

## Italy: Optical illusion in the labour market

The fall in the unemployment rate is nothing to celebrate, as it mainly reflects a steep fall in the labour force, with many unemployed people moving into the inactive pool



### Steep fall in labour force pushed down April's unemployment rate

The steep fall in the Italian unemployment rate in April came as a surprise. It resulted from an expected fall in employment (-1.2% month-on-month, or 274K), and an unexpectedly strong decline in unemployment (-23.9% MoM or 484K); together, they fed the pool of inactive people (+5.4% MoM or 746K), those who do not have a job nor are actively seeking one. This pattern applied similarly to females and males and its algebraic result was a counterintuitive fall in the unemployment rate to 6.3% (from 8% in March).

### Some distorting factors behind the decline

The scarcely informative nature of the unemployment rate as a timely labour market indicator has been emphasised during the Covid-19 pandemic by existing distorting factors.

Looking at the data, we note that the bulk of the contraction in employment has affected people with time contracts, and much less so independent workers and those with open-ended (or permanent) contracts. The latter are benefiting from two forms of protection: the ruling of a

temporary redundancy ban introduced by the government in the March emergency decree and by the working of the short term schemes (CIG in the Italian incarnation). As an additional distorting factor, we should add that the data refers to the month of April when the lockdown of economic activity was fully in place after three full weeks in March. This might have induced those only loosely attached to the labour market to give up their search and join the pool of discouraged people.

## Recovery test for tourism as free personal mobility is re-established

Permanent employees' resilience shows that the protection schemes are working, for the time being, but the big challenge will be to stop the haemorrhage of discouraged workers and bring them back into the labour force. For this to happen we will likely have to wait for a clearer picture of the underlying economic conditions after the April trough. PMI data suggests that the picture was already improving in May, particularly on the manufacturing front (PMI at 45.4 from 31.1 in April), but also clearly to a smaller extent, on the service sector front (PMI at 28.9 from 10.8 in April). The reopening of inter-regional freedom of movement and of international inbound flows for the Schengen area, starting today, will offer a test for the battered tourism industry, whose weighting in Italian GDP was more than 13% in 2018.

## Expect protection schemes to favour a rise in unemployment during early recovery phase

When activity picks up, we should not expect an immediate reaction in employment, as labour demand at first will be mostly satisfied by those workers now under protection schemes, but we might reasonably expect inactive people to gradually turn into active job seekers. The unemployment rate, a lagging indicator of the cycle, should thus move above pre-Covid levels after the summer.

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