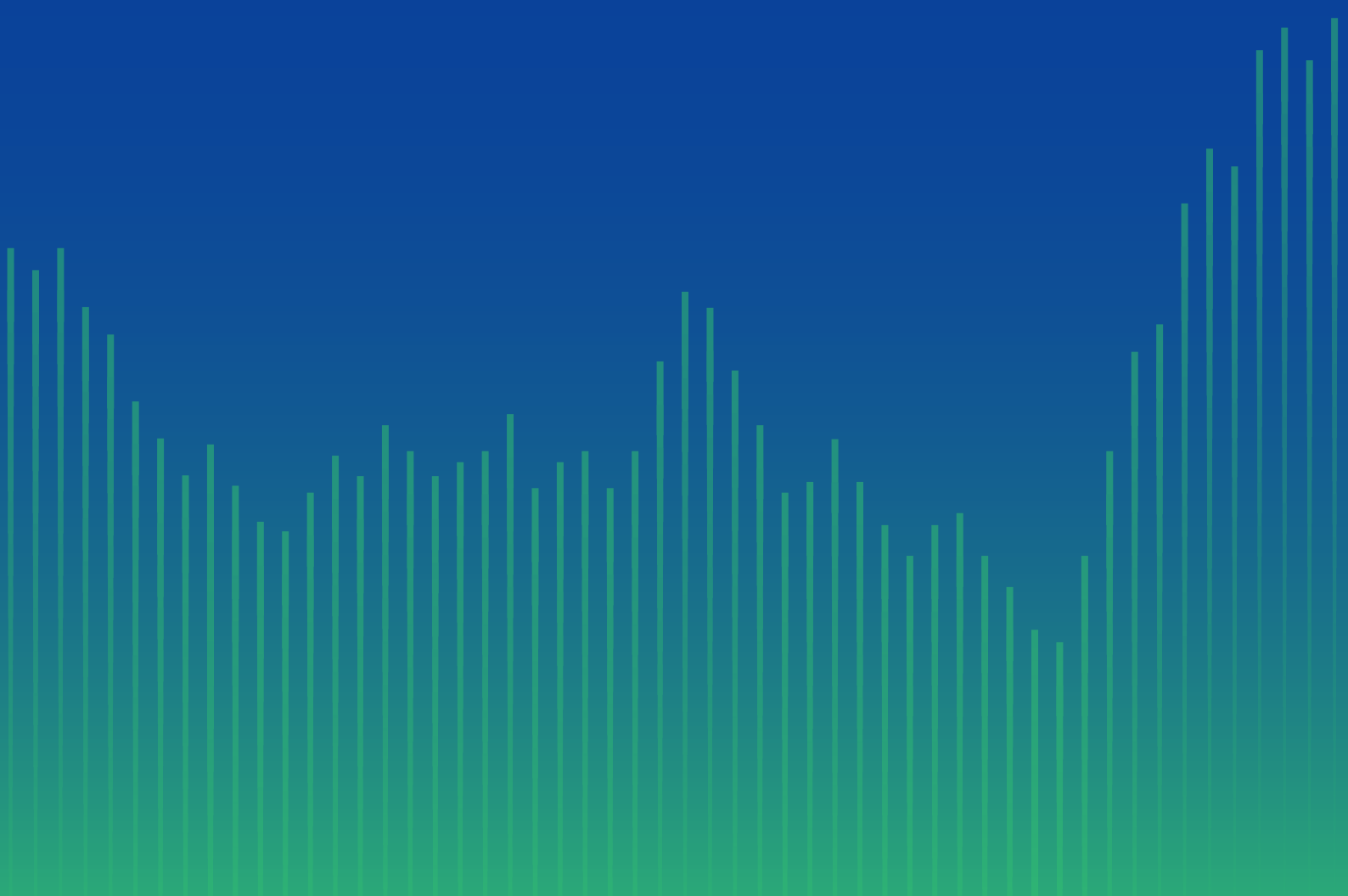


**PROMETEIA
DISCUSSION
NOTE N. 15**







DECEMBER 2020

THE DISTRIBUTIVE EFFECTS OF COVID-19 IN ITALY



Main points

-  This note provides a preliminary assessment of the fiscal policy measures enacted in Italy to sustain employment and family incomes during the first wave of the COVID-19 pandemic.
-  The assessment focuses on quantifying the size of the income support provided and its distributive impact. Such an assessment is important in order to take stock of the measures implemented and provide guidance on upcoming policy interventions.
-  Our estimates show that the income losses due to the spring lockdowns have been more pronounced in the northern regions and among lower-income workers. The labour market and income support policies put in place by the government reduced these losses by about a half, on average, and by relatively more than half in the case of low-income workers.
-  Recent survey data point to an improvement in households' economic prospects during the summer months. This optimism, however, is likely to be reversed by the second wave of infections. The fragmented nature of the current shutdowns will make it difficult to estimate their distributive impact.

I.

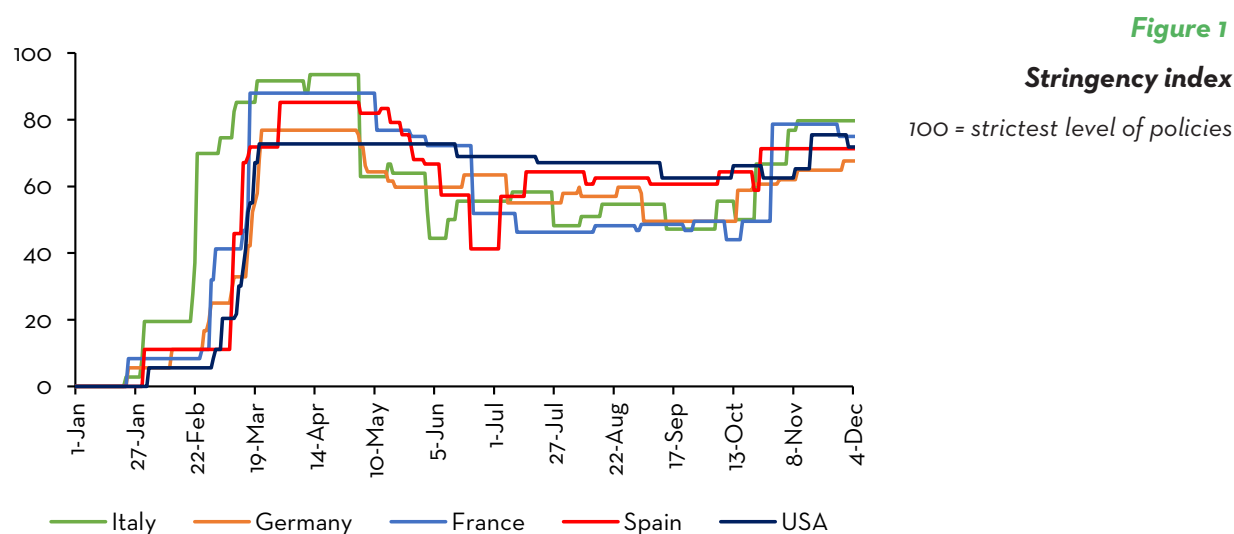
Introduction

The aim of this note is to provide an overview of how the COVID-19 crisis has affected Italian households, how households have been coping with job and income losses, and how they perceive their future prospects. We start by analysing the impact of the crisis on the Italian economy by looking at GDP trends, household consumption and saving and mobility of people across the country. We then assess households' income losses during the first lockdown and the measures implemented to contain them. We conclude by using recent data from a survey conducted by the Bank of Italy to analyse how households dealt with the first lockdown, how expectations changed over the summer months and how households have dealt with the first months of the second wave of infections.

