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Summary[*]

The international scenario, already fragile due to the unprecedented shocks of recent years, now appears more unstable and uncertain as a result of the violent escalation of the Israeli-Palestinian conflict in recent weeks. Energy commodity markets, which have long been extremely volatile, are now exposed to the new geopolitical pressure that the conflict may ignite. The global economy is fragmented, with a weak cyclical phase in Europe and a more robust one in the US. However, the International Monetary Fund (IMF) forecasts world GDP to grow by around three per cent in 2023 and 2024, with a robust expansion of world trade next year. The restrictive monetary policies, introduced by the central banks of several countries last year, seem to be producing the desired results; inflation is widely contracting and official interest rate hikes in the major advanced countries are expected to end.

The growth of the Italian economy in recent quarters has been volatile and, on average, very moderate. In the spring, GDP shrank by 0.4 per cent due to the contraction in investments, as well as in exports and public consumption; household spending slightly stagnated, held back by the lack of expansion in disposable income. Italian inflation has declined gradually so far; however, a sharp drop is expected this month, when inflation rates will be compared to the surge observed last year for energy goods. Employment continues to rise and unemployment to fall. The positive performance of employment does not create significant wage tensions, although imbalances remain between job supply and demand.

Household and business confidence is worsening; however, short-term economic indicators do not suggest that economic activity is deteriorating. Based on the models of the Parliamentary Budget Office (PBO), GDP in the third quarter was expected to vary moderately, declining slightly according to qualitative surveys or recovering moderately according to supply indicators. In 2023, GDP is projected to increase by 0.8 per cent, as already assumed in the endorsement exercise of the forecasts in the latest Update Note to the Economic and Financial Document.

Forecast risks over the medium term are on the downside. Several adverse shocks could affect the international framework; moreover, at the national level, critical issues remain regarding the progress of the works envisaged in the National Recovery and Resilience Plan (NRRP).

[*] *Prepared by the Macroeconomic Analysis Department. Information updated to 20 October 2023.*

The international environment

A new conflict destabilises the international environment

While the conflict on Russia's borders has been going on for 20 months now, the horrors of another war are raging in the Middle East. This represents a further shock for global economy, affecting first and foremost the energy commodities market. Although Israel produces only a tiny fraction of the global supply of natural gas, the precautionary shutdown of the Tamar plant affects flows to Jordan and Egypt, which in turn exports methane to Europe; due to contingent factors such as strikes in Australia and a suspected sabotage of the Baltic gas pipeline, which directly affects the availability of gas in Europe, the gas market was already strained before the Hamas attack on 7 October. Although EU stocks have reached 98 per cent, it is not certain that they will fully cover the winter demand for natural gas. In just a few days, methane futures prices on the Dutch market jumped by just under USD 20 on the shortest maturity (one month) to around EUR 54/MWh in mid-October (Figure 1).

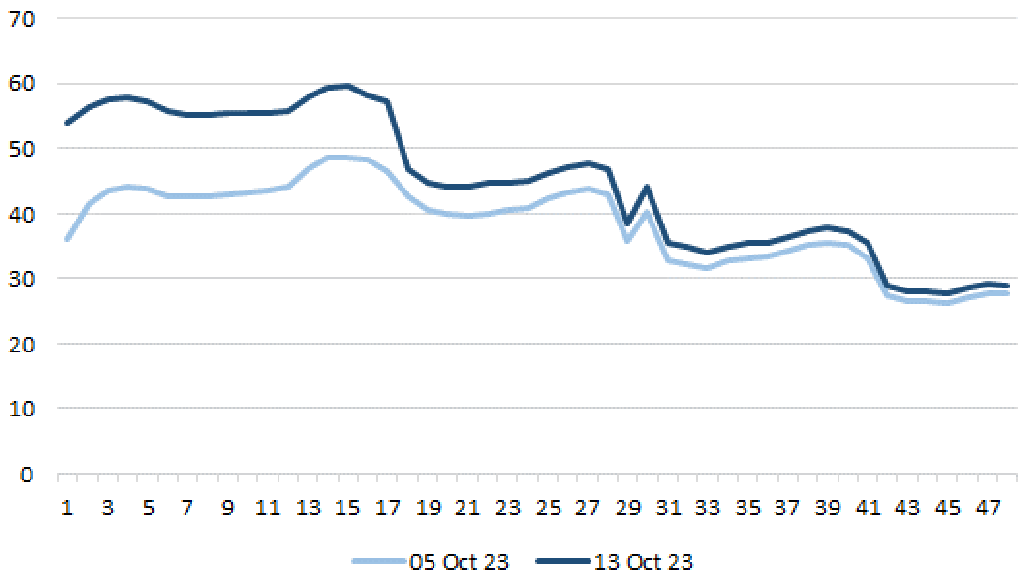
The geopolitical scene is constantly evolving, and the repercussions of the Israeli-Palestinian conflict could extend, on a wider scale, to international trade.

The economic developments in the main regions are uneven. In the US, the change in GDP in the first half of the year was more robust than expected, remaining at 0.5 per cent quarter-on-quarter. Conversely, the euro area substantially stagnated (0.1 per cent average GDP growth in the first and second quarters), due to the slowdown of economic activity in Germany. In China, growth in the third quarter exceeded expectations, reaching 1.3 per cent quarter-on-quarter, bringing the economy back in line with the Central Government's target of a 5.0 per cent change in GDP in 2023, despite the critical situation in the real estate sector.

High-frequency indicators continue to point to a weak second half of the year, with commodity prices recovering due to international tensions rather than an upturn in production activity. With regard to international trade, a ninth consecutive monthly decrease was recorded, with a year-on-year variation of -3.2 per cent in July (Figure 2).

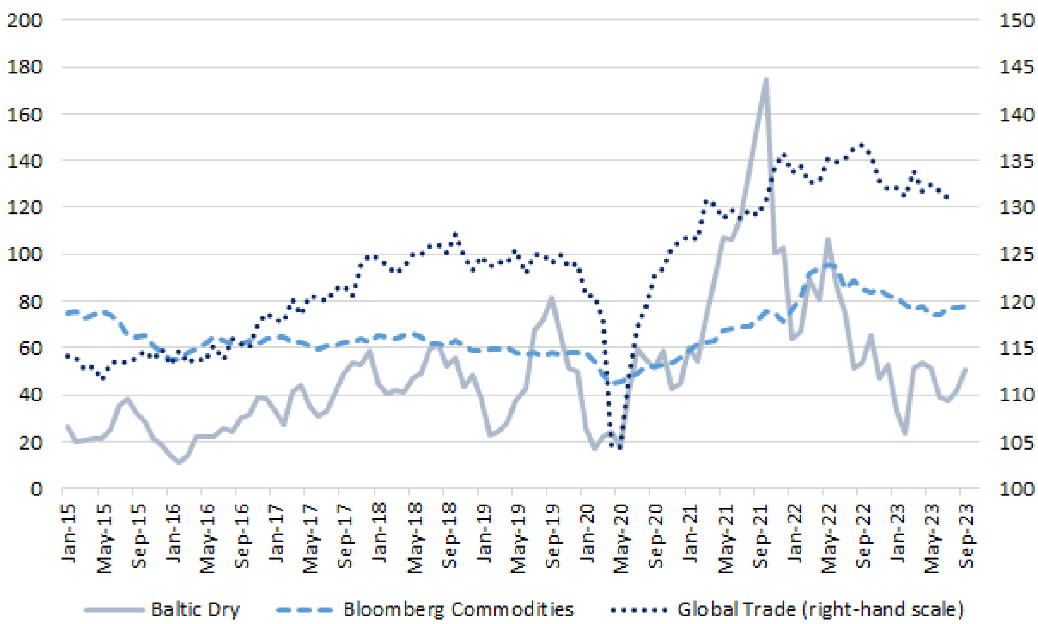
The short-term outlook is still characterised by extreme weakness. The global Purchasing Managers' Index (PMI) shows a marginal expansion in the services sector, and a contraction in the manufacturing sector for the fifth month in a row (Figure 3).

Figure 1 – Gas futures prices on the Amsterdam TTF market
(euro per MWh; months onwards)



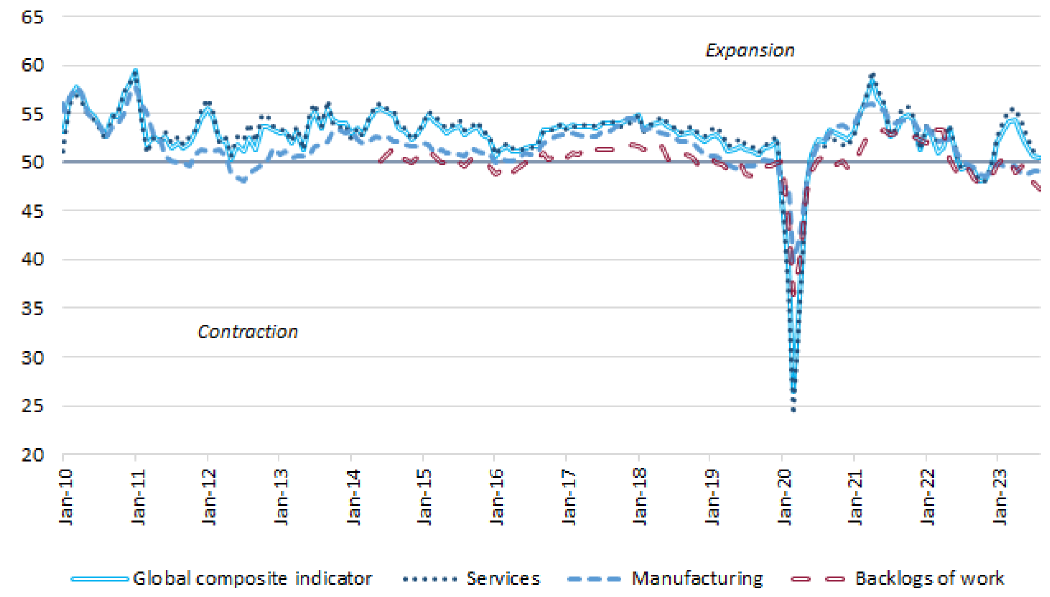
Source: S&P Global.

Figure 2 – Global economic indicators
(indicator numbers, 2010 = 100)



Source: CPB, Baltic Exchange and Bloomberg data.

