



Economic Update Italy

1 February 2011

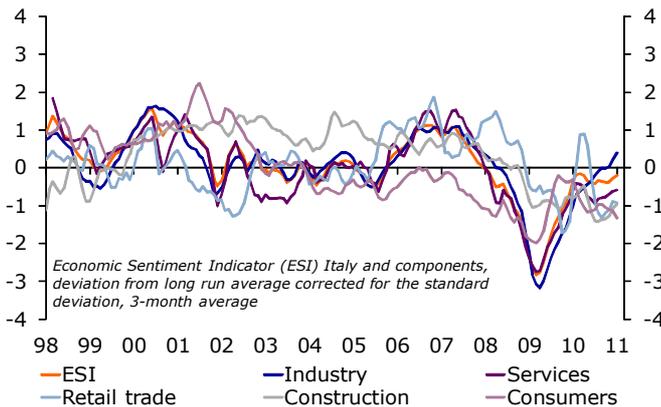
Industrial recovery stagnates

Year-on-year change (%)	'09	'10	'11
Gross Domestic Product	-5.1	1	1½
Private consumption	-1.9	½	1
Government consumption	0.6	-¼	½
Investment	-12.2	3	5¼
Exports	-19.1	8	6½
Imports	-14.6	7¾	6½
Inflation	0.8	1½	1¼
Unemployment (%)	7.8	8½	8¾
Government balance (% GDP)	-5.3	-5¼	-5
Government debt (% GDP)	115.9	118	120½

Source: Reuters EcoWin, Rabobank

The sluggish economic recovery seems to have come to a halt in the last quarter of 2010. Export growth kept up well, but this has not been translated into higher industrial production. Also, import growth has outstripped export growth. The resulting decline in net exports probably subtracted from quarterly GDP growth. A renewed rise in the unemployment rate and falling real wages are partly responsible for the decline in consumer confidence. In all then, the Italian economy had a rather weak close to 2010. With government austerity measures having started in January 2011, the start of this year probably will not be much stronger.

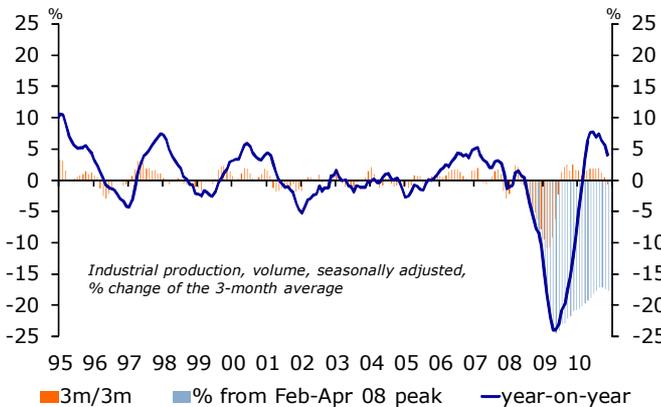
Economic sentiment start the year on a positive note



The European Commission Economic Sentiment Indicator (ESI) for Italy rose for a fourth consecutive month in January but, like in 2010, remains below its long run average. The recent rise has been driven by higher confidence in industry and construction and a somewhat more modest rise in services sector. The current ESI has historically been accompanied by economic stagnation. As such, average growth of 0.4% in the first three quarters of 2010 has been a positive surprise. Still, developments in the industrial sector indicate that economic growth has moderated in 10Q4 and perhaps even fell back into negative territory.