A crisis without parallel in modern times. The current economic crisis is “like no other” experienced in modern times in terms of both its nature and magnitude. It was sparked by the COVID-19 pandemic, an exogenous shock to the system, unlike the Great Recession of 2008-09 which originated in the financial sector. The shock hit developed and developing countries alike, although with different timing and intensity, and no economy was spared of its adverse consequences. From an economic standpoint, the pandemic has disrupted both supply and demand. On the supply side, the lockdowns and the social distancing measures ordered by governments to contain the spread of the coronavirus forced and continue to force business closures. On the demand side, layoffs, loss of income and deteriorating economic prospects have depressed household consumption and firm investment.

The economies of those countries hit the hardest by the health emergency have experienced major losses in terms of GDP, jobs and income, but, also, lives. In all three rounds of an opinion survey commissioned by the European Parliament, the majority of European citizens said they had experienced financial difficulties, in the form, mostly, of loss of income and unemployment and, also, having to use savings.¹ In the spring months, consumer confidence indicators plummeted, as consumers judged the future state of the economy and their personal economic condition less favourably than in the previous months.

Governments' policy responses have changed over time, in line with the evolution of the epidemiological situation. When the first wave of the pandemic hit Europe and the US in late winter 2020, the immediate reaction of governments was to close all non-essential businesses and, at least in Europe and in some US states, to issue stay-at-home orders. These measures were designed to ensure that national healthcare systems could cope with the sudden peak in demand for services due to the pandemic, for which they were not prepared. These measures succeeded in “flattening the curve” and, by summer 2020, most restrictions had been eased. In the autumn, the number of COVID-19 cases gradually began to increase and many countries are now experiencing a second wave of infections. So far, government measures have been comparatively less severe and aimed at trying to protect the economy from further damage, as indicated by the so-called stringency index (Figure 1).² In Italy, the approach has been to impose a national curfew and piecemeal regional lockdowns depending on the local epidemiological situation.



Note: data updated to 4 December 2020.

Source: Hale et al. (2020).

II. The impact of the COVID-19 crisis on the Italian economy

Italy's economic losses have been huge. In Q2-2020, a steep contraction of output was registered, with GDP falling to a historic 18.0% yoy (-12.9% qoq). Official data for Q3-2020 (-5.0% yoy and +15.9% qoq) suggest a “V-shaped” recovery, which will lead to an estimated annual GDP drop of about 9% in 2020. This year's GDP loss is expected to be larger than that experienced following

¹ European Parliament, “Public opinion in the EU in time of coronavirus crisis”, April, June and October 2020 editions, available at: <https://www.europarl.europa.eu/at-your-service/it/be-heard/eurobarometer/public-opinion-in-the-eu-in-time-of-coronavirus-crisis>.

² Hale, T., Webster, S., Petherick, A., Phillips, T., and Kira, B. (2020), “Oxford COVID-19 Government Response Tracker”, Blavatnik School of Government.

the 2008-09 and 2011-12 crises, which caused annual falls in GDP of 5.3% in 2009 and 3.0% in 2012.

Losses have been distributed unevenly across geographical areas, sectors, households and individuals. Both the nature and the magnitude of this unprecedented crisis have translated into an increased number of vulnerable households and disproportionate effects on individuals from the restrictions introduced. When the Italian government enforced a national level shutdown of non-essential businesses to curb the first wave of the pandemic, services related to food, entertainment and tourism were hit particularly hard, adding another layer of uncertainty for those workers employed in these sectors. In addition, workers with unstable work arrangements (mainly self-employed and fixed-term contracts), most of them young people, and individuals employed in the service sector (mainly women), experienced at least income losses and, in some cases, job losses.

Although income support measures partially alleviated the income losses, households entered the second wave of the pandemic in a much weaker position. So far, the government's response has been comparatively less severe, and based on regional level stop-and-go shutdowns. Nevertheless, households will continue to suffer unless further measures are taken to reduce the burden on their income.

Another distinctive feature of the current crisis is the sharp increase in households' propensity to save. The combined effect of the economic shutdown and uncertainty about the future resulted in a fall in household consumption in the first half of 2020, reaching -17.5% yoy in Q2. At the same time, households' disposable income dropped by 7.0% yoy. As a result, household propensity to save increased dramatically by 10.5pp yoy. In fact, the stay-at-home orders prevented households from spending on their typical consumption basket, leading to forced saving, accompanied by growing uncertainty regarding future income and unemployment which boosted precautionary saving, especially deposits.

Asymmetric effects on consumption patterns. The sharp decline in consumer spending was driven by suppressed spending on durable goods (-30.2% yoy) and services (-24.6% yoy), offset, in part, by positive household spending on food and beverages. However, consumption patterns are diversified along the income distribution. Data from the 2016 Bank of Italy Survey on Household Income and Wealth (SHIW) suggest there is significant variation in spending on essential and discretionary goods between households in the poorest and richest income groups (Figure 2). US real time data on household spending reveal that spending during the pandemic has fallen,

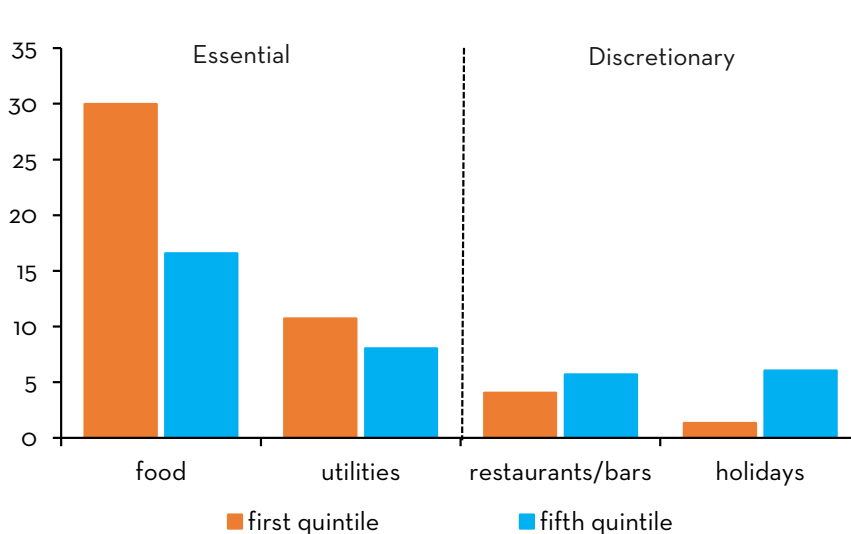


Figure 2
Household budget share
by type of expenditure
and income quintile
percentage values

Source: Prometeia's calculations on SHIW data.