Figure 3 – JP Morgan Global PMI Index



Source: S&P Global.

New International Monetary Fund outlook

The IMF published its latest forecast just after the outbreak of the new conflict between Palestine and Israel, so the estimates do not discount its effects. The IMF notes that the global economy has continued to recover after the shocks of recent years, such as the pandemic, the Russian invasion of Ukraine and the strong surge in inflation, showing what appears to be considerable ex post resilience. Despite the crisis in commodity markets and the sharp tightening of monetary policies to combat inflation, the global economy has not stalled, although it has slowed down. Expected growth is reported to be slow and uneven; compared to the July update, the change in world GDP is expected to remain more or less stable this year (3.0 this year and 2.9 per cent next year; Table 1), although a number of countries have undergone significant adjustments (downward for Germany, Italy and China; upward for the United States). Inflation expectations are now less optimistic than in the summer; the price change is expected to be close to seven per cent this year and to fall below six in 2024.

Table 1 – International Monetary Fund outlook

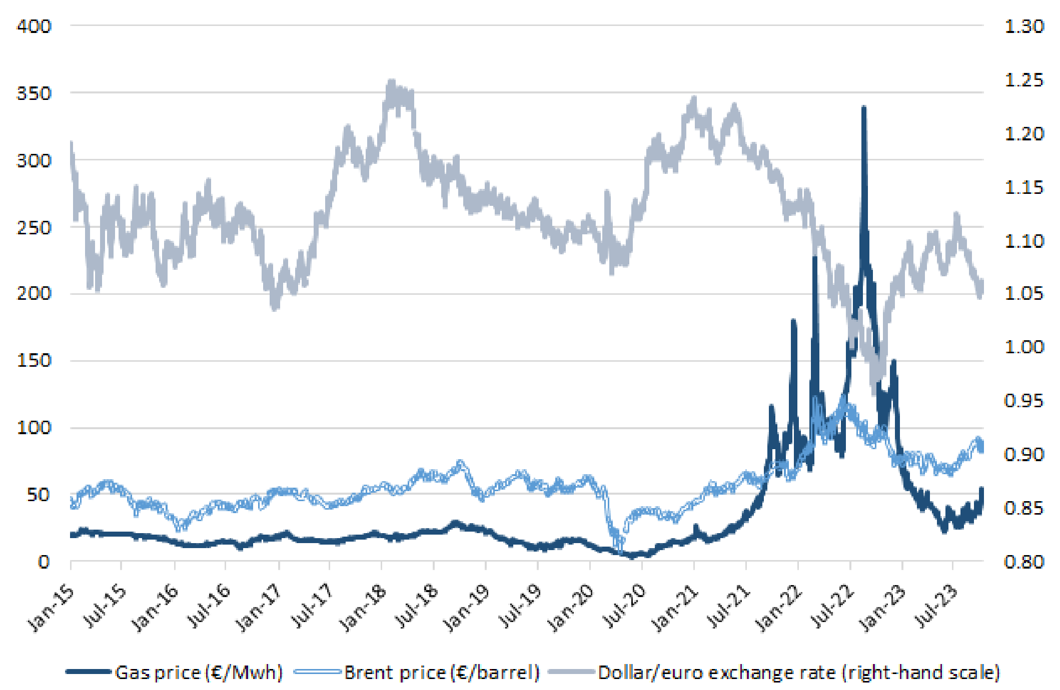
	WEO October 2023			Difference with WEO update July 2023	
	2022	2023	2024	2023	2024
World GDP	3.5	3.0	2.9	0.0	-0.1
Advanced economies	*2.6*	*1.5*	*1.4*	*0.0*	*0.0*
United States	*2.1*	*2.1*	*1.5*	*0.3*	*0.5*
Euro area	*3.3*	*0.7*	*1.2*	*-0.2*	*-0.3*
Emerging economies	*4.1*	*4.0*	*4.0*	*0.0*	*-0.1*
China	*3.0*	*5.0*	*4.2*	*-0.2*	*-0.3*
World trade	5.1	0.9	3.5	-1.1	-0.2

Source. International Monetary Fund, WEO October 2023.

The Israeli-Palestinian conflict reignited tensions in the commodity markets

In the first days of October, the price of oil fell by about USD 10 per barrel from its peak of USD 97 at the end of September, due to an expected weakening of global demand. The price of gas in Europe was between EUR 35 and EUR 40 per MWh (Figure 4), although the strikes of gas workers in Australia, one of the largest producers of liquefied gas, induced volatility. The terrorist attack on 7 October quickly rekindled tensions in the energy commodity markets.

Figure 4 – Oil and gas prices and exchange rates
(oil and gas prices in EUR)



Source: S&P Global.

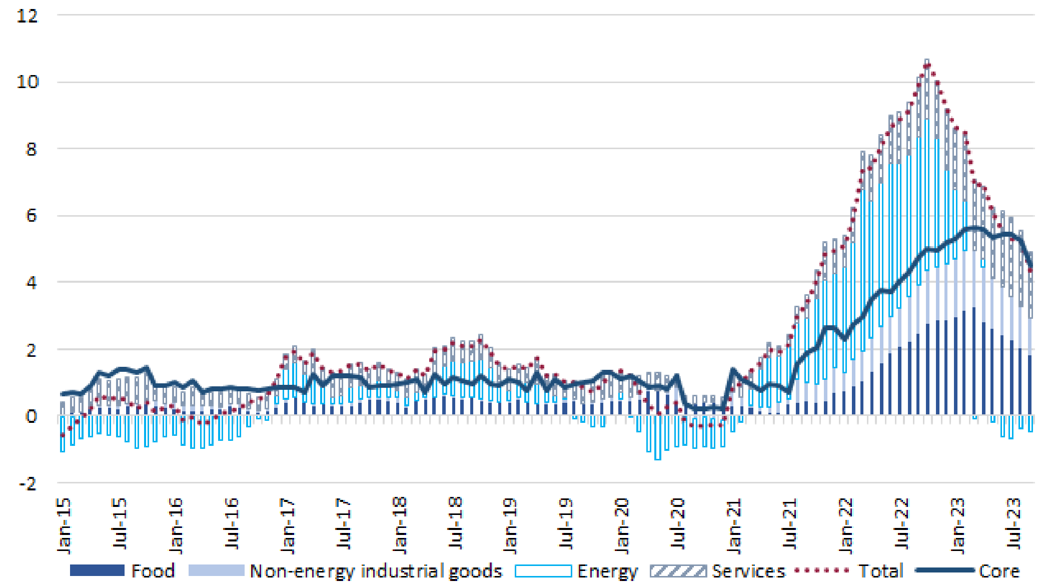
Although the two countries directly involved in the conflict are not quantitatively relevant to global energy supply, fears about the possible direct or indirect involvement of other Middle Eastern countries causes instability and heightens uncertainty. The day before the attacks, natural gas spot prices stood at EUR 38 per MWh, later rising to and above EUR 50; the price of crude oil rose to a lesser, but still not negligible extent.

As for the euro, after recovering almost 18 percent against the dollar between the end of September 2022 and last July, the European currency weakened again as the greater resilience of the American economy became evident compared to that of the euro area countries as a whole; between the first days of August and the third week of October, the euro depreciated by about 4.0 percent against the dollar, reaching an exchange rate of USD 1.05 per euro.

Inflation recedes and monetary policy tightening seems to be nearing its peak

Inflation on both sides of the Atlantic has halved over the past twelve months, reaching 3.7 per cent in the US and 4.3 in the euro area in September. The underlying price trends, net of energy and food, are more persistent and stand at 4.1 and 4.5 per cent in the two areas respectively. In particular, in the euro area, the price of food and services contributes most to inflation, while energy prices have recorded negative trend changes for five months (Figure 5).

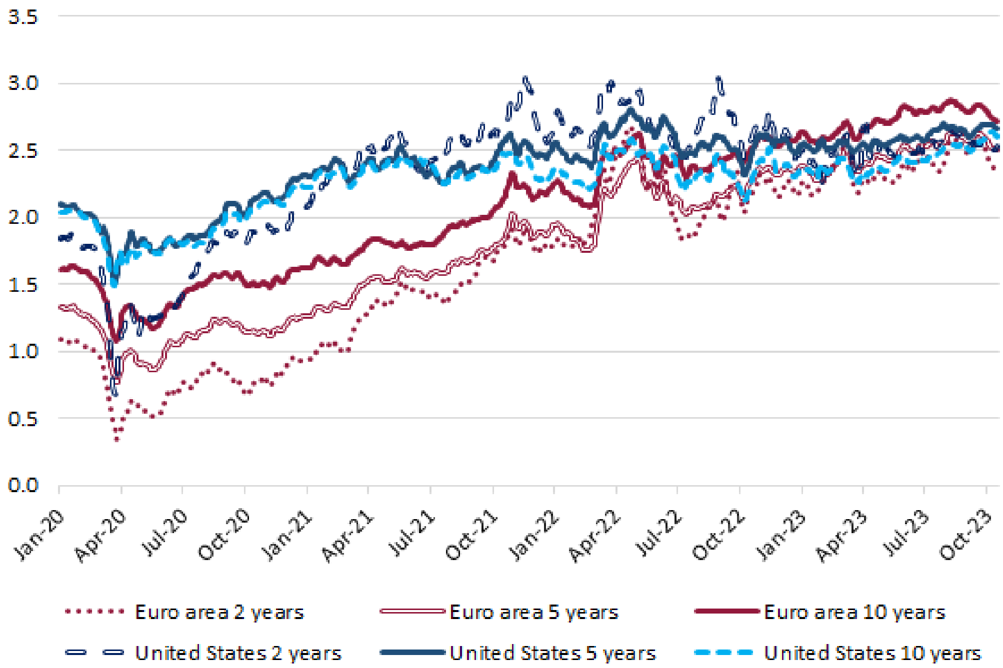
Figure 5 – Inflation in the euro area (1)
(percentage trend changes and contributions)



Source: elaborations on Eurostat data.
(1) The sum of the contributions may not correspond with the dynamics of the total index, as it is chained and processed at a higher detail.

Since last year, the Federal Reserve and the European Central Bank (ECB) have been increasing interest rates, with the US central bank raising them eleven times and the European central bank ten times. The tightening curbed the expansion of output and unfolded its effects on prices, both current and expected. Operators' expectations have receded and expectations at various maturities seem to be converging around 2.5 per cent in both continents (Figure 6).

