022
 GDP	-8.9	6.1	4.1
 Consumption of resident households	-10.7	4.3	3.5
 Gross fixed capital formation	-9.2	18.3	9.6
 Exports of goods and services	-14.0	12.4	7.7
 Total employment (FTE _g)	-10.3	6.1	3.5
 Government net borrowing ¹	9.6	9.4	4.6

¹ Values expressed in % of the GDP.

Source: Centro Studi Confindustria elaborations and estimates on ISTAT data.

Table A
Forecasts for Italy

(Percentage variations)

Although the recovery is proceeding more rapidly than elsewhere, the gap with the pre-pandemic level is, at the moment, wider than that of the other main partners, since Italy experienced a greater fall in 2020: in the second quarter of 2021, GDP was -3.8% on the last quarter of 2019, in Germany -3.3%, in France -3.2%, while in the United States it already reached the pre-crisis level in the second quarter of 2021.

But what economy will we have in Italy at the end of the crisis caused by Covid? Starting from the fourth quarter of 2021, the expansion of the GDP will settle on a more moderate profile. The thrust linked to the gap to be filled after the fall is running out. Anyway, according to the CSC scenario, Italy would grow during 2022 at a rate of around +0.7% per quarter, much more than the +0.3% per quarter recorded in the period 2015-2018.

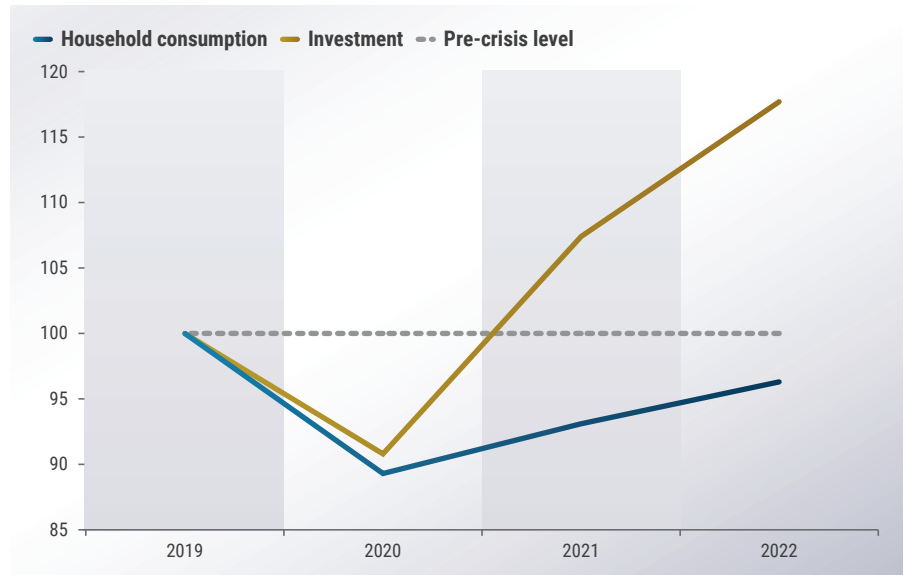
The main reasons for the higher growth expected in 2022 with respect to the past are, on the one hand, the still incomplete recovery of private consumption and foreign trade (in services), which should therefore continue next year; on the other hand, the positive effects of the National Recovery and Resilience Plan and the expansionary fiscal policy (which, however, is not taken into account in the forecast since the Budget Bill has not yet been presented), which will further boost investment.

The CSC scenario includes, for 2021 and 2022, the European resources that will be used within the framework of the NRRP to finance structural reforms and additional investments. For the first years, it is mainly the increase in public spending and investment that counts. Over time, the implementation of the Plan should also lead to an increase in the growth potential. The NRRP is worth 235.1 billion euros between 2021 and 2026. The largest part is represented by European resources, 204.5 billion, plus 30.6 billion in national resources. According to government estimates of its macroeconomic impact, Italian GDP could be higher than in the base scenario by +0.5 percentage points already in 2021 and another +0.7 next year. Crucial will be the efficiency in its implementation.

Not only investment and industry: consumption and services are recovering... The Italian recovery is characterized in 2021 and will be also in 2022 by two important changes. Firstly, consumption is progressively replacing exports as the driving force behind the upturn, alongside investments. Secondly, services are becoming more dynamic compared to industry, which has already restarted between the second half of 2020 and the beginning of 2021.