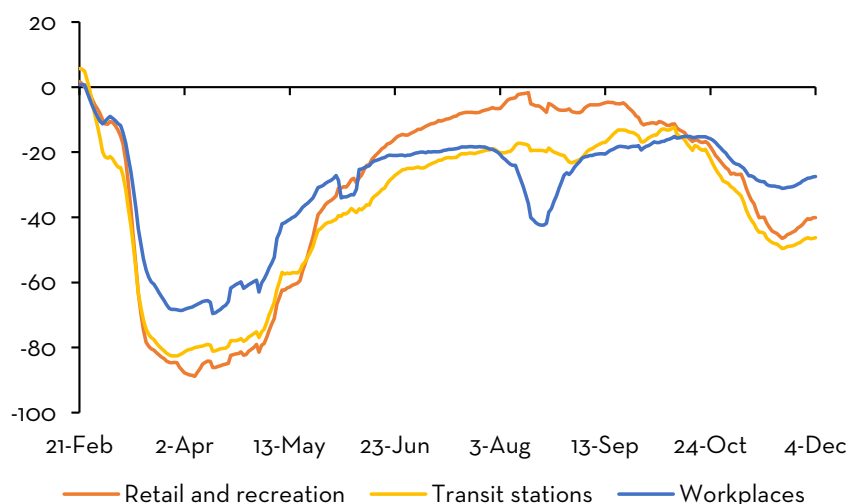


Figure 3
Google mobility index
for Italy
7-day moving average

Note: data updated to 4 December 2020.

Source: Prometeia's calculations on Google Mobility Report.

primarily, because high-income households have been spending much less.³ Although finely disaggregated spending data for Italy since the beginning of the pandemic are not yet publicly available, similar spending patterns are likely to apply, also, to Italian households.

Furthermore, the COVID-19 crisis has profoundly changed the way people live and work. The mix of stay-at-home orders and fear of contracting or spreading the virus translated into reduced movement of people across the board. Travel to recreational sites, workplaces and transit stations dropped dramatically at the peak of the first wave of the pandemic and have never fully recovered to their pre-COVID levels (Figure 3).

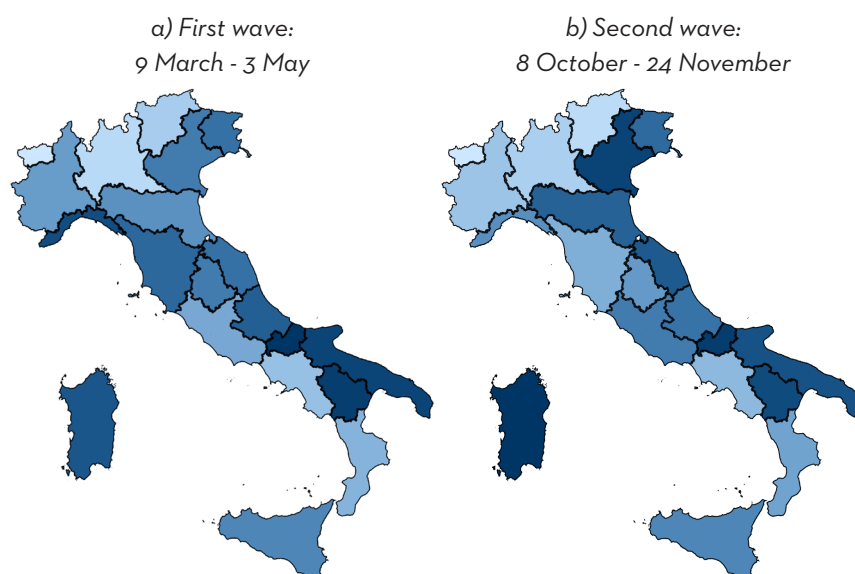


Figure 4
Google mobility index:
movements to retail
and recreation
period averages,
lighted shaded areas
indicate lower mobility

Note: data updated to 24 November 2020.

Source: Prometeia's calculations on Google Mobility Report.

³ This evidence comes from a publicly available database, which tracks consumer spending in the US at a granular level, in real time, based on anonymized information from private companies. See: Chetty, R., Friedman, J. N., Hendren, N., Stepner, M., and the Opportunity Insights Team (2020), "How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real-Time Economic Tracker Based on Private Sector Data", NBER Working Paper No. 27431. Available at <https://opportunityinsights.org/>.

This is in line, also, with working-from-home arrangements increasingly replacing standard office work, especially for white-collar workers.⁴ This trend has contributed to a reduction in all types of movements. Figure 4 displays the “travel to retail and recreation sites” component of the Google mobility index, by region, during the first and second waves of the pandemic (the lighter shading indicates reduced mobility). Mobility patterns show large variations across regions, which partly reflect the evolution of the pandemic - Lombardy was hit especially hard by the first wave - and the regional level measures implemented in the second wave. There are indications, also, of a change in the transport means employed, with a shift towards private transport as the pandemic progressed.⁵

III. The asymmetric nature of the crisis: a focus on the first wave

Unlike the 2008-09 and 2011-12 crises, the COVID-19 crisis has hit the economy asymmetrically. The lockdown imposed in the spring affected different economic sectors with different intensity. Some came to a halt; in other cases, activities were reduced. Government took decisions based on the risks of spreading the virus related to individual sectors, while maintaining continuous provision of essential services. The 22 March 2020 decree, listed the (6 digit) NACE sectors subject to closure.⁶ The uneven effects of the crisis are reflected in the percentages of closures of 1-digit NACE sectors, estimated by Prometeia and depicted in Figure 5.

Estimated percentages of closures by sector. Activities in two sectors - Real estate and Arts, entertainment and recreation - were halted entirely. The other worst affected sectors were Accommodation and food service activities and Other service activities, with an estimated 85.9% and 79.1% of closures, respectively. Next were Manufacturing (64.7%), Construction (58.8%), Wholesale and retail trade (57.7%), Mining and quarrying (47.7%), Administrative and support service activities (42.3%) and Professional, scientific and technical activities (5.6%). The

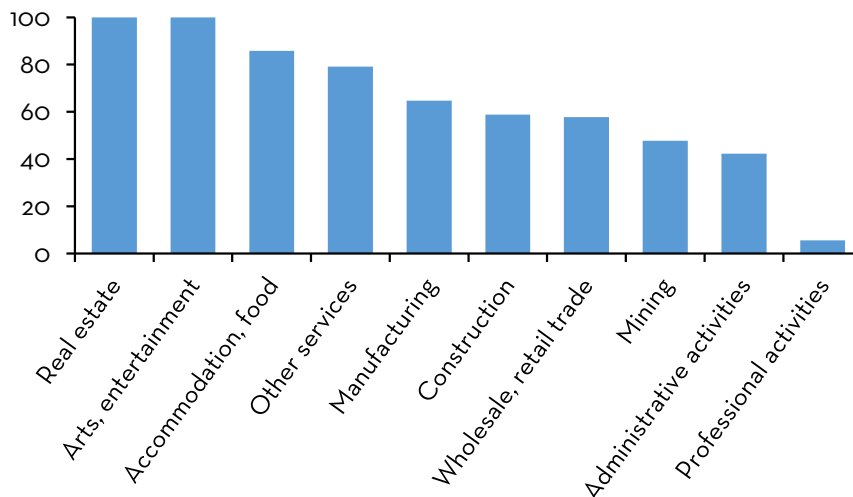


Figure 5
Closures by sector during the first wave
percentage values

Source: Prometeia's calculations on Registry of active firms (ASIA) data.

⁴ For a recent analysis of the impact of working-from-home arrangements on income inequality, see Bonacini, L., Gallo, G., and Scicchitano, S. (2020), “Working from home and income inequality: risks of a ‘new normal’ with COVID-19”, *Journal of Population Economics*, on-line first, <https://doi.org/10.1007/s00148-020-00800-7>.

