

Italy

Italian GDP contracted at record pace in Q1

Key findings

- Italian GDP down 2.4% quarter-on-quarter.
- PMI points to a weaker decline going forward.

GDP down at fastest pace in series history...

Preliminary data from the Italian statistics bureau (ISTAT) indicated that Italian GDP contracted 2.4% during the first three months of 2009 – the fastest quarter-on-quarter decline since the start of the series in 1980. Compared to a year ago, the economy shrank 5.9%, also the fastest on record.

The Markit/ADACI Composite PMI, which has proven to be an accurate predictor of trends in the official data, with a correlation between the two series of 0.88, also registered a survey record decline in output during the first quarter of 2009. It is therefore perhaps surprising that a Reuters poll of economists had been expecting an easing in the rate of contraction during Q1. The consensus forecast expected a 1.8% fall in Q1 GDP, compared with ISTAT's estimate of Q4 GDP of -1.9% (revised to -2.1% in the latest figures). Furthermore, in our press release accompanying our services PMI release on 3 April 2009 we stated that:

“Averaged over the quarter, service sector activity fell at the fastest pace since at least 1998... This implies that economic output will contract at a sharper pace in Q1, on a quarterly basis, than seen in the last quarter of 2008.”

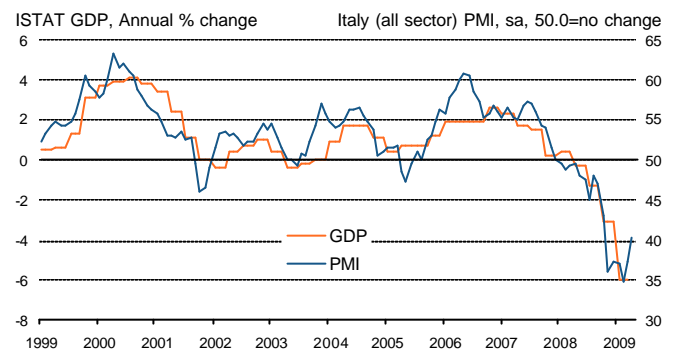
...led by record fall in industrial production

This week ISTAT also released industrial production data for March, which pointed to the steepest year-on-year decline of output since at least 1980. The fall of 23.8% came in below expectations of -21.3%, and was down further on the previous low of -21.2% seen in February.

The nadir is nigh

Since bottoming-out in February, the composite PMI data (covering both manufacturing and services) signalled slower rates of decline for both March and April, suggesting that the rate of contraction of GDP has begun to slow.

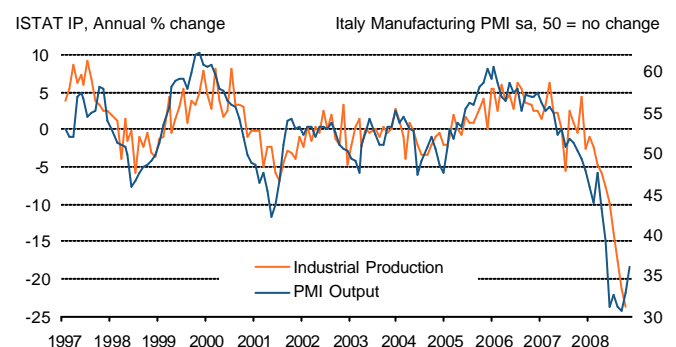
Chart 1: GDP v. PMI



Sources: ISTAT, Markit

Similarly, the Markit/ADACI Manufacturing PMI suggests that the deterioration of manufacturing operating conditions has now stabilised, and the rate of decline will ease over the coming months.

Chart 2: IP v. PMI



Sources: ISTAT, Markit

However, it should be remembered that the rates of decline of GDP and industrial production signalled by the PMI surveys are still sharper than that seen before the collapse of Lehman Brothers last September, which marked the acceleration of the global economic downturn. Thus, while these data offer some comfort

that the recession in Italy passed its worst in early 2009, there is still no sign of a swift return to growth.

Upcoming releases

PMI data for May will be available for manufacturing on 1 June and services on 3 June. To find out how to receive data from the surveys, or obtain copies of the reports, please contact economics@markit.com.

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