Italy: Unemployment rate rises in May

The impact of the lockdown and the subsequent reopening is still heavily distorting Italian labour market data. As the economy continues to open up, we expect the unemployment rate to grind up towards 10%

Towards more normal patterns

April’s full month of lockdown sparked a massive outflow from the pool of unemployed workers into that of the inactive labour supply, but this was partially reversed in May. The gradual reopening of economic activity was enough to turn some 229K inactive people into active job searchers in the month. The pool of unemployed was also fed by the 84K decline in employment, pushing the unemployment rate up to 7.8% from 6.3% in April.

Labour market still heavily distorted

The dynamics of labour market data has also been heavily affected by the two main counteracting measures put in place by the Italian government to keep people on the payroll: the temporary redundancy ban (valid until end of August) and the Covid-linked reinforced version of the CIG temporary unemployment scheme (funded until end-October 2020). These measures limited the scope of the decline in employment to 538K from February to May, while the economy was in deep contraction. Unsurprisingly, May's monthly employment decline was mainly driven by temporary contracts (-79K), while permanent contracts were down only marginally (-11K) and independent workers even slightly grew (+6K). Looking ahead, we expect May's pattern to be repeated in June, with the pool of unemployed still fed by both job seekers as more activity reopens in the service sectors.

Workers are protected, but not in a great spending mood

The extent to which this safety net will be reflected in consumption is very uncertain. In the first quarter, household disposable income fell by 1.6% quarter-on-quarter, while final consumption contracted by 6.4%: as a consequence, the saving rate shot up to 12.5% (from 7.9% in 4Q19). A quick return to the pre-Covid normal seems unlikely. Indeed, disbursements of CIG extensions have been uneven and, in many cases, suffered substantial delays. The June consumer confidence report offered a mixed picture, combining comforting resilience in the personal climate with still high concerns about future unemployment. Consumers seem aware that the CIG safety net and the unemployment ban cannot last for too long and say that the opportunity is not there yet to purchase durable goods.

The unemployment rate looks set to climb back above 10% early in 2021

All in all, today's May labour market report seems to be setting the course for a return to normal following the reopening. We expect the new trend to continue, with more jobs losses ahead and a further inflow of inactive workers into the pool of unemployed over the next few months. Another fiscal package might be launched towards the end of July, which could include a further extension of the CIG scheme. This could slow the employment haemorrhage but is unlikely stop the Italian unemployment rate from breaking the 10% threshold after the turn of the year.

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