⁵ Belot, M., Choi, S., Jamison, J., Papageorge, N. W., Tripodi, E., and van den Broek-Altenburg, E. (2020), “Six-country Survey on COVID-19”. The dataset is publicly available at <https://osf.io/aubkc/>.

⁶ NACE (Rev. 2) is the statistical classification of economic activities in the European Community.

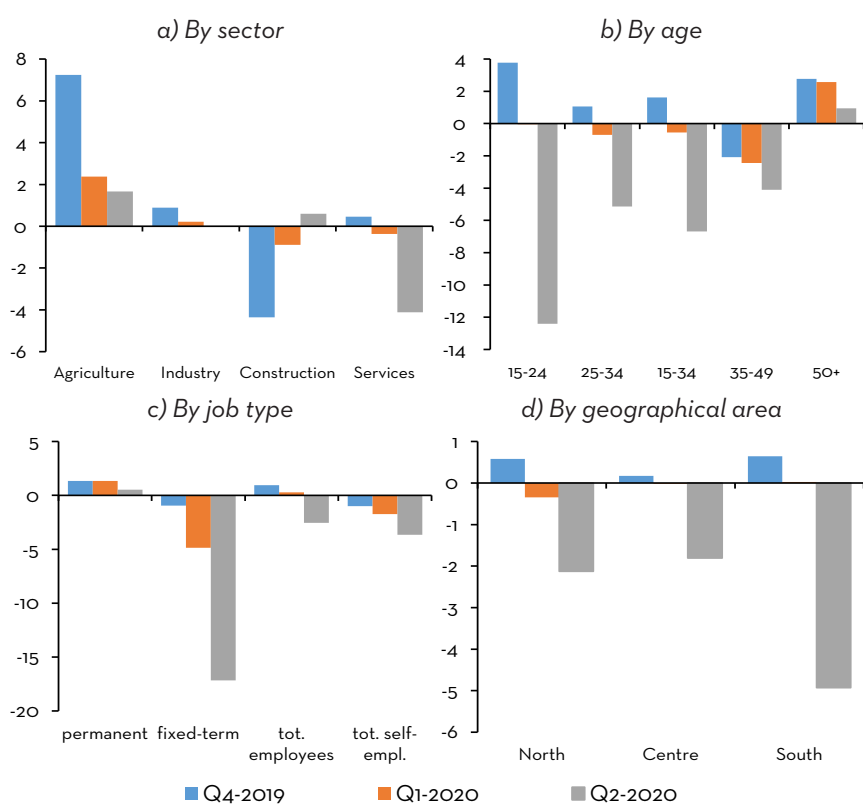


Figure 6
Employment
percentage changes,
yoy, quarterly data

Note: figures refer to headcount data and do not include furloughed workers.
Source: Prometeia's calculations on Istat data.

remaining ten sectors - Agriculture, Electricity and gas supply, Water supply, Transportation and storage, Information and communication, Financial and insurance activities, Public administration, Education, Health and social work and Activities of households - were kept fully operational to provide essential services.

The closures caused a (partial) stop to production and job losses. The latest labour force data show a 2.8% overall drop in the number of workers in the second quarter of 2020 compared to the same quarter in 2019; in terms of full-time equivalent units, the overall drop was 19.5% in Q2-2020. The employment data also highlight the asymmetric character of the crisis. In the second quarter of 2020, the service sector lost 4.1% of its workers yoy, while agriculture maintained a positive trend (1.7%), although lower than the yoy variations in the previous two quarters (Figure 6).⁷

Job losses by workers' socio-economic characteristics. The disaggregation by age in Figure 6 shows that younger workers (age class 15-24) have paid the highest price with a drop of -12.4%; the over 50s category is the only one with a positive sign (0.9%), although this is smaller than in previous quarters. Employees with temporary contracts, mostly young workers, have suffered a major loss (-17.2%). Overall, 2.5% of employees lost their jobs while among self-employed this reached 3.7%. Women, who are more likely to be employed in the service sector, experienced job losses of 3.6% against 2.2% for men. Finally, employment fell by 4.9% yoy in the southern regions. To sum up, the first wave of the pandemic caused more job losses in the service sector, and among women, self-employed and younger workers, and in the south of the country.

Labour market and income support measures. The "Cura Italia" decree (17 March 2020) introduced a series of measures aimed at protecting the health of citizens, supporting the production system

⁷ Labour force data reported in Figure 6 refer to headcounts and do not include furloughed workers.

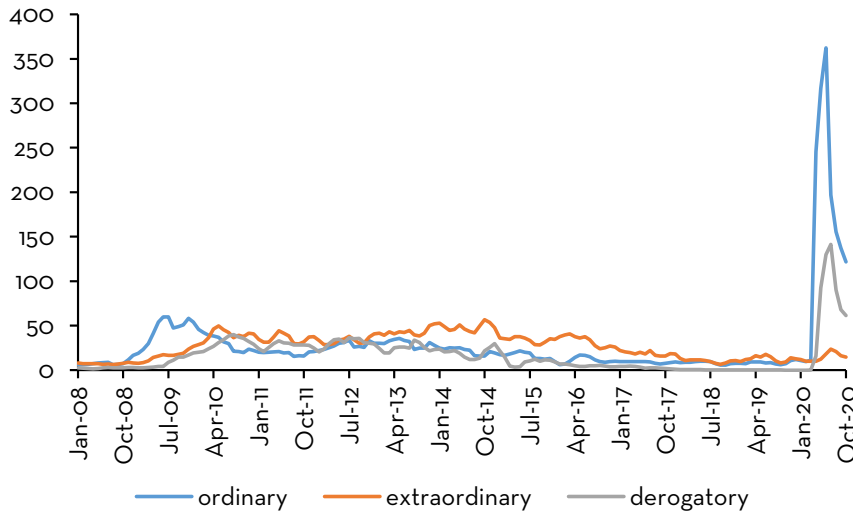


Figure 7
Number of hours of CIG
 millions of hours,
 3-month moving average

Source: Prometeia's calculations on INPS data.

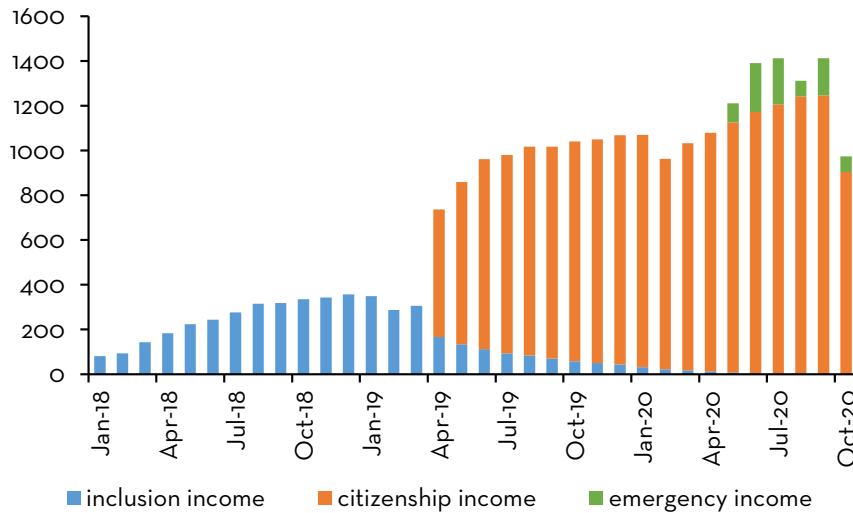


Figure 8
Households receiving minimum income schemes
 thousands

Note: Inclusion Income was replaced by Citizenship Income in April 2019.
 Source: INPS data.

and safeguarding the workforce. In particular, the decree provided resources for affected workers to mitigate employment and income losses, and included short-term work support, extension of social shock absorbers and sick pay, and deferral of income tax payments. Self-employed workers and professionals were entitled to a one-off net allowance of €600 for the month of March (the so-called “600-euro bonus”). The redundancy fund (“Cassa integrazione”, CIG) in all of its three components (ordinary, extraordinary and derogatory) was used extensively by firms in all sectors to protect furloughed workers. The relevance of the CIG extension to protect jobs can be seen in Figure 7, which shows that the peak in June-July 2020 is much higher than the peak experienced after the global financial crisis.

