

Italy

Decline in official GDP suggests 'payback' from strong Q3 data. Underlying trend points to mild growth.

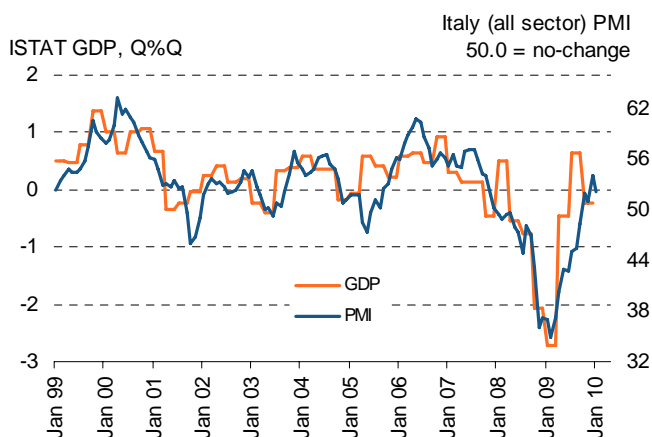
Key findings

- **PMI data suggest dip in Q4 GDP masks underlying expansionary trend**
- **Manufacturers leading the recovery**
- **Fiscal position under pressure**

ISTAT, Italy's official statistics bureau, reported a 0.2% quarter-on-quarter decline in gross domestic product for Q4. This confounded economists who, according to a Reuters poll, had been expecting a 0.1% quarterly rise. The Italian economy has now contracted in six of the past seven quarters.

Charting the official measure against PMI data highlights the volatility of the quarterly GDP series, and suggests that the unexpected decline in Q4 GDP could simply represent payback from a solid Q3. Official data pointed to a stronger rise in output in Q3 than had been indicated by the PMI surveys, which had displayed a stable upward trend throughout the second half of 2009.

GDP and PMI output



Sources: Markit, ISTAT

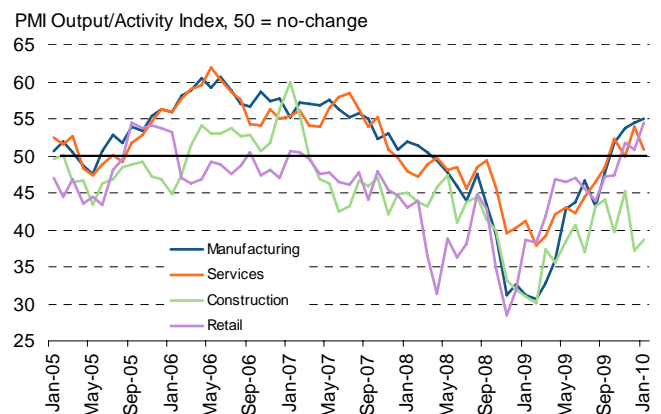
PMI data for early 2010 also suggest that the underlying trend is one of expansion. However, the path of the recovery is becoming increasingly uncertain. The all-

sector PMI (which is based on manufacturing, services and construction output) fell to 50.9 in January, a reading consistent with only a marginal pace of output growth. Whilst there is no sign of a double dip recession, the outlook is becoming increasingly unsettled.

Manufacturers lead the recovery

Recent data also suggest that the recovery across the Eurozone is becoming increasingly two-speed, with manufacturers leading the currency bloc out of recession. The trend in Italy is no different. Manufacturing output expanded in January at the fastest pace since August 2007, while service sector growth eased to near stagnation. Although retail sales growth accelerated, they continue to be artificially propped up by government incentives. The construction sector meanwhile remains firmly rooted in contraction territory.

PMI output by sector



Source: Markit

Continued ...

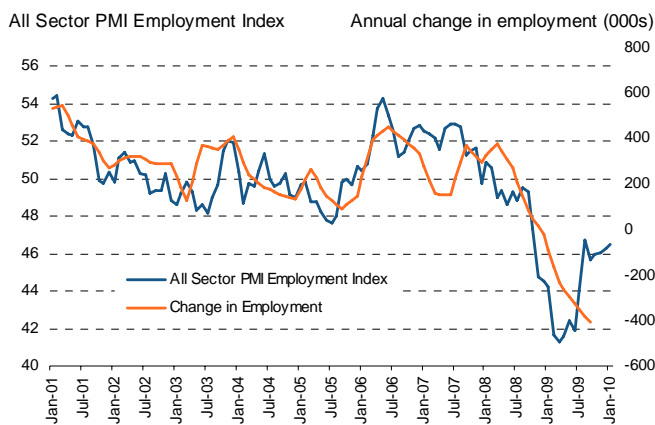
Unemployment set to subdue growth

Latest data, both PMI and official, indicate that jobs continue to be shed across the Italian economy. Labour market uncertainties therefore look set to subdue consumer confidence and spending as we progress through the first half of 2010, which will have knock on effects to the overall economic recovery. Although PMI data point toward a stabilisation in the rate of job losses, there is still no sign of an outright labour market recovery.

Fiscal position remains under scrutiny

Worries regarding the stability of Eurozone nations' fiscal stability have come to the fore in recent weeks. Although the Italian economy has weathered the storm surrounding the so called peripheral economies' public finances so far, investors will be fully aware that, while its public finances are in a relatively strong position, Italy's debt to GDP ratio is heading towards 120% – one of the highest in the Eurozone.

Official and PMI employment



Sources: Markit, ISTAT

Andrew Self

Economist

Markit

Tel: +44 149 146 1006

Email: Andrew.self@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.