

5 April 2011

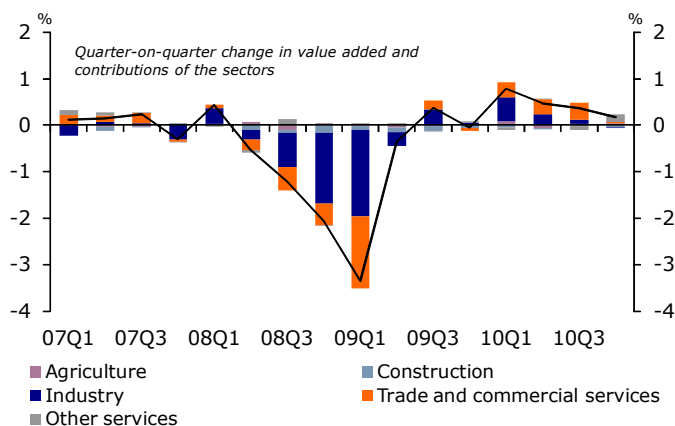
Weak start to the year, but better prospects

Year-on-year change (%)	'10	'11	'12
Gross Domestic Product	1.2	1¼	1½
Private consumption	1.0	1	1
Government consumption	-0.6	-1	¼
Investment	2.3	1½	3¾
Exports	8.9	5½	3
Imports	10.3	7½	3
Inflation	1.6	2¼	1½
Unemployment (%)	8.5	8½	8¼
Government balance (% GDP)	-4.6	-4	-3
Government debt (% GDP)	117.0	118	118

Source: Reuters EcoWin, Rabobank

After the further moderation of economic growth in the last quarter of 2010, the Italian economy started the year on a weak note as well. Industrial production fell by 1.5% m-o-m in January. But both the manufacturing purchasing manager index (PMI) and the rise in new orders point to better days ahead. Employment expectations are similarly positive. As such, manufacturing may be able to sustain the employment growth that was set in motion by the services sector recently. Trade unions are not waiting for that to happen so growth of hourly wages rose in response to inflation in the first months of the year. Government finances in 2010 have made for a positive surprise for a change.

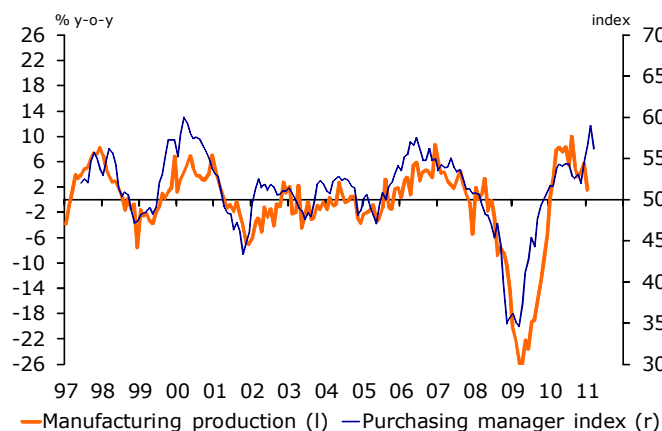
Economy concludes 2010 on a weak note



Source: Istat

GDP growth fell back to 0.1% q-o-q in the fourth quarter of 2010. On the expenditure side, private consumption growth was more subdued while export growth fell back sharply. Government consumption and fixed asset investment contracted on the quarter. On the production side, growth in trade and commercial services was much lower than in the quarter before. Industrial production slightly contracted, after barely growing in the quarter before. The industrial recovery after the recession has been painfully slow. By the fourth quarter of 2010 only 5%-points of the total 20% peak-to-trough fall during the recession was recovered.

Renewed industrial growth a possibility...



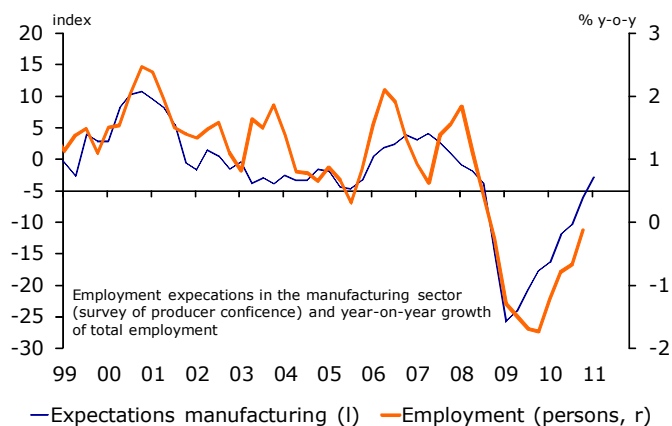
Source: Reuters EcoWin

After the disappointing 10Q4 growth figure, industrial production started the new year even weaker, falling 1.5% m-o-m. Even so, there is still a possibility that the first quarter as a whole will show renewed industrial growth. The purchasing manager index (PMI) for the manufacturing sector has risen sharply from November up to February. Even after a fall in March the index is still at a high level. Furthermore, the growth rate of both domestic and new orders has been very high up until January. This suggests a much better outcome for industrial production in the remainder of 10Q1, which can also give a renewed boost to export growth.