Income support measures have been extended and new ones introduced. Both the €600 bonus and the CIG have been extended, the former for an additional month only (“Rilancio” Decree), the latter until March 2021 (Budget Law 2021). The “Rilancio” decree also introduced Emergency Income (REM), a 2-month means-tested benefit, in addition to Citizenship Income, Italy’s current minimum income scheme. The REM was extended by one month in the “August” decree and by two more months with the October “Ristori I” decree. The distribution of REM started in May 2020

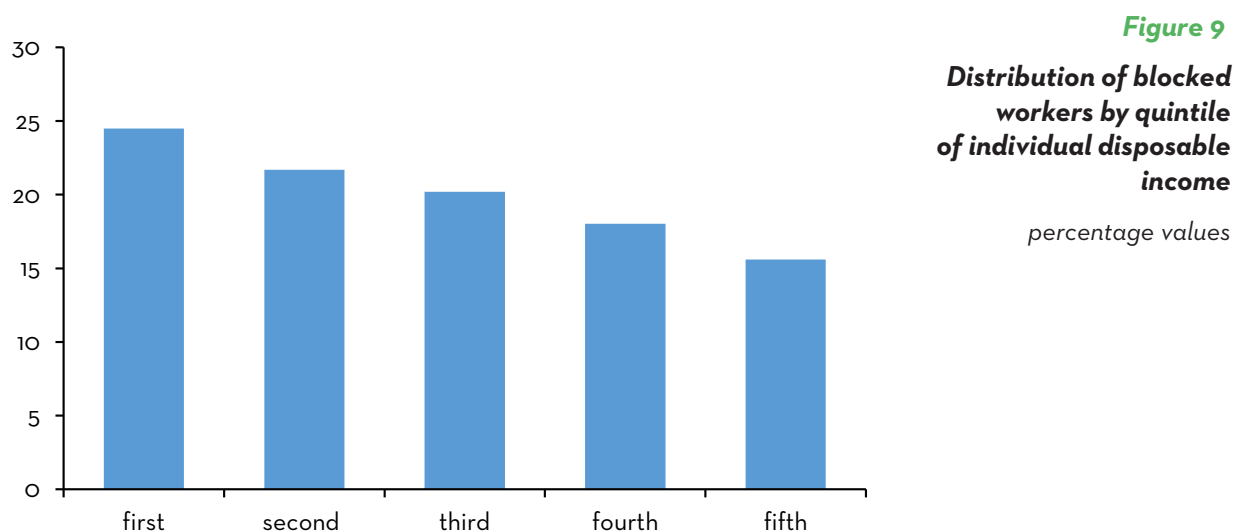
and peaked in June and July, with respective beneficiary households numbering around 219,000 and 206,000 (Figure 8). The “August” decree also included a one-off net allowance of €1,000 for temporary workers in tourism and entertainment and an allowance of €600 for temporary workers in sport. These two measures were further extended by the October “Ristori I” decree, and the November “Ristori IV” decree. In particular, the one-off net allowance for temporary workers in the sport industry was increased from €600 to €800. Finally, the “Cura Italia” decree which imposed a temporary ban on layoffs from March 2020, has been extended, throughout the year, by subsequent decrees. The 2021 Budget Law extended it to March 2021.

IV. A microsimulation exercise showing the impact of the first lockdown on income

Incomes of workers affected by the first lockdown. The descriptive evidence in Figure 6 identifies those labour market workers most severely hit by the pandemic. However, it is missing the dimension of income. To understand workers’ pre-existing economic condition and estimate their losses due to the first lockdown, we need to associate their socio-economic characteristics to their income. To do this, we conducted a simulation exercise based on the 2016 wave (the latest available) of the Bank of Italy SHIW.

To identify those workers affected by the lockdown, we applied the percentages of closures at the sectoral level to the SHIW data, by randomly sampling workers according to their sector of employment. These workers - employees and self-employed - are labelled “blocked”. To quantify their income losses, we designed a scenario coherent with the March and April decrees.

Based on our simulations, in the first lockdown, approximately 8.7 million workers were blocked (6.7 million employees and 1.9 million self-employed), corresponding to 38.4% of total workers.⁸



Note: quintiles are computed on pre-lockdown individual disposable income of employees and self-employed workers only (inactive persons are excluded).

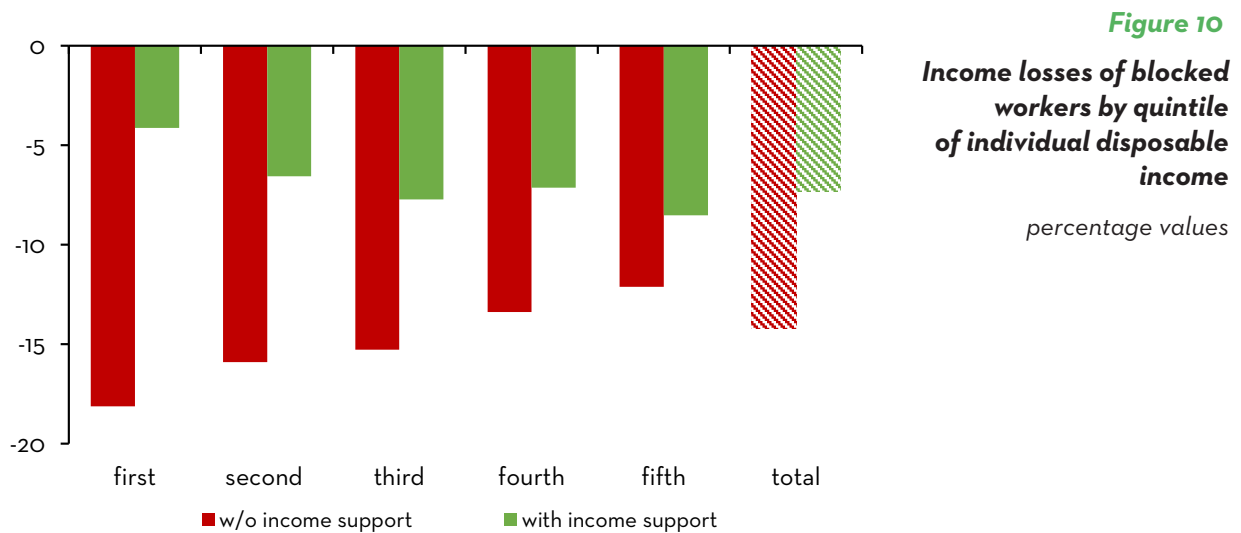
Source: Prometeia’s calculations on SHIW data.