Figure 6 – Inflation expectations implied in inflation-linked swaps in the euro area and the United States
(percentage points)



The Italian economy

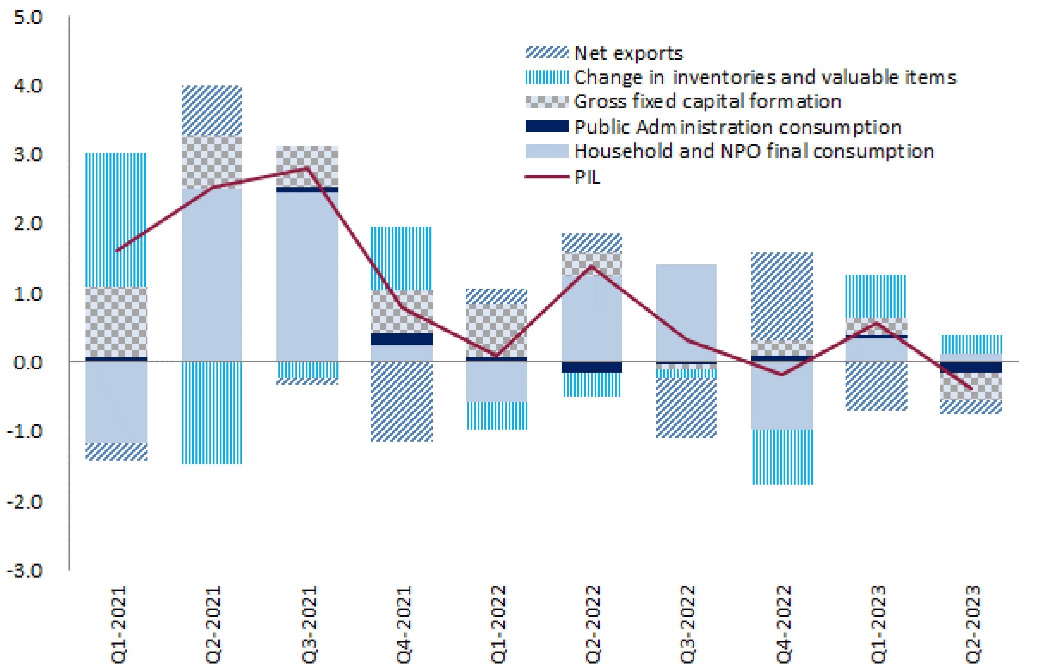
GDP came to a standstill in the spring

In the second quarter GDP shrank by 0.4 per cent on the previous period, resulting in a positive trend change of 0.3 per cent. Since the second half of last year, the quarterly change in GDP has been volatile, overall activity is weak, and GDP has essentially not grown since the summer of 2022; the growth forecast for 2023 is positive, at 0.7 per cent.

Last spring's setback reflected the quarterly decline in gross fixed capital formation (-1.7 per cent) and exports (-0.6 per cent) against a standstill in final consumption and imports. As a result, domestic demand net of inventories took 0.4 percentage points off the GDP change, while net foreign demand accounted for a further two-tenths of a point. Conversely, the change in inventories made a positive 0.3 percentage point contribution to GDP (Figure 7). On the supply side, the value-added declined in all the main production sectors, especially in the industrial and construction sectors (-0.8 and -2.6 per cent, respectively).

The economic downturn experienced by Italy in the second quarter was largely due to domestic factors, and was at odds with the trends in the major European countries: GDP in the euro area, in France and in Spain in the same period, recorded quarterly increases of between 0.1 and 0.5 per cent; activity in Germany stagnated.

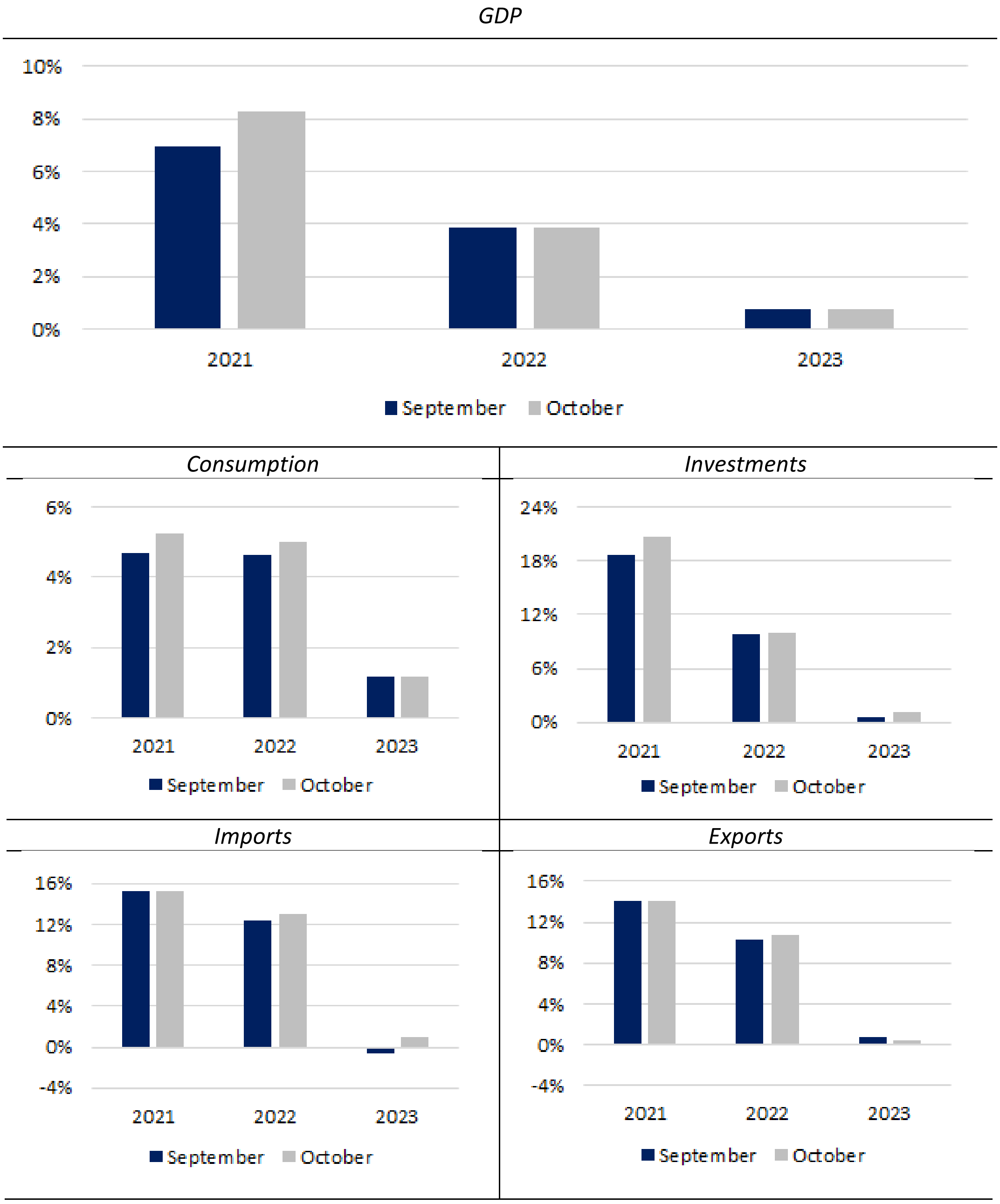
Figure 7 – GDP change compared to the previous quarter and contributions of demand components
(percentage changes and contributions in percentage points)



Source: Istat.

Despite the discrepancy observed in the second quarter, the recovery of the Italian economy with respect to pre-pandemic values remains more sustained than that of its other European partners, also in light of the recent historical revisions of the national accounts series that were released in the summer for several countries; Italy experienced more robust annual growth in 2021, from 7.0 to 8.3 per cent (Figure 8), which benefited from higher productive inputs, both capital and labour, under conditions of lower intermediate cost spending and greater business efficiency.

Figure 8 – Revisions to quarterly national accounts (1)
(annual growth rates; percentage changes)



Source. Istat.
(1) The histogram for 2023 represents the change between the average of the first two quarters of 2023 and the annual average of 2022.

Consumer spending weakened in the spring as purchasing power stagnated

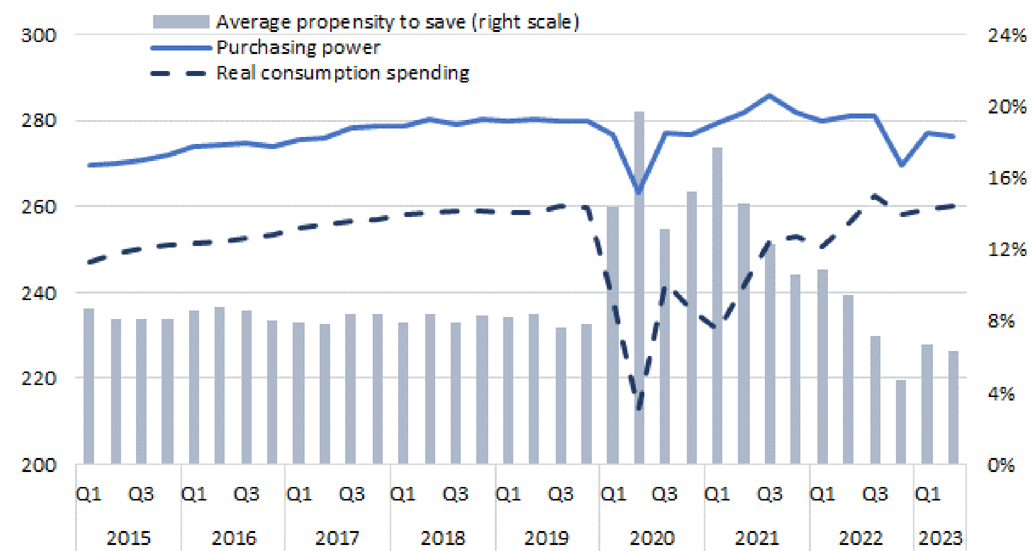
In the second quarter, household consumption decelerated to 0.2 per cent quarter-on-quarter, following a good recovery in the previous quarter (0.6 per cent). Spending on services surpassed pre-pandemic levels (about nine-tenths of a percentage point), while spending on goods fell, especially on non-durable goods (-2.3 per cent).

