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Markit Economic Research

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Italy

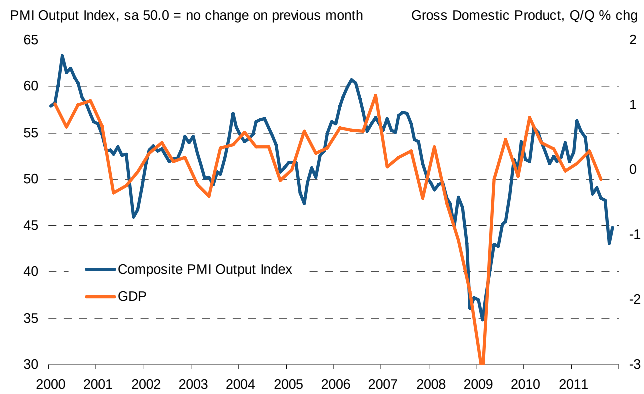
Italian recession looms as economy contracts in third quarter

- **Official figures show 0.2% quarterly contraction in Q3**
- **PMI data points to faster rate of decline in final quarter**

Long-awaited third quarter Italian national accounts data showed a 0.2% quarter-on-quarter contraction in gross domestic product (GDP). This was the first decline since the final three months of 2010 and stronger than the consensus expectation of a 0.1% fall. Measured on an annual basis, this represented a meagre 0.2% increase in output compared with the same period a year ago, weaker than a downwardly revised 0.7% annual rate of growth in the second quarter.

These official figures tally with earlier released PMI™ data – based on a weighted summation of the manufacturing output and services activity indices – from Markit, which showed output contracting throughout the third quarter of 2011.

Italian GDP vs Composite PMI Output Index



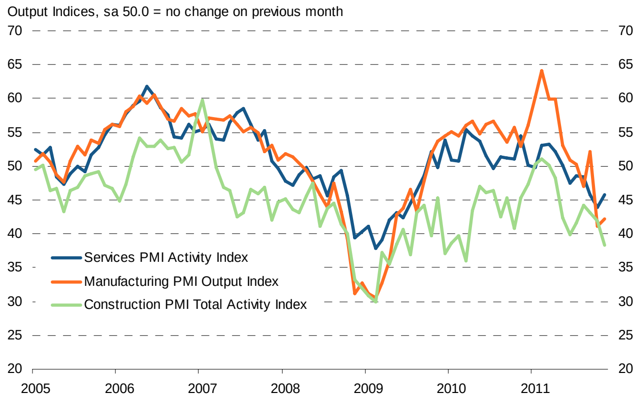
Sources: Markit/ADACI, ISTAT (via EcoWin)

Q4 PMI data points to technical recession

Composite PMI data for October and November suggest that Italian GDP will have contracted for a second successive quarter in Q4, and therefore entered Italy into technical recession for the second time in just over three years. Moreover, the PMI data indicate that the pace of contraction has accelerated since the third quarter.

Contraction broad-based by sector

Output indices



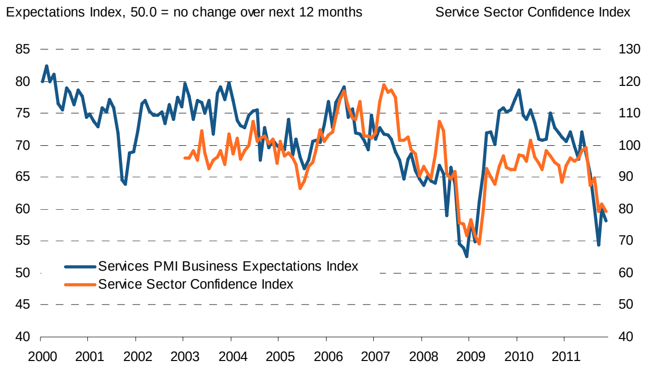
Sources: Markit, ADACI

By sector, PMI data show construction, manufacturing and services all contracting in the second half of 2011. Building activity appears to be falling fastest, with November's month-on-month decline the sharpest for 20 months. October saw manufacturing output and services activity contract at the fastest rates since April and June of 2009 respectively, although in both cases rates of decline eased slightly in November.

Challenging times ahead

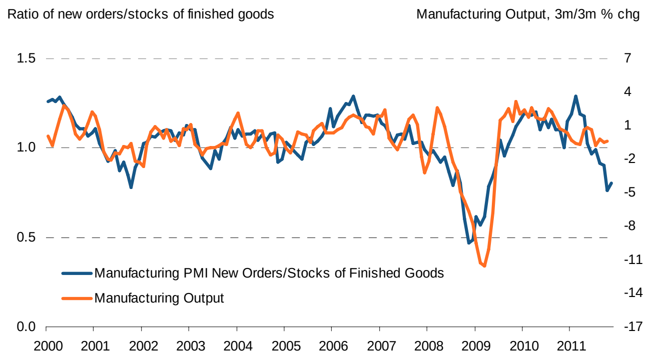
A range of austerity measures, such as higher taxes and public sector pay freezes, are widely expected to hit spending in the coming year. In fact, several forward-looking indicators from Markit strengthen the view that challenging conditions will continue into 2012. In Q4 so far, the Services PMI Business Expectations Index – monitoring services providers' expectations for activity levels in 12 months' time – has been running at a level unseen since the height of the 2008/9 recession. In addition, the ratio between the Manufacturing PMI New Orders and Stocks of Finished Goods Indices suggests that goods production will be reduced further as we move into 2012. The ratio has been below the neutral mark of 1.0 for six months to November.

Service sector business expectations



Sources: Markit/ADACI, ISTAT (via EcoWin)

Ratio of new orders and stocks of finished goods



Sources: Markit/ADACI, ISTAT (via EcoWin)

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