⁸ The category “self-employed” is a broad group which includes members of the professions, self-employed, sole proprietors and entrepreneurs (with or without employees) and owners of or partners in family businesses, and shareholders, partners and managers of companies.

Getting to the core of the exercise - the link with income - we observe that blocked workers are distributed according to individual disposable income, and following a decreasing trend, with a share ranging between 24.5% in the bottom 20% of the distribution (first quintile) to 15.6% in the top 20% (fifth quintile) (Figure 9).

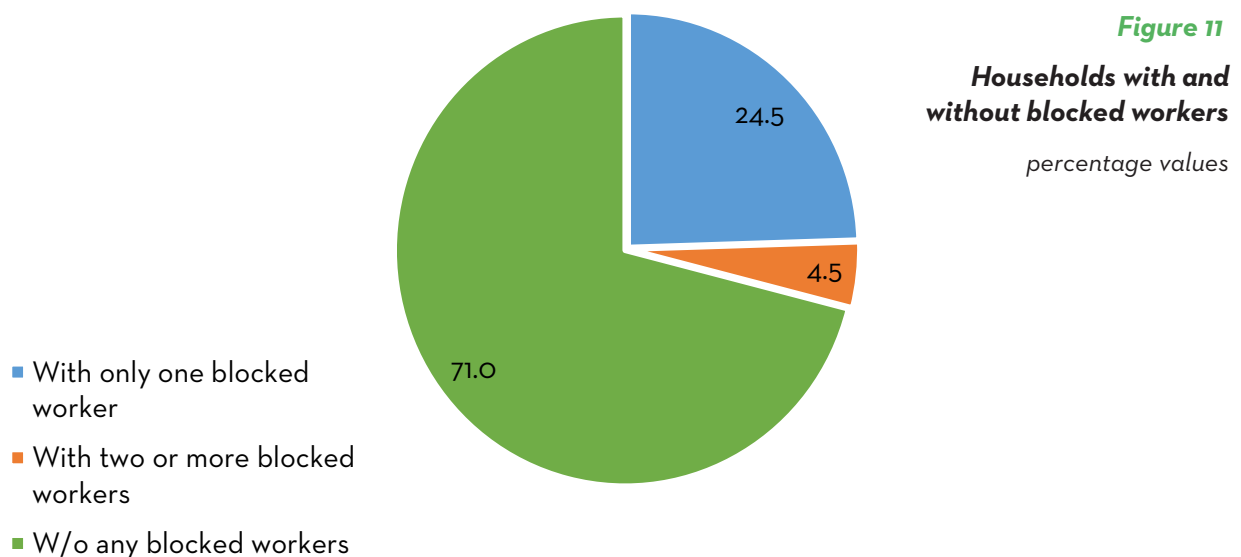
Without any income support measures, the blocked workers would have lost around €2,800 on average. This is equivalent to 14.2% of their total annual disposable income, a loss that varies between 18.1% in the lower part of the distribution and 12.1% in the upper part (Figure 10). At the territorial level, we estimated slightly larger income losses for the north of the country (-7.6%) compared to the south (-7%). In terms of the income support measures, we estimated that a blocked employee received an average amount of redundancy funding (CIG) of €1,400 for two months of closure (€700 per month). The self-employment bonus, by definition, is equal to €1,200 for the two-month lockdown period.

According to our estimates, the CIG and the €600 bonus halved the income losses, bringing the average income reduction to about €1,450, corresponding to 7.3% of the total individual income (Figure 10).



Note: quintiles are computed on pre-lockdown individual disposable income of employees and self-employed workers only (inactive persons are excluded).

Source: Prometeia's calculations on SHIW data.



Source: Prometeia's calculations on SHIW data.

It is noteworthy that the income support measures tend to benefit workers with lower incomes the most, since these measures are not proportional to either income or loss. The CIG covers 80% of the wage, but this is capped at €940 for monthly wages up to €2,160, and at €1,130 for higher wages. By construction, the self-employment bonus is a fixed amount for all eligible workers. This implies that the income support measures benefited lower incomes more than those in the upper part of the distribution. Figure 10 shows that the post-support losses are larger for higher quintiles, for instance -8.5% in the top quintile against -4.1% in the bottom quintile.

Focusing on the household level, we estimate that 7.4 million households include at least one blocked worker, that is, 28.9% of total households. Among those households exposed to a complete cessation of economic activity, 84.6% include one blocked worker (24.5% of the total) and 15.4% include two or more blocked workers (4.5% of the total) (Figure 11).

There is evidence of a higher incidence of households with at least one blocked worker in the middle-upper part of the distribution, since higher income households are usually those with a higher number of income earners (Figure 12). In terms of income losses, our simulations indicate that, in the absence of the simulated income support measures, households with at least one

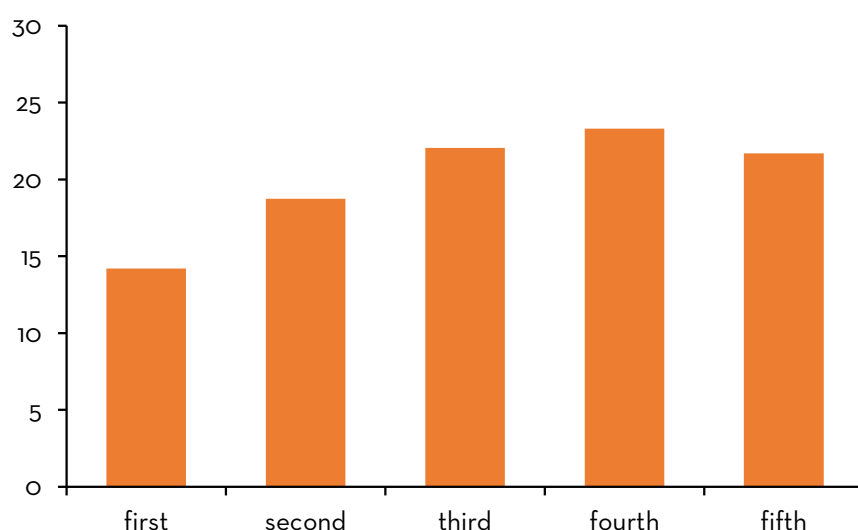


Figure 12
Distribution of households with at least one blocked worker, by quintile of equivalised household income
percentage values

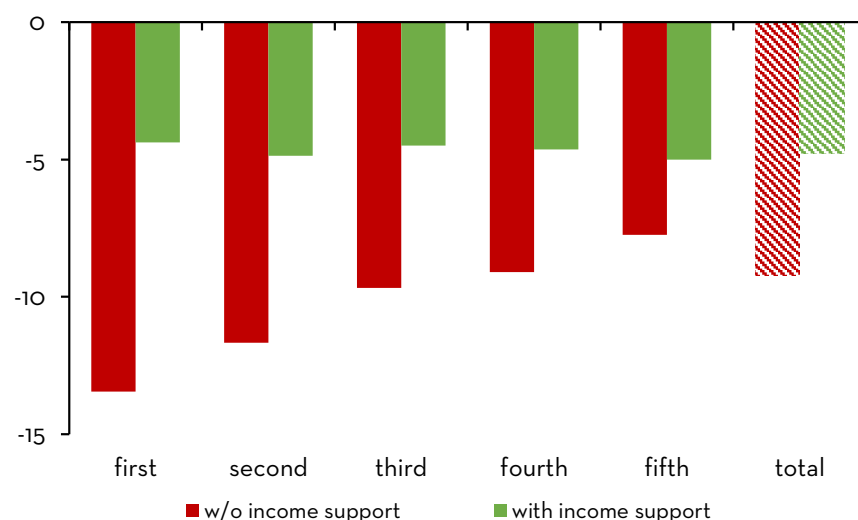


Figure 13
Household income losses, by quintile of equivalised household income
percentage values

Note: equivalised income is disposable income adjusted to account for household composition by means of the OECD-modified equivalence scale.