The weakening of private spending in the spring months reflected the lower resources available to consumers. Indeed, household disposable income in the second quarter declined in nominal terms by 0.1 per cent, corresponding to a slightly larger drop in purchasing power. The slowdown in disposable income was affected by the lower labour utilisation, as the number of hours worked fell. The propensity to save in the spring remained low, at 6.3 per cent of disposable income, down 0.4 percentage points compared to the first quarter (Figure 9).

In the third quarter, consumer spending began to be more cautious. Based on PBO analyses, the seasonally adjusted consumer spending indicator (in volume) of Confcommercio was reported to have decreased compared to the previous quarter, affecting both goods and services. In July-August, signs of a decrease were also found in retail sales (in volume), whose seasonally adjusted rate of change was negative by almost one percentage point in the third quarter.

Consumer confidence, which had improved in the first part of the year, started to deteriorate since the beginning of the summer: in the average of the third quarter, the confidence index stood at 106.2, about two and a half points lower than its June peak. The economic/personal sphere breakdown shows that the worsening of the index during the quarter was mainly due to assessments of the general climate for the national economy.

Figure 9 – Household purchasing power, consumption and savings
(billion euros, chain-linked volumes year 2015 and percentage shares)



Source: Istat.

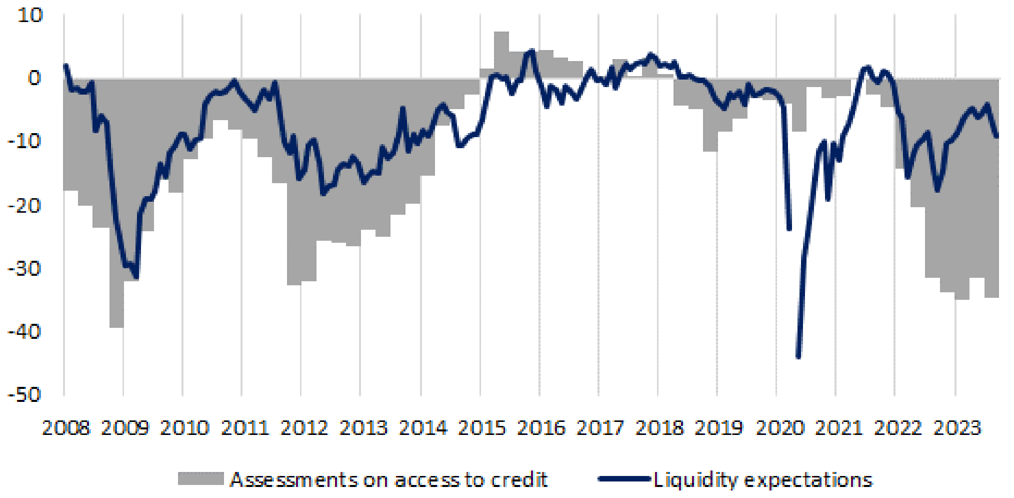
Investments slowed, also due to the tightening of credit conditions

In the second quarter of the year, capital accumulation recorded a setback of an unprecedented magnitude in the post-pandemic period (-1.7 per cent quarter on quarter). Investments in residential real estate recorded the fourth consecutive quarterly decline (-3.2 per cent) in spring, falling by around ten points compared to the same quarter in 2022. The contraction in residential investment in the first half of 2023, a period in which new works financed by the Superbonus incentive were still substantial, coincided with the slowdown in households' disposable income (discussed in the previous section) and the rise in interest rates on mortgage loans. Businesses' investments in non-residential buildings and in equipment also declined (-3.6 per cent and -0.4 per cent, respectively), affected by both lower aggregate demand and worsening credit conditions. In spite of these unfavourable economic developments in the first half of 2023, gross fixed capital formation remained among the highest in the last fifteen years, also due to the revisions to the national accounts released by Istat in recent weeks. The investment rate of non-financial companies (the ratio of gross fixed capital formation to added value) thus remained among the highest in the last decade, standing at 22.7 per cent; the profit share (measured as gross operating surplus over added value at basic prices of non-financial companies) fell to 43.2 per cent, the lowest observed in the last ten quarters. On the other hand, in April-June, the mark-up for the total economy remained essentially stable: while profit margins stagnated in manufacturing, there was growth in agriculture and services and a decline in construction.

The qualitative surveys conducted at the end of the summer report deteriorating investment conditions, and companies foresee a moderate expansion of investments in 2023 compared to 2022. In particular, the Bank of Italy's August-September survey on inflation and growth expectations points to a deterioration of the general economic situation in all sectors. Assessments on demand also appear to be clearly worsening, especially in the industrial sector, although the decline is less pronounced in the construction and services sectors, where the balance between improvement and deterioration assessments is still positive.

As for access to credit, manufacturing companies reported tight conditions in the third quarter, with negative balances between favourable and unfavourable responses, exceeding those recorded during the sovereign debt crisis. In this regard, an indicator on credit conditions is presented in the Box, based on the imbalance between supply and demand, and estimated using qualitative information, which also takes into account the opinions expressed in the Istat survey on manufacturing business confidence; the proposed indicator shows a rapid deterioration in credit conditions throughout 2022, compared to the needs of businesses. Similarly, liquidity expectations also worsened, and the balance between positive and negative assessments fell by two points on a monthly basis in September (Figure 10).

Figure 10 – Assessments of credit conditions in the manufacturing sector and liquidity expectations
(difference between percentage shares of positive and negative answers)



Source: Istat.

Overall, monetary tightening seems to be affecting the real estate market as well: in the second quarter[2], house purchases and sales continued to fall and prices fell in real terms; real estate agents, interviewed between June and July in the economic survey on the housing market conducted by the Bank of Italy, reported longer delays in sales and increasing difficulties in accessing mortgages, with negative response rates unprecedented since 2014. The survey results are confirmed by trends in bank loans, showing a reduction in loans granted to households and businesses in August. The decline in loans to households, which started in the second half of 2022, has intensified since June.

As regards bank assets, the incidence of non-performing loans remained broadly stable in the first half of 2023. With regard to funding, financial institutions faced a further decline, close to eight per cent in trend terms in August; this reduction was attributable to lower deposits from households and the contraction in liabilities to the Eurosystem following the repayment of financings obtained under the TLTRO-III programme. The rearrangement of savings continued and households showed a growing interest in investing in bonds; this resulted in an increase in the cost of funding, with inevitable downstream repercussions on lending conditions.

Exports weakened in the first half of the year

In the second quarter of 2023, the volume of Italy's exports of goods and services fell again (-0.6 per cent), eroding part of the gains recorded in 2022. Despite this trend, foreign sales remained broadly in line with their European counterparts and were still higher than in the

[2] See the Bank of Italy's Economic Bulletin of October 2023.

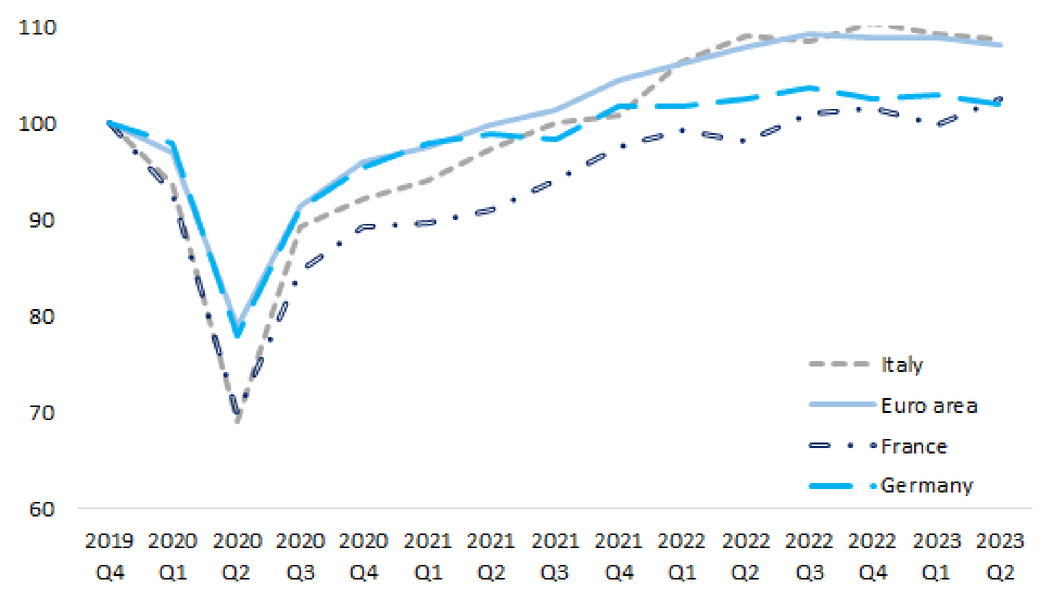
major euro area countries (Figure 11). The aggregate figure is the result of a cyclical downturn in sales of goods (-1.1 per cent), which more than offset the increase in services (2.0 per cent), still driven by the substantial tourist flows entering Italy.

In the second quarter, Italian exports were negatively affected by a deterioration in competitiveness, as domestic price increases were more pronounced than our foreign competitors, as already observed in the first quarter. Foreign goods sales fell in EU and non-EU markets, especially those of chemical, mechanical and refined petroleum products. In the summer, export trends improved, with an average July-August increase in foreign sales (in value) of about one percentage point compared to the second quarter. Istat surveys on orders from manufacturing exporting companies point to weak foreign demand in the short term, in line with the information on international trade flows (see 'The International Environment').

Imports, as measured in the quarterly national accounts, remained virtually stable in the spring, reflecting lower purchases (-0.4 per cent) of goods from abroad (and in particular from the euro area), offset by higher imports of services (1.9 per cent), also significantly driven by Italians' trips abroad. The concurrent decline in exports resulted in a slightly negative contribution of net foreign demand to GDP growth in the second quarter (-0.2 percentage points).

The current account of the balance of payments is slowly improving, especially regarding goods. According to provisional data, the current account balance was in surplus by EUR 2.8 billion in August (in the same month in 2022 there was a deficit of over seven billion). In the first two months of the third quarter the surplus amounted to more than eight billion euro, compared to a deficit of about two in the second quarter.

Figure 11 – Exports in the euro area and its three largest economies
(index numbers, 2019Q4=100)



Source: Eurostat.