Chart A
Consumption restarts, investment above pre-crisis levels

(Italy, annual data, volumes, indexes 2019=100)



Forecasts made using the CSC econometric model.

Source: Centro Studi Confindustria elaborations on ISTAT data.

These two developments are closely linked: from the second half of 2021, as already in the spring quarter, household spending is expected to recover, especially in services. In particular, for out-of-home spending and travel, penalized until April by the limitations caused by the pandemic. Private consumption, which was partially blocked and diverted to durable goods during the lockdown, restarted in May-June 2021 in services such as restaurants, accommodation, entertainment, as well as in non-durable goods. The partial recovery so far of tourist flows, of international visitors in Italy and also of Italians to foreign countries, provides growth margins to be exploited for services in the second semester of 2021 and then in 2022.

The increased propensity to save money, largely “forced” through the first quarter of 2021, due to anti-Covid restrictions, is expected to continue to ease in the coming quarters, freeing up resources for spending. On the other hand, it is conceivable that it will remain higher than in the past, beyond the forecast horizon. Moreover, it is unlikely that all the extra savings in 2020 will flow back into consumption in 2021 and 2022. Therefore, the CSC scenario forecasts private consumption still well below pre-crisis levels in 2022 (-3.7% compared to 2019).

Conversely, investment, which remains the main driver of the Italian recovery, will rise to a much higher level than pre-crisis in 2022 (+17.7% compared to 2019; Chart A). So far the prevailing contribution has come from investment in construction, both non-residential buildings and housing, already above pre-crisis values, driven by incentives for renovation and public investment. Investment in plant, machinery, and transport equipment, on the other hand, is still below pre-crisis levels. In the coming quarters, they will continue their recovery, thanks to the still high level of business confidence and the drive brought about by new public investment. This drive is partly held back by negative supply-side factors, such as the increase in raw material prices and the difficulty in finding certain materials.

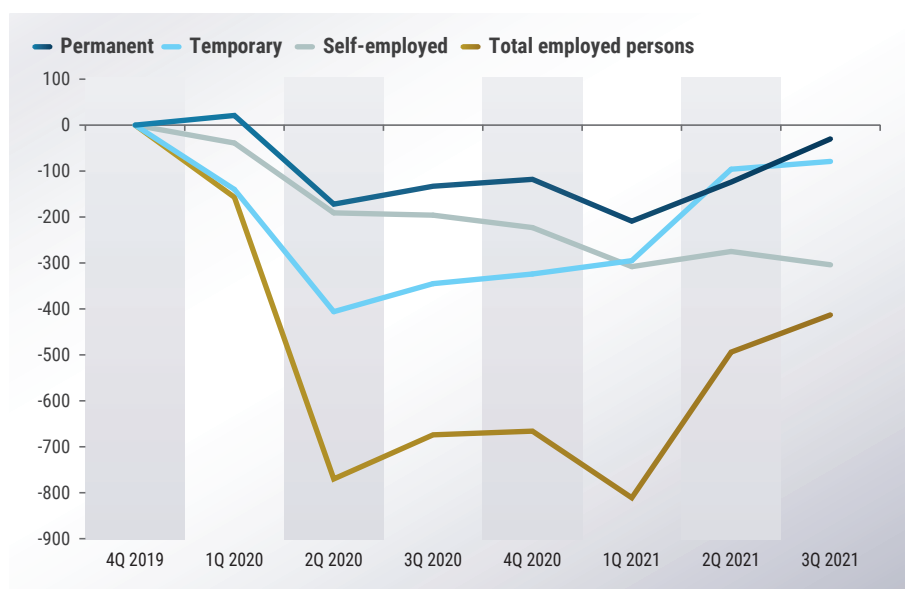
In industry, production rose gradually in the first half of 2021, at a gradually decreasing pace, returning to above the pre-pandemic level in June. More re-

cently, indicators for the third quarter, including production, have pointed to a slight easing in activity, with a worsening of the confidence of manufacturing firms in August and September.

In recent months, material shortages have become an increasingly obstacle to production. According to the PMI indicator, the recent slowdown has been influenced by interruptions in the production chain, which have led to a further lengthening of average delivery times and an increase in incomplete deliveries. In addition, the negative dynamics of industrial activity in our main trading partners (Germany and France) will also have unfavorable effects in the coming months.