Source: Prometeia's calculations on SHIW data.

blocked worker would have lost about €3,300 on average (9.2% of household disposable income), with households in the first quintile experiencing an income reduction of 13.4% compared to 7.7% in the last quintile (Figure 13). Also, at the household level, there is evidence of larger income losses in the north of the country (-5.2%) compared to the south (-4.3%).

After introduction of the income support measures, income losses were estimated to be about €1,700 for households with at least one blocked worker. This is equivalent to a reduction in household disposable income of 4.8% on average, a value between 4.4% for the first quintile and 5% for the last quintile (Figure 13). Therefore, and also at household level, the measures compensated lower income households more than they did households in the upper part of the distribution. We expected that this would result in a reduction in inequality, but the Gini index shows no significant reduction.⁹

Analysis of household portfolios shows that family units with at least one blocked worker are less financially sound than households with no blocked workers. In addition to exposure to job and income losses, households exposed directly to the first lockdown have weaker capacity to absorb the shortfalls incurred and, therefore, are likely to be less resilient to the second wave of lockdowns. Calculations based on SHIW data show some potentially critical cases of households with blocked workers compared to those with no blocked workers. They indicate that the former type includes a higher percentage of renter households and homeowners with mortgages, a higher percentage of households with higher levels of debt, fewer financial assets, less liquidity and reduced ability to make ends meet.

V. The second wave: improved expectations?

The second wave of coronavirus infection has led European countries to introduce new lockdown measures, ranging from restrictions on mobility and physical contact, to the closing of some activities. In Italy, the current restrictions are less severe than those imposed in March and April and do not include the industry sector. The sectors that will suffer most from this second wave of lockdowns are again food and entertainment services, and services related to tourism.

Attitudes to governments' responses have changed as the pandemic has persisted, confirmed by a European Parliament opinion survey.¹⁰ In the first wave of coronavirus (April 2020), an absolute majority of respondents (52%) said that the health benefits of the restriction measures in their country offset the economic damage incurred, while 41% of respondents said that the economic damage outweighed the health benefits. The views of those surveyed in the third wave (October 2020) had reversed with respondents declaring that the economic damage imposed by the restrictions was greater than the health benefits (49% and 45%, respectively).

Italian regions classified as red, orange and yellow. The 3 November decree classified regions as red, orange and yellow corresponding to the level of epidemiological risk. Red regions are

⁹ Our simulations do not account for either Inclusion Income or Emergency Income. Also, since we do not have access to previous year incomes, they do not include the €1,000 bonus ("Rilancio" decree) for self-employed who experienced income losses of more than 33% in March-April 2020 compared to the corresponding period in 2019. An analysis of the first month of lockdown was conducted by Figari, F. and Fiorio, C. (2020), "Welfare Resilience in the Immediate Aftermath of the COVID-19 Outbreak in Italy", EUROMOD working paper series no. 06/20. Their results are not directly comparable to ours since they rely on different data and cover a shorter time span and a slightly different set of measures. However, they found a slight increase in inequality. The simulations performed by the Ministry of the Economy (MEF) Finance Department show that the measures implemented during the first lockdown did not increase inequality (MEF, "Impatto del COVID-19 sulla disuguaglianza dei redditi", Nota di Lavoro n. 1, June 2020, available at <https://www.finanze.gov.it/export/sites/finanze/galleries/Documenti/Varie/Nota-tematica-n.1-Impatto-del-Covid-19-sulla-disuguaglianza-dei-redditi.pdf>).

¹⁰ See Footnote 1 for the bibliographic details.

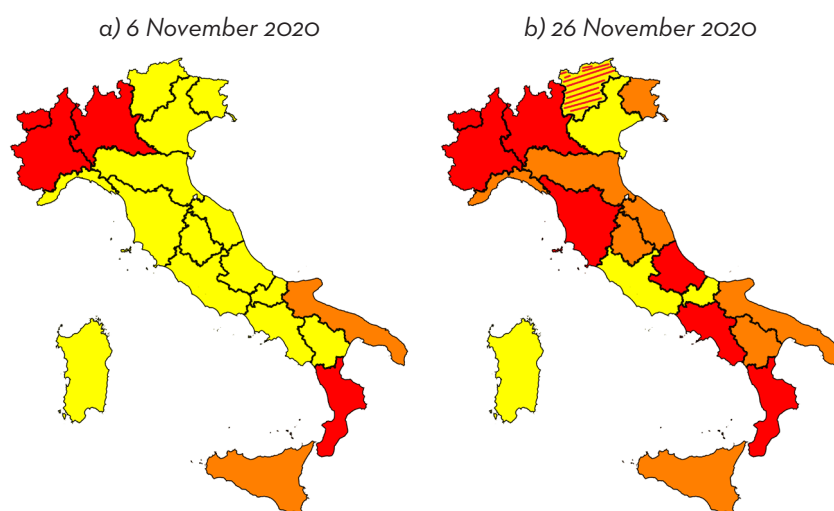


Figure 14

**Regions by level of risk:
high, middle and low**

period averages,
lighted shaded areas
indicate lower mobility

Note: as of 26 November, Trentino Alto-Adige was divided into a red zone (Province of Bolzano) and a yellow zone (Province of Trento).

Source: Italian Government and Ministry of Health.

considered high-risk and residents can only travel for work or health reasons and restaurants, bars and most non-essential businesses have been closed. Nevertheless, these measures are less severe than those imposed in March-April. In the orange (medium-risk) regions, people's movements are restricted to their own municipality. Shops can be open, but restaurants and bars must remain closed. Yellow regions are low-risk and involve no additional restrictions to the national public health rules (i.e., face coverings, social distancing, curfews, etc.).

The situation is evolving rapidly. Government regularly updates the regional classifications according to how the epidemiological situation changes. At the beginning of November, most of Italy was yellow, with only four red regions and two orange ones (Figure 14a). As the number of coronavirus infections began to increase, additional regions were classified as red or orange. At the end of November only four regions were classified as low risk (yellow) (Figure 14b).

The fragmented nature of the autumn region and sector shutdowns makes it difficult to precisely estimate the distributive impact of the new round of income support schemes. We would expect similar although more contained distributive effects, because, with the exception of the one-off net allowances for workers in the leisure and entertainment sector, the measures are extensions of those previously introduced. However, a recent household survey gives some indication of how households are faring in between the two waves.

Households' future economic prospects improve, but with some exceptions. A comparison of the first and second waves of the Special Survey on Italian Households (SSIH) conducted by the Bank of Italy in April-May and August-September, shows that households' future economic prospects improved during the summer months.¹¹ The percentage of households anticipating a worsening of Italy's economic situation in the coming 12 months dropped from 42% to 24%. Similarly, the share of households anticipating income losses in 2021 dropped by around half, to 25%. In the second round of interviews, households with a self-employed or fixed-term worker head were more likely to expect economic conditions to worsen in the future: respectively 17% and over 30% indicated a higher than 50% likelihood that they would lose their jobs in the near future.