Household and business confidence is deteriorating

After the decline in July, the seasonally and working-day adjusted index of industrial production rose slightly in August (0.2 per cent). This development was slightly more favourable than expected by private forecasters, who had predicted a slight decline. In August, Italy's manufacturing production went against the trend recorded by its main European partners: in Germany, activity fell by 0.2 per cent, in France by 0.4 per cent and in Spain by 0.8 per cent. The expected change in Italian industrial production for the third quarter was barely positive, an improvement on the economic declines that characterised the previous four quarters. In September, although slightly up on the previous month, the PMI remained below the threshold separating expansion and contraction phases for the sixth consecutive month, signalling the weakness of the overall manufacturing cycle and tensions regarding the availability of materials and production costs. The Istat index of industry confidence continued to decline, reaching in September values close to those of the end of 2020. The degree of capacity utilisation of manufacturing companies in the second quarter remained stable at around 77 per cent, while the share of companies reporting production bottlenecks continued to decline.

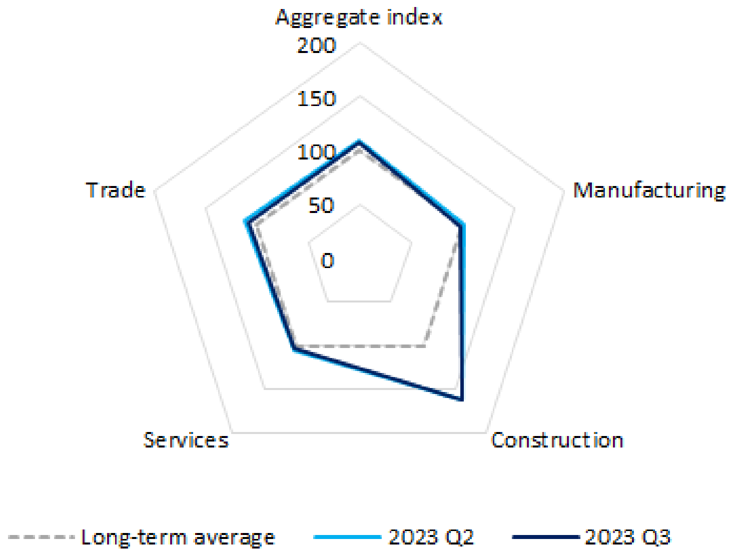
Production in the construction sector also fell in July (-1.6 per cent), confirming the downturn trend affecting the sector for more than a year. Surveys on confidence in the construction sector show uneven trends: the confidence measured by Istat remains at values close to historical highs, while the PMI indicates a contraction since last August. The PMI index is close to neutral for the residential and civil engineering sectors while it is in contraction for the business sector. Respondents report that uncertainty regarding the Superbonus is among the factors limiting their confidence and that the possibilities related to the implementation of the NRRP are among the elements encouraging optimism.

In the first three months of the year, a 0.1 per cent cyclical decrease in the value added of the service sector was recorded, reflecting declines in trade (-0.7 per cent) and in professional and support activities (-0.6 per cent), partially offset by increases in communication and financial-insurance services, as well as those related to other activities. Qualitative indicators seem to point to a continued weak economy in the short term. The industry PMI has been declining since spring and in September moved below the threshold between expansion and contraction for the first time since December 2022. The Istat confidence indices for services also deteriorated, settling in September at values below those recorded at the beginning of the year.

Concerning the birth-mortality rate of enterprises, Unioncamere's Movimprese survey recorded an increase of more than 28,000 units for the second quarter of the year compared to the previous period, corresponding to an economic growth rate of 0.5 per cent (compared to -0.1 per cent in the first quarter). All the main sectors of activity contributed to this result, particularly accommodation and food services, as well as construction and professional, scientific and technical activities.

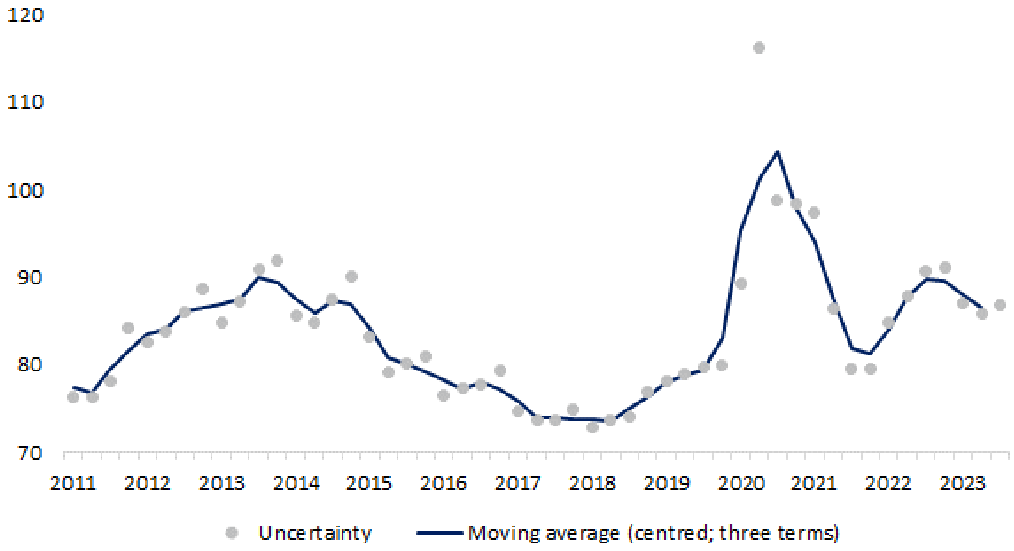
The composite index of business confidence, obtained by aggregating the sectoral climates published by Istat, fell again in the third quarter (Figure 12). In July-September the uncertainty measured by the PBO index increased again, more so among businesses than among households, ending the positive trend that had characterised the first half of 2023 (Figure 13).

Figure 12 – Confidence index in production sectors (1)



Source: Istat.
(1) The long-term average is calculated between January 1990 and September 2023.

Figure 13 – PBO indicator of uncertainty
(index number, 1993 Q1=100)



Source: based on Istat data.

The most recent data and short-term forecasts

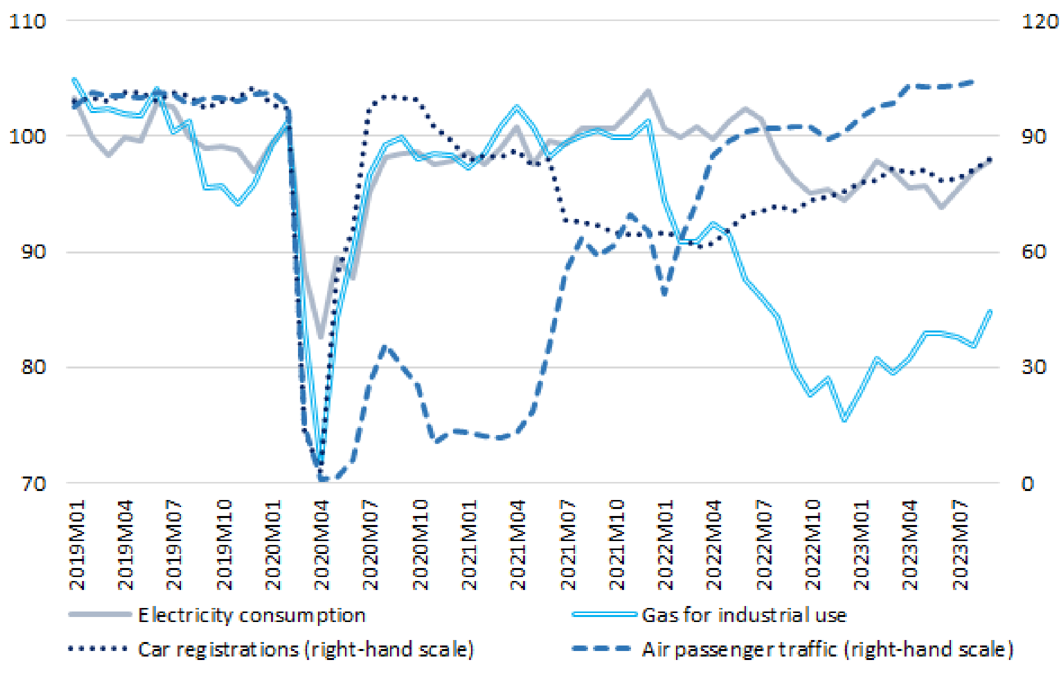
Overall, available economic indicators point to a moderate recovery in production activity in the second half of the year, despite the worsening of household and business confidence.

The real-time monthly quantitative variables show that the cyclical phase held up in the past quarter. Electricity consumption indicator recovered in the summer, albeit partly due to above-average temperatures for the period; similarly, industrial gas consumption was high in September, although still well below pre-pandemic levels. In July-August, air passenger traffic recovered fully from its 2020 collapse, and the number of new car registrations continued to increase, benefiting from the easing of restrictions in supply chains (Figure 14).

According to PBO estimates, GDP in the summer was expected to remain virtually unchanged, with a wide range of variation (between -0.2 and 0.3 per cent; Figure 15). The forecast models most heavily weighted by qualitative confidence surveys or household demand variables point to a slight contraction; conversely, the models most weighted by production inputs and supply variables point to a moderate recovery. Economic indicators are not timely and reliable regarding services, which means that real-time forecasts for this component are subject to a high margin of error.