Economic Update Italy

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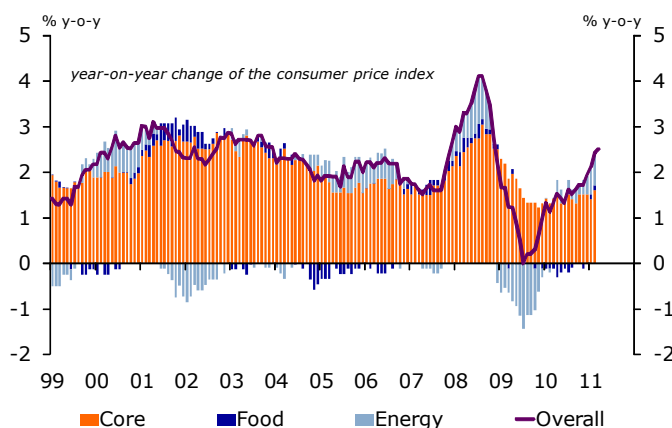
... that would also sustain employment growth



Renewed growth of industrial production is an important condition for a further rise in employment. After ten consecutive quarters of contraction, the number of people in employment rose by 0.2% q-o-q in the fourth quarter of 2010. This employment growth was courtesy of growing services sector payrolls, but also due to the rather modest q-o-q fall in industrial employment. Employment expectations in the industrial survey of the European Commission have steadily improved up to February. As such, the expected renewed growth of industrial production may well lead to a positive contribution of manufacturing to total employment growth.

Source: Reuters EcoWin

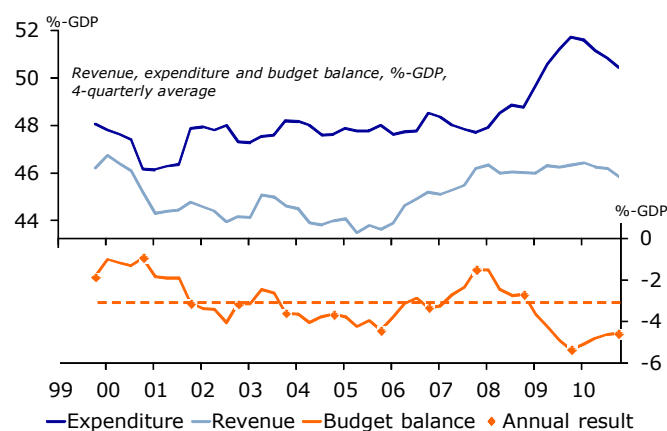
Inflation on its way up



The growth of employment has not been enough to bring down unemployment. In February, the unemployment rate was 8.4%. This is equal to the average unemployment rate over the past year and still well above the pre-recession low of 6%. Wage growth is not much affected by this high unemployment. In the slipstream of the rising inflation rate, the y-o-y growth rate of hourly wages has risen from 1.5% in September 2010 to 2.1% in February 2011. Like in most other countries, the sharp rise in inflation is primarily due to rising energy prices. But given the sharp recession and muted recovery, core inflation has remained rather high over the past years. High wage growth will keep it like that.

Source: Reuters EcoWin

Deficit reduction in 2010 ahead of target



The government budget deficit for 2010 was 4.6% of GDP, much lower than the planned deficit of 5%. Despite the political turmoil and the weak economic recovery, the government is ahead of its own schedule for reducing the budget deficit to below 3% of GDP in 2012. The deficit reduction is due to successful expenditure cutbacks, while the planned increase in revenue has not been forthcoming. Higher revenue is dependent on the economic recovery. Moreover, the government plans on raising the tax intake by fighting tax evasion. This is easier said than done. While definitely positive, this good result for 2010 hardly changes the fact that the road to healthy Italian government finances will still be very long and bumpy.

Source: Reuters EcoWin

www.rabobank.com/kennisbank

Tim Legierse
Tel. +31 (0)30 - 2162677
T.Legierse@rn.rabobank.nl