¹¹ Bank of Italy, "The main results of the special survey of Italian households in 2020", Covid-19 Note, June 2020; Bank of Italy, "The main results of the second wave of the special survey of Italian households in 2020", Covid-19 Notes, November 2020. Data are freely downloadable here: <https://www.bancaditalia.it/statistiche/tematiche/indagini-famiglie-imprese/ind-ag-straord-famiglie-italiane/index.html>.

The percentage of households reporting income losses fell from 49% in April to 27% in September (Figure 15). The second wave of the survey shows that households with a self-employed or unemployed head were more likely to experience income losses (52% and 50%, respectively). Among these, 50% live in the north of the country and 28% in the south.

Saving remains on household agendas. Figure 16 shows that compared to April-May, a higher percentage of households expect to spend less than they earn in the coming 12 months and, therefore, plan to save (37% versus 42%). The percentage of households declaring themselves unable to save has fallen slightly from 52.2% to 50.5%, but remains high; finally, those reporting financial difficulties has dropped from 11% to 7.9%. The survey found, also, that, in August-September, households that anticipated a higher than pre-crisis income were more likely to report saving intentions. Moreover, more than 26% of these households declared that they would further reduce their expenditure on non-durable goods, compared to nearly 59% of households expecting income losses.

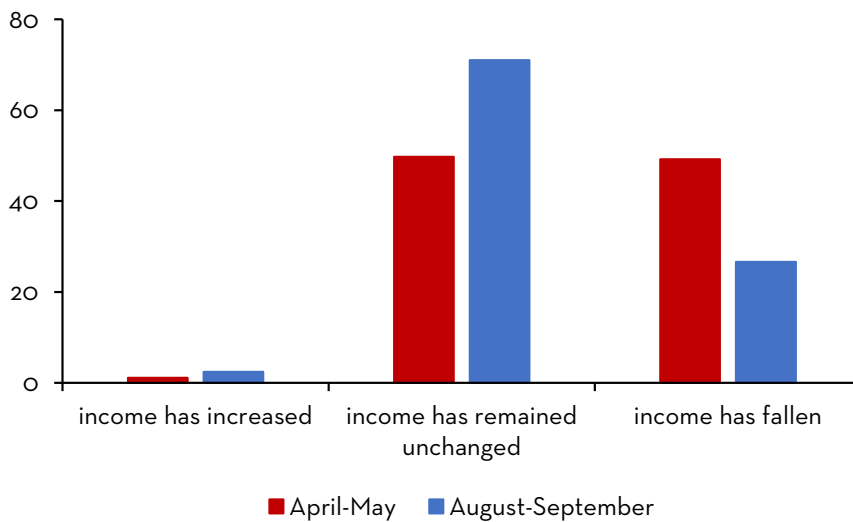


Figure 15

Households' assessment on income changes since the start of the pandemic

percentage values

Source: Prometeia's calculations on SSIH (wave 1 and 2) data.

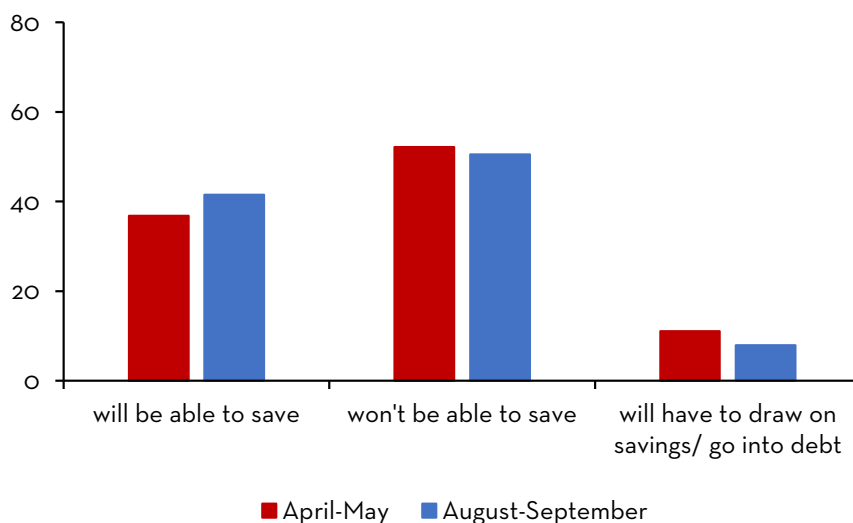


Figure 16

Households' expectations on savings in the next 12 months

percentage values

Source: Prometeia's calculations on SSIH (wave 1 and 2) data.

VI. Summing-up

The current economic crisis is unprecedented in modern times in terms of both its nature and magnitude. It was triggered by the COVID-19 pandemic which was an exogenous shock, and the worst hit countries have experienced major losses in terms of GDP, jobs, income and lives. Governments' policy responses have also been unprecedented and have changed over time, in line with the evolution of the epidemiological situation. During the first wave, the main measures consisted of forced closure of all non-essential businesses and stay-at-home orders. The "curve" was flattened and, by summer, most restrictions had been lifted. However, in the autumn, the number of COVID-19 cases began to increase again and many countries are experiencing a second wave of infections, which are being tackled by more, although less restrictive, lockdown measures.

In Italy, the coronavirus crisis has affected the economy unevenly; the lockdown imposed in spring 2020 was enforced at the sector level. Some sectoral activities were halted completely; others remained partially operative to guarantee provision of essential services. Job losses were heavy and the drop in employment reached 2.8% in the Q2-2020 compared to the corresponding period in 2019 (19.5% in terms of full-time equivalent units). Also, the first wave of the pandemic had the biggest effect on service sector employment, women workers, self-employed people, younger workers and those living in the south of Italy although workers and households in the north of the country suffered relatively higher levels of income losses.

Other distinctive characteristics of the crisis include the increased propensity to save, the asymmetric change to consumption patterns driven by heavy cuts to spending on durable goods and services, and the profound change in the way people are living and working which has resulted in reduced travel of all kinds, and working from home rather than travelling to an office or other workplace.

A microsimulation exercise of the first wave of the pandemic identified workers (employees and self-employed) employed in locked down sectors. We found a higher incidence of "blocked" workers in the lower part of the income distribution. The support measures implemented, that is, the CIG and the €600 bonus, halved the income losses. At the household level, households with at least one blocked worker are more concentrated in the middle-upper part of the distribution, but those in the lower part of the distribution have suffered heavier income losses. Overall, the support measures compensated lower income workers' and households' losses more than those experienced by individuals in the upper part of the distribution. However, this was not sufficiently significant to lead to a reduction in inequality.

To tackle the second wave of the pandemic, government has imposed new shutdowns, differentiated by both sector and region, depending on the local epidemiological situation. This makes it more difficult to estimate the distributive impact of the new round of income support schemes. The further extension of the CIG, combined with the one-off net allowances for temporary workers in the hardest hit sectors, will provide important and much needed support for lower income households which entered the second wave of infection in a relatively weaker position.

Households' expectations about their future economic conditions improved during the summer months, when government lifted most of the restrictions and the number of infections dropped. The percentage of households reporting an income loss fell, although households continue to anticipate a drop in their consumption levels in the coming months. It is possible that this second wave could have further repercussions for households' economic situations and prospects.

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