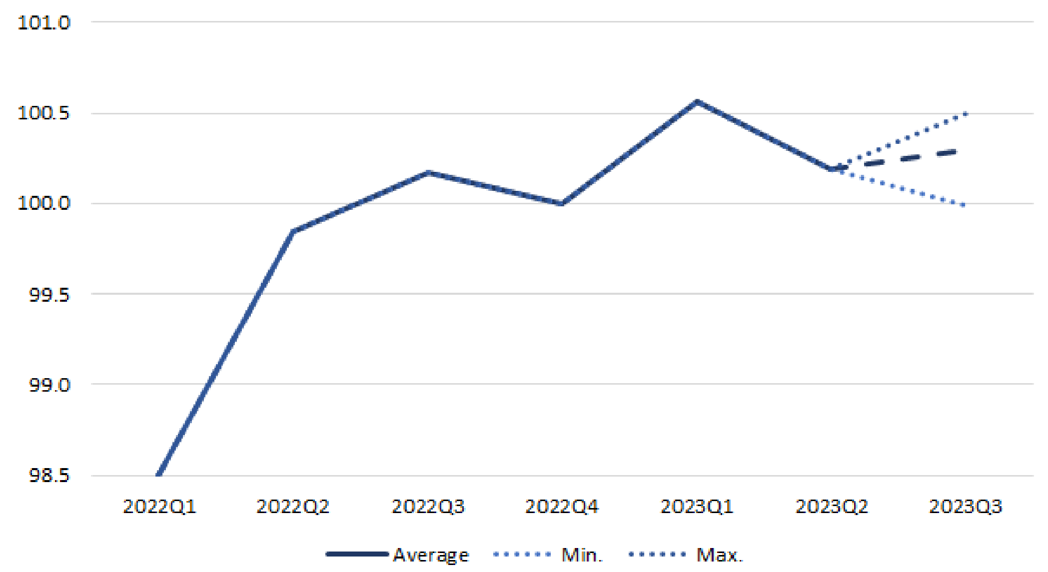
In the final part of 2023, production activity is expected to improve gradually; GDP is projected to increase by 0.8 per cent in 2023, as projected in the forecasting exercise conducted by the PBO to endorse the macroeconomic forecasts of the 2023 EFD Update.

Figure 14 – Real-time indicators of economic activity
(index number, average 2019 = 100)



Source: based on Assaeroporti, ANFIA, Terna and Snam data.

Figure 15 – Short-term GDP forecast (1) (2)
(levels 2022Q4=100)



(1) GDP forecasts are obtained using PBO's short-term models (for more details see Parliamentary Budget Office, (2018), "The PBO's macroeconomic forecasting tools"). – (2) The blue solid line represents historical data while the dotted ones represent the PBO forecasts.

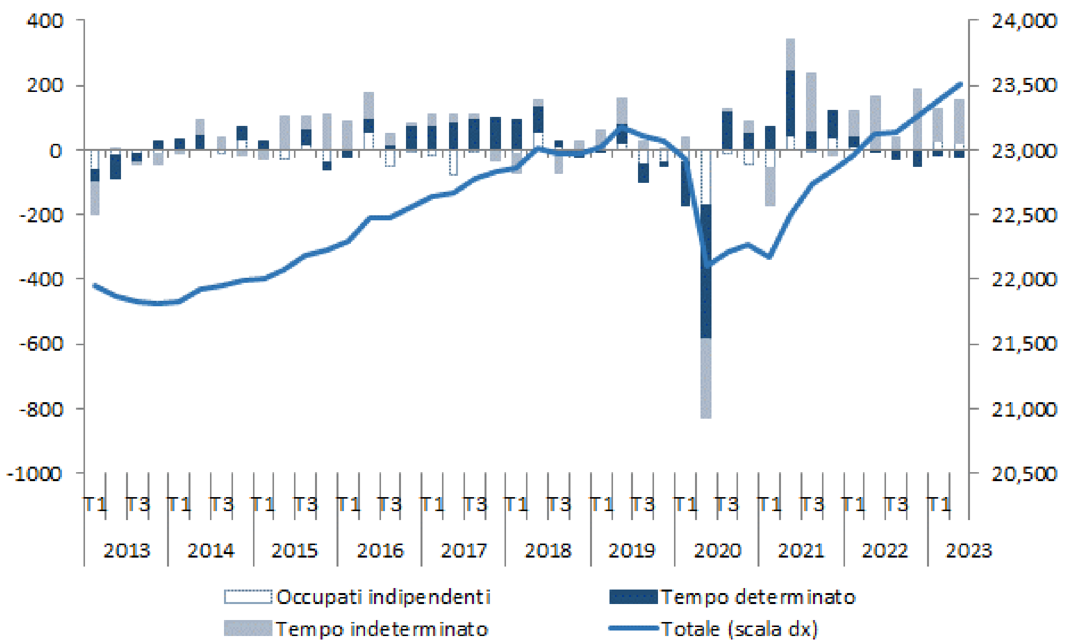
Unemployment continues to decline and wage growth strengthens slightly

The deterioration of the economic cycle in the spring months was accompanied by a decline in labour input for the first time since 2021. The decline in hours worked in the second quarter followed that of GDP (-0.4 per cent compared to the previous three months) and mainly affected the industrial sector; the change in hours worked remained stagnant in the services sector. The decline in hours per person employed incorporated the slight decline in national accounts employment, in contrast to the increase shown by the Quarterly Labour Force Survey (*Rilevazione trimestrale sulle Forze di lavoro,* RFL).

According to the RFL, the growth in employment was driven by permanent employment (0.9 per cent) and, more marginally, by self-employment. The number of fixed-term workers decreased for the fifth consecutive quarter (Figure 16).

According to preliminary data, the number of persons employed increased slightly over the summer period (0.2 per cent on average in July-August compared to the previous three months), as the support provided by permanent employees and self-employed workers has reduced. The trend in fixed-term employment, particularly erratic since the spring months, continued to be negative. Both genders contributed to the resilience of employment, especially older workers, as demographic trend penalises intermediate age groups. The employment rate remained at historically high values (61.5 per cent in August).

Figure 16 – Payroll employment and self-employment
(quarter-on-quarter absolute changes; levels)



Source: Istat.

According to administrative data from mandatory reporting, labour demand strengthened in the first six months of this year; net job activations in the non-agricultural private sector grew significantly (by more than 50 per cent compared to the second half of 2022), driven above all by higher permanent hiring in the industrial sector (excluding construction). Short-term employment contracts recovered particularly in the spring months driven by the service sectors most relevant for tourism.

The decline in wage subsidies continued (down 38 per cent in January-August compared to the same period in 2022) and the incidence with respect to labour input realigned with pre-pandemic values (0.8 per cent in the second quarter). Contributing to this was the decline in the number of hours authorised in the Wage Guarantee Fund (*Cassa Integrazione Guadagni*, CIG) in the industrial sector (excluding construction), despite an increase in applications in the more energy-intensive manufacturing sectors[3]. In the trade sector the authorised hours, although decreasing, remained on average higher than pre-crisis values, due to the more moderate reduction in CIG treatments. The construction sector, on the other hand, showed greater recourse to these instruments, probably due to the weakening of activity levels in the sector; however, overall hours remained below pre-crisis levels.

The number of job seekers in the second quarter fell considerably (down by 64,000 people, -3.2 per cent quarter-on-quarter). This was driven by female unemployment (more than two-thirds) and the intermediate age groups. The expansion in labour supply

[3] Manufacture of paper and paper products, manufacture of coke and refined petroleum products, chemicals, manufacture of non-metallic minerals, metallurgy.

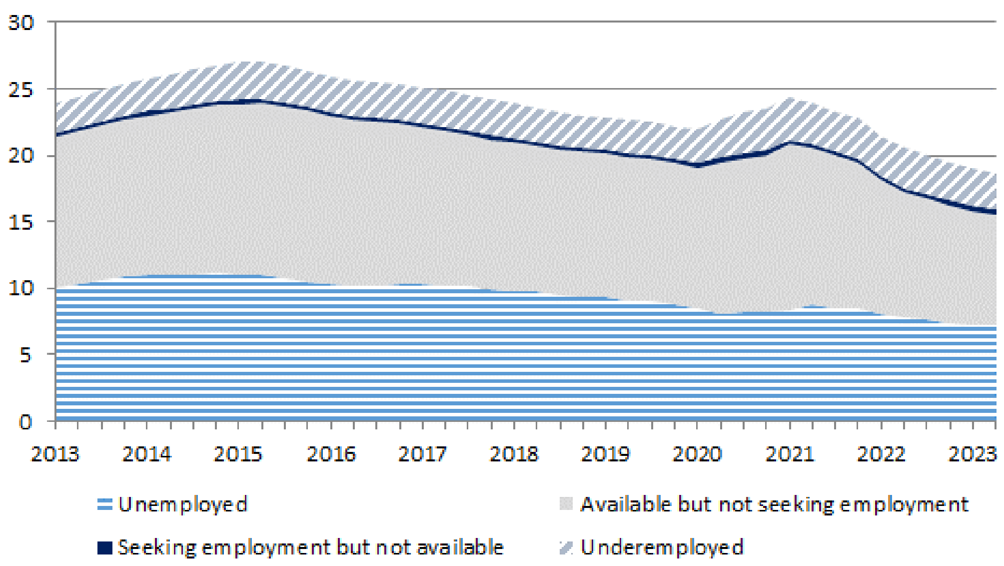
also continued (0.3 per cent), with the activity rate (15-64 years) reaching the highest values in the historical series (66.5 per cent, 1.0 points higher than in the fourth quarter of 2019). The unemployment rate (at 7.6 per cent) decreased accordingly, down by three tenths compared to the opening quarter of the year. Inactivity also reached low levels (33.5 per cent in the second quarter), thanks to the gradual entry into the labour market of inactive individuals (around 630,000 as of the fourth quarter of 2019), in particular those who declare themselves available for work but do not seek employment. Labour inactivity still decreased slightly, to below 19 per cent (Figure 17). According to preliminary data, unemployment continued to fall during July-August (to 7.4 per cent, two tenths less than in the previous quarter).

The gap between labour supply and demand (Figure 18) remained wide, with the vacancy rate barely increasing in the manufacturing and construction sectors, while remaining stable in the services sector.

Hourly contractual wages increased in July and August (3.0 per cent on average on annual basis), driven by a sharp growth in the private sector, attributable to one-off wage increases in the trade sector and the adjustment of wage floors to the revision of the benchmark index for contract renewals (HICP excluding imported energy goods) in the metalworking and mechanical engineering sector. In the public sector, after a peak in the first quarter of this year and relative stability in the second quarter, wages normalised in the summer (3.3 per cent in July-August).