Italian exports of goods and services, after a fall of 14.0% in 2020, in the CSC scenario will rise by 12.4% in 2021 and a further 7.7% in 2022. The estimate has been revised upwards for this year, by one percentage point. On the one hand, exports of goods are confirmed to be back on the pre-crisis expansion path as early as 2021, also thanks to world trade which will register growth of 10.5% in 2021 (despite the mid-year slowdown) and 4.5% next year. On the other hand, exports of services are no longer expected to recover this year, but only in 2022, remaining well below pre-crisis levels: the persistent weakness of certain types of travel, such as long-distance tourism and business travel, weighs heavily. In addition, reflecting the high growth of investments, strong activators of purchases from abroad, imports also restart, even stronger than exports, so that net exports do not make a significant contribution to the rise in GDP in the two years.

...and employment as well. Since the onset of the health crisis labor input has moved almost simultaneously with economic activity, and nearly one-to-one in terms of magnitude, both in the downturn and in the recovery. Thus, the number of people employed, after hitting a low in Q1 2021 (-811 thousand units compared to Q4 2019), recovered almost half of the fall (+398 thousand units in the July-August two-month period relative to Q1 2021, but still -413 thousand with respect to Q4 2019). As in the past, the temporary component of employment has been the one most responsive to the economic cycle, but in this crisis also the permanent component has been very responsive (Chart B).



3Q 2021: July-August average.
Source: Centro Studi Confindustria elaborations on ISTAT data.

Chart B
Employment recovery driven by the dependent component
(Cumulative changes, Q4 2019=0, seasonally adjusted quarterly data, thousands)

With the end, since July 1st, 2021, of the dismissal ban in the construction and manufacturing sectors (with the exception of textile, clothing and leather industries), the feared surge in redundancies has not so far occurred. According to a recent analysis by the Bank of Italy and the Ministry of Labor on administrative

data (*Comunicazioni Obbligatorie*), in July around 10 thousand redundancies were registered, a number in line with 2019 average levels, but as soon as August dismissals returned to extremely low levels. In the Fall there is likely to be a higher labor turnover, because of both higher entry and exit rates, due to sectoral reallocation processes, which are historically more intense at the end of a crisis, as well as to unavoidable company restructuring. The total number of people employed is nevertheless expected to grow by 0.3% on average this year.

By the end of 2022, both the number of people employed and the number of hours worked per capita are expected to recover and reach pre-pandemic levels. But if per-capita hours were to decline permanently, as happened with the double-dip recession of 2008-2009 and 2012-2013, the growth in the number of people employed would be higher than expected here.

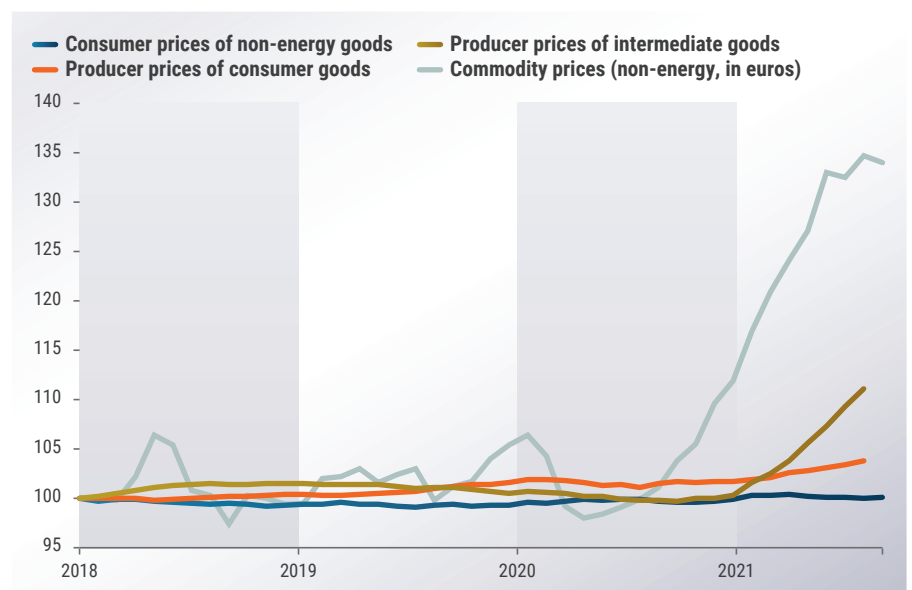
Low inflation in Italy, despite rising commodity prices. The international scenario, characterized since the last few months of 2020 by strong expectations of recovery, has led to enormous increases in commodity prices.