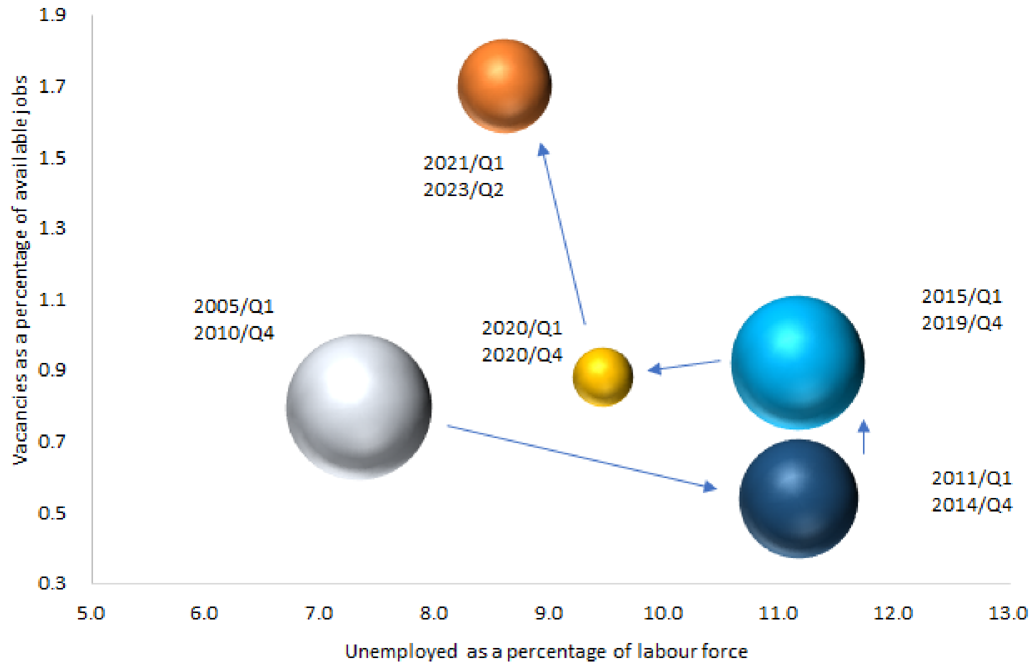
With hourly labour costs broadly unchanged compared to the first three months of this year, the increase in ULC in spring reflected the contraction in hourly productivity.

Figure 17 – Unemployment, underemployment and potential labour force (1)
(4-term moving averages; percentage shares)



Source: based on Istat data.
(1) Ages 15-74 years.

Figure 18 – Unemployment and vacancies (1)
(average percentage values)



Source: based on Istat data.
(1) The size of the spheres is proportionate to the number of quarters in each sub-period, indicating the breadth of the period represented.

Inflation continues to fall, also affecting food prices

Inflation continues to fall and food prices slow down for the first time in almost two years, although they remain high. Downward pressure from abroad and upstream in the production process is diminishing, but business and household expectations continue to signal a return to inflation in the coming months.

Domestic consumer inflation (as measured by the NIC index) in the third quarter of 2023 fell to 5.6 per cent (from 7.4 per cent in the previous period) thanks to a sharp slowdown in the prices of energy goods (0.8 per cent, from 9.8 in the second quarter), especially for the unregulated component; food prices also began to fall, to 9.5 per cent, almost two percentage points below the April-June average.

In September, consumer inflation fell slightly (to 5.3 per cent from 5.4 per cent in the previous month), reflecting two opposing forces. On the one hand, a renewed pressure on energy prices, which rose again quarter-on-quarter (1.7 per cent) in the wake of higher oil prices; on the other hand, a substantial slowdown in food prices (8.4 per cent year-on-year in September from 9.7 per cent in the previous month), especially for processed goods (-0.5 per cent quarter-on-quarter).

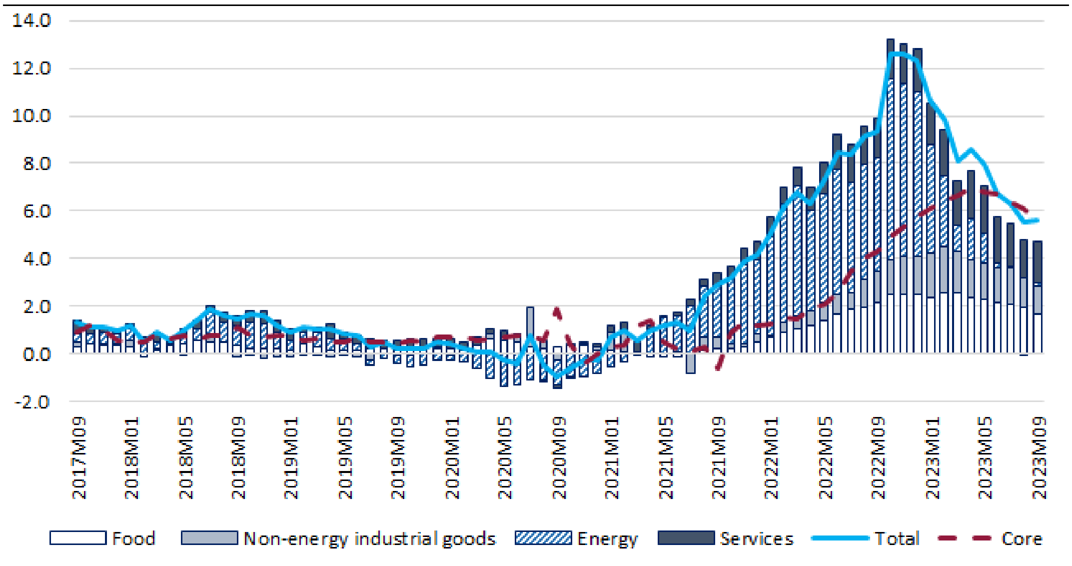
Overall, the acquired change in consumer prices for 2023 remains stable, both for the general component (5.7 per cent) and for the core component (5.2 per cent).

Harmonised inflation at a European level rose slightly in September (5.6 from 5.5), also due to the end of the summer sales, which the NIC does not take into account. Overall, harmonized inflation fell by two points in three months (5.8 per cent in the third quarter from 7.8 in the second), although it remained a few tenths above the national measure (Figure 19).

The Italian inflation differential with respect to the euro area is narrowing compared to the beginning of the year, dropping to 0.9 percentage points in the third quarter from 1.5 in the first; the price of services in Italy has become more moderate than the area average, despite some peaks tied to seasonal factors (accommodation services and package holidays) (Figure 20).

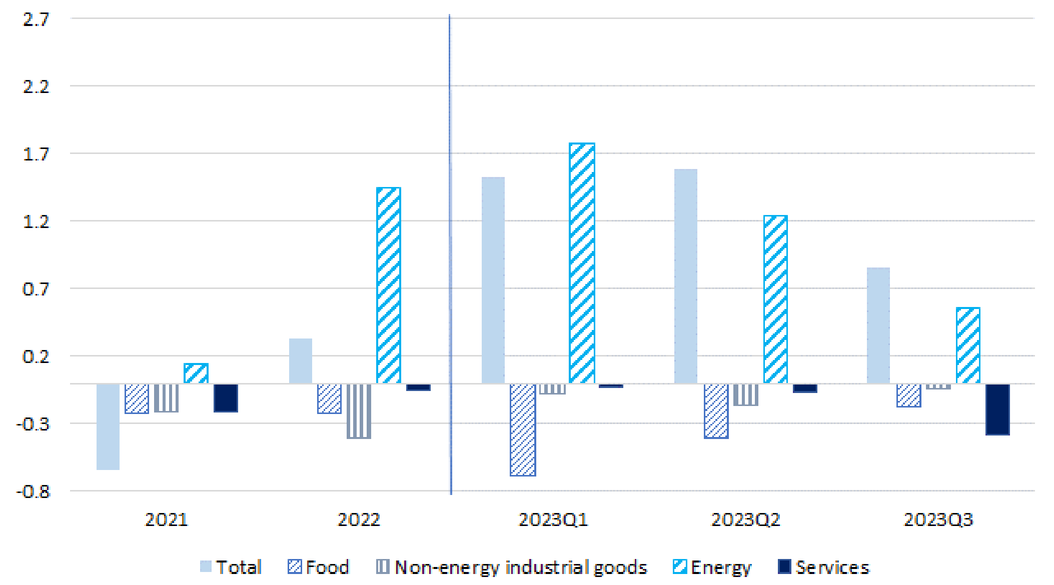
In Italy, the decline in inflation is influenced above all by the counter-shock to last year's excesses on a small number of items, while the share of goods in the basket experiencing significant but not extreme increases remains considerable (Figure 21). In September, 39 per cent of items in the European harmonised price basket experienced increases of more than 5 per cent over one year, with 9 per cent of these experiencing inflation above 10 per cent. The prices of many energy goods (such as liquid hydrocarbons and transport fuels) are deflating, as a counter-shock to last year when the inflationary upswing began, while the prices of a number of food items (oils and vegetables) and tourism-related items (air transport, package holidays and accommodation) are still showing conspicuous increases.

Figure 19 – Harmonised Index of Consumer Prices (HICP), sectoral contribution and core inflation (1)
(year-on-year percentage changes and contributions to growth)



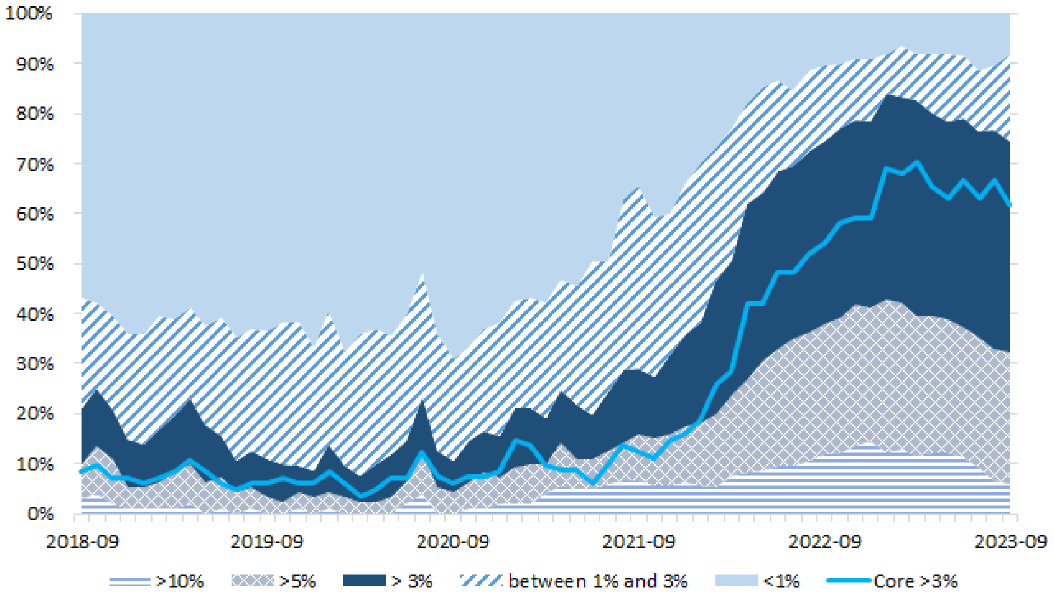
Source: based on Eurostat data.
(1) The graph shows the contributions to growth of the sectoral components of the overall HICP, as well as the change in core inflation. The sum of the contributions may not equal the change in the total index due to chain-linking and calculation using a greater level of detail.