Price increases affect all the main advanced economies, which are importers of raw materials and with a manufacturing vocation. But in 2021, large differences in the dynamics of consumer prices have emerged. Inflation is higher in several Eurozone countries and above all in the USA, compared with Italy, where it has only risen in recent months, due to the rise in oil prices: excluding energy and food, it remains very low. The difference is exactly that in America core inflation has risen well over 2%, with a surge in prices of durable goods.

There are many reasons for these wide disparities in the consumer price trajectories. The main one is the different strength of demand in the USA compared to Europe and Italy, where consumption has just restarted. In Italy commodity price increases have been absorbed by the supply chains (Chart C): the most upstream sectors, that produce intermediate goods, were able to raise their prices to a marked extent (although not enough to safeguard margins), while those further downstream, which produce consumer goods and are closer to the final domestic demand, were unable to go beyond a modest increase in prices. This explains the moderate dynamics of inflation. But price gaps in the various stages of the supply chain also indicate very different conditions of margins in the various Italian industrial sectors, some of which suffer the most and need urgent intervention. Together with the scarcity of certain commodities, more and more often declared by companies, this represents undoubtedly a brake to the ongoing recovery of our economy.

Chart C
Commodity price increases absorbed by the supply chain

(Italy, prices of goods, monthly data, indexes January 2018=100)



Source: Centro Studi Confindustria elaborations on ISTAT and World Bank data.

Temporary or permanent price increases? It is not possible to generalize, because the world physical market conditions are very different for different commodities: for some there is a shortage of supply, such as metals, for others not, such as food. For the latter, price increases could be temporary. In the same way, the increase in oil prices is considered temporary, given the already advanced normalization of the physical market and of stocks: Brent is expected to fall modestly during 2022. In the metal markets, on the other hand, prices could remain very high, even in 2022, because time is needed for new investments and to reorganize production chains.

Therefore, in 2022 the inflationary pressure could diminish, in a different way: only partially in the USA, to a greater extent in Europe and, above all, in Italy, where energy prices have weighed more heavily. The effects on monetary policies could be very different. In the USA, expectations of an upcoming slowdown in central bank's bond purchases have grown and the FED has confirmed that this could happen soon, by 2021. In addition, a consensus is developing for one/two US rate hikes at the end of 2022. Conversely, the kind of inflation increase that is being experienced in the Eurozone should not require in the short term any moves from the ECB, which is keeping its hyper-expansionary measures in place, including bond purchases. An interest rate increase in the Eurozone still seems far away.

Scenario risks. Despite the positive outlook, the scenario does present certain risks which are mainly downwards and involve various elements of uncertainty:

1. The adoption of new personal movement restrictions is the main risk, since it would negatively and very quickly affect the confidence of households and firms, consumption and therefore also investment and employment. The possibility of the emergence of new variants of the virus that are potentially more contagious or for which the currently available vaccines are not fully effective is excluded from the scenario, but on this issue a level of uncertainty that is difficult to quantify remains.
2. In the second quarter of 2021, major shortages of raw materials and semi-finished goods emerged with considerable heterogeneity, geographically and by sector. These phenomena are hypothesized to be temporary in nature, but there is the risk that they may be only partially so and thus become more structural, slowing down economic activity in a more significant and prolonged manner.
3. Price dynamics are expected to be moderate in Italy, given that recent pressures have been fueled almost exclusively by rising commodity prices, especially energy prices, which are expected to ease during 2022. If this is not the case and supply shortages persist, the inflationary drive could take on a more structural character in Europe and Italy, leading the ECB to anticipate monetary tightening, which at the moment has not yet been outlined. A premature rise in interest rates in the Eurozone would have undesirable effects on the cost of public debt, and therefore very negative impact especially for a country, like Italy, which has a high level of debt.
4. The full effectiveness of the NRRP is subject to the identification of an efficient allocation of resources, to the compliance with the planned timetable, to the effective implementation of the investments and the numerous planned reforms. The failure, even partial, of one of these elements would imply a lower allocation of resources upstream or their dispersion downstream.
5. The deep difficulties of several companies operating in the Chinese real estate market, in particular of Evergrande, is increasing fears that the sector, which weighs 14% of Chinese GDP, will suffer serious repercussions, with the risk of a crisis at the national level, which could also have very negative indirect effects on China's trading partners and, more generally, on the world economy.

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