Figure 20 – Italy's inflation differentials with the euro area (1)
(differences in percentage points)



Source: based on Eurostat data.
(1) Differences in total harmonised inflation and the contributions of its components between Italy and the euro area.

Figure 21 – Percentage of elementary items of the HICP basket experiencing price changes greater than specified thresholds
(percentages)



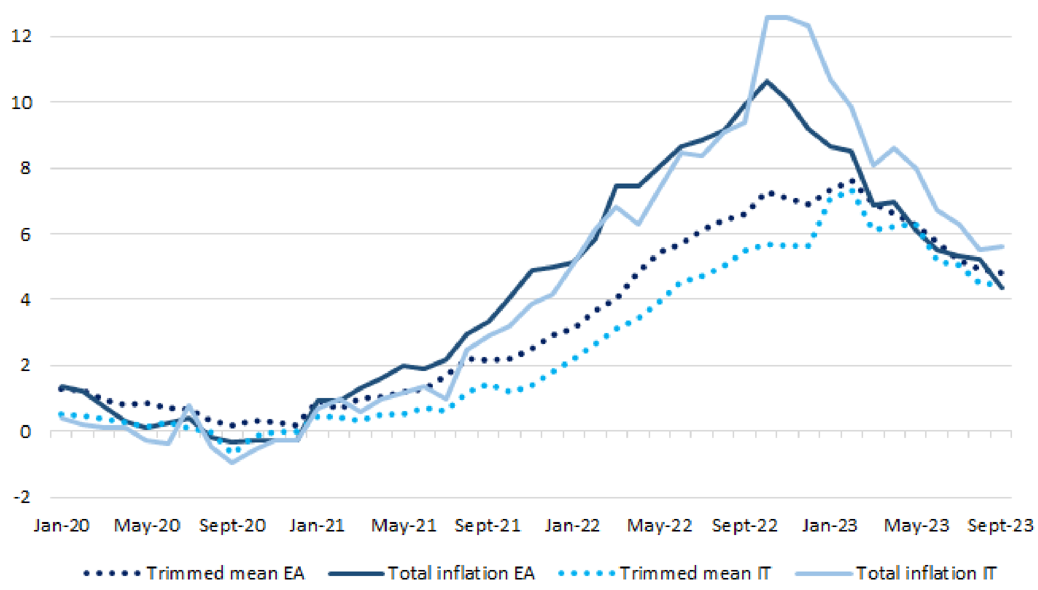
Source: based on Eurostat data.

Core inflation, which excludes energy and fresh food, fell slightly in September (to 4.6 per cent for the NIC and 4.9 per cent for the HICP) reflecting mixed trends, with declines in processed food and increases in certain services. Package holidays (18.4 in September) and accommodation services (11.2 per cent) continued to support the core component, even more than in the euro area (10.6 and 7.0 per cent, respectively), but once the more volatile items in the extreme tails of the distribution were eliminated, the underlying trend in Italy was slightly lower than in the euro area (Figure 22).

Inflation in the so-called shopping basket (food, household and personal care goods), which has the greatest impact on households with lower incomes, fell considerably in the third quarter; the trend changes in this indicator, which had been above 10 per cent for almost a year, fell to 8.1 per cent in September due to the contribution of the food component.

The decline in foreign and upstream price pressures, which started at the beginning of the year due to lower natural gas and intermediate goods prices, is weakening. The trend in import prices has changed sign since last spring, becoming deflationary, also thanks to a base effect due to the comparison with the 2022 peaks. At the same time, the downturn in industrial producer prices, which began in January, came to a halt in August, reflecting increases in energy goods. In the construction sector, prices remained more or less stable, with a slight quarter-on-quarter decline for buildings and a minimal recovery for roads and railways over the same period. Producer prices in the tertiary sector, which had remained relatively modest in 2022, slowed in the second quarter (to 2.8 percent from 4.3).

Figure 22 – Total inflation and trimmed mean in Italy and the euro area (1)



Source: based on Eurostat data.
(1) The trimmed mean is computed by excluding 10 per cent of the items from the largest and smallest values of the harmonised inflation (HICP).

Qualitative surveys continue to point to a weakening of inflationary expectations. The business confidence survey conducted by Istat shows a balance between increases and decreases falling to 0.9 in the third quarter of the year (from 4.6 in the previous quarter). At the same time, the entrepreneurs interviewed in the PMI survey confirmed continued declines in both operating costs and selling prices in September. The 12-month inflation expectations measured by the Bank of Italy survey in the second quarter of the year among businesses continue to fall: from a peak of around eight per cent at the end of 2022, expectations are now close to five per cent. Companies foresee a slowdown in their prices, which is more pronounced in the industrial sector and in the services sector than in the construction sector. The consumers surveyed in the third quarter of the year by Istat for the confidence survey are confident: less than ten per cent of respondents expect a faster increase in prices, while 42 expect substantial stability.

A significant base effect on price indices is expected for October, tied to the surge observed last year on energy goods, which should affect Italy more than its European partners. However, the new tensions in the Middle East and the possible repercussions on gas and energy prices may further support prices, mitigating the expected downturn in the short term. As announced by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA), an increase in electricity prices on the regulated market will occur in the coming months, due to the price rises recorded on the energy markets in recent months.

Box – A new indicator on the difficulties in accessing credit in Italy

In order for the economy to be resilient, access to the credit market is crucial, especially during recessionary periods. During downturns, companies are in fact induced to cut back on investment plans, especially where the availability of external sources of financing comes mainly through banks and there is a prevalence of small and medium-sized enterprises.

At the empirical level, direct measures of credit conditions are difficult to obtain due to limited data. Several indirect approaches have been proposed by literature, typically based on micro-data from credit registers (Iyer et al., 2014; Bonaccorsi di Patti and Sette, 2016) or on qualitative statistics from surveys of banks' and firms' assessments of credit conditions (Rottmann and Wollmershaeuser, 2013; Presbitero et al., 2014; Girardi and Ventura, 2021).

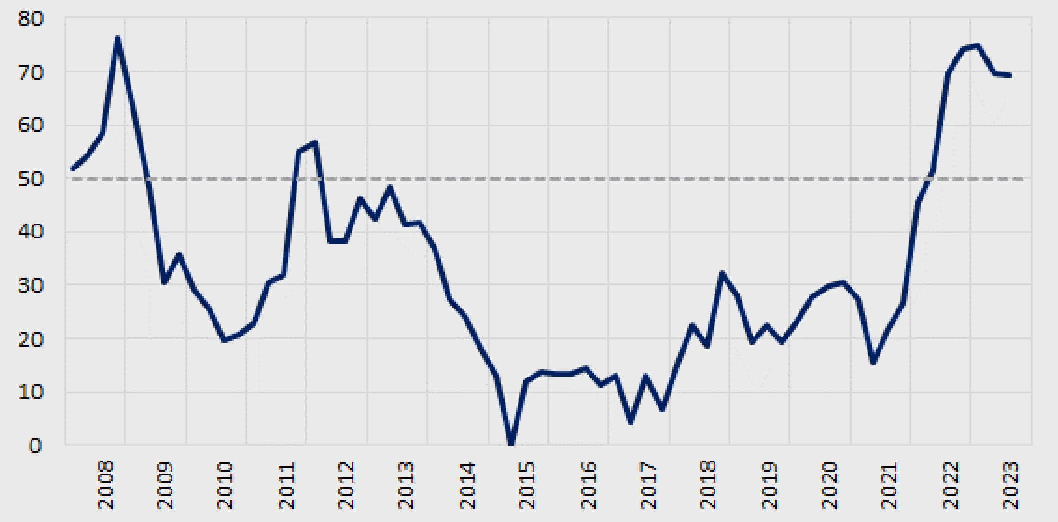
The new PBO indicator on access to credit uses a combination of publicly available quantitative and qualitative data. The indicator is calculated for the Italian economy over the period between the first quarter of 2008 and the third quarter of 2023.

The indicator measures the gap between credit supply and demand. Following the original approach used by Rottman and Wollmershauser (2013), credit supply *(cre)* is measured by the balance of credit access conditions assessments from the Istat survey of manufacturing firms; credit demand *(idx)* is constructed on the basis of proxy variables of banks' opportunity cost in providing high-risk lending (e.g. the long-term interest rate in real terms), as well as a credit demand index derived from the Bank Lending Survey conducted by the Bank of Italy. Based on this information, it is possible to estimate the regression $cre = a + b * idx + res$, from which the synthetic indicator on credit conditions *(icc)* is obtained as a diffusion index through the transformation $icc = 100 * \tanh(res^{\wedge})$, where $res^{\wedge} = \frac{res - min(res)}{max(res) - min(res)}$.

High values in the index indicate that companies perceive restrictive credit conditions, while low values signal favourable credit conditions. When supply and demand are balanced, the residual is equal to zero. To facilitate economic interpretation, the indicator is projected in the interval [0, 100] so as to make its reading comparable to that of commonly monitored diffusion indices such as the PMI; an index value above 50 indicates periods when credit conditions are tight, while lower values indicate periods when credit constraints are not particularly tight.

Graph B1 shows the index estimated for the entire sample, which marks the 2008-09 recession as the most difficult time to access credit experienced by the Italian economy in the last 15 years. The recovery phase in 2010 was matched by a relatively expansive supply of credit until the sovereign debt crisis. Subsequently, the indicator settled at rather moderate values (below 30), confirming that the obstacles to obtaining external financing were less stringent when monetary policy was accommodating. Coinciding with the end of the health emergency, the indicator reflected the sudden deterioration in companies' perceived access to bank credit, combined with a monetary policy that became progressively restrictive; an all-time high was recorded between the end of 2022 and the start of 2023, almost similar to that recorded in 2008.

Figure B1 – PBO index on credit conditions for businesses



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