Source: Reuters EcoWin, Rabobank

Industrial recovery is stalling



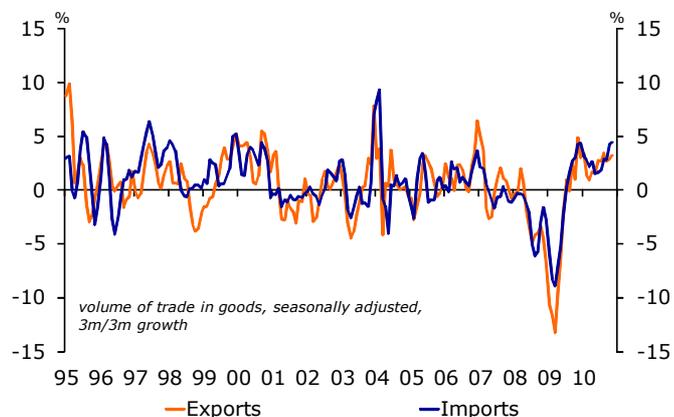
Industrial production (IP) rose by 1.1% m-o-m in November. But this growth was by no means sufficient to make up for the lost production in the previous two months. Even if December industrial production is up by another 1% or so, growth for 10Q4 will be only 0.1% q-o-q. This would be a sharp deceleration compared to the 1.2% IP-growth in the third quarter which would subtract about 0.2%-point from q-o-q GDP growth in 10Q4. The continued rise in the EC industrial sentiment indicator and the manufacturing PMI point to renewed growth in the first quarter of 2011. This expectation is supported by the still historically low assessment of inventory levels and the continued expansion of exports.

Source: Reuters EcoWin

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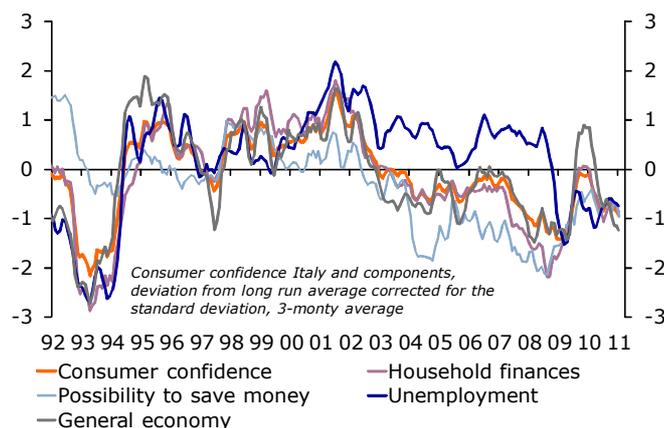
International trade keeps up the pace



Source: Reuters EcoWin, Rabobank

Even with the industrial recovery taking a pause in the fourth quarter of 2010, trade in goods continued to expand. If December exports remain unchanged on November, export growth in the fourth quarter will be 3.5% q-o-q, up from 2.7% in 10Q3. Momentum in imports is even stronger. With unchanged imports in December, fourth quarter growth will be 4.8% after 2.8% in the previous quarter. With import growth set to outpace export growth, net exports will have deteriorated and as such have subtracted from GDP growth in the fourth quarter. This corroborates the slowdown in 10Q4 growth that we expect based on developments seen in the industrial sector.

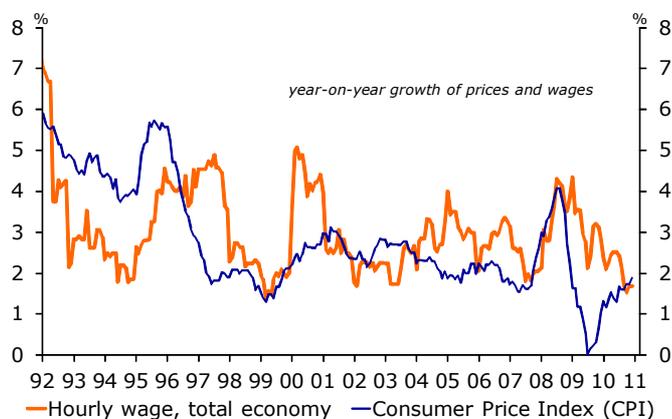
Further falls in consumer confidence



Source: Reuters EcoWin, Rabobank

The strength of import growth might be attributed to growth in fixed asset investments or a rebuilding of inventories. There are no indications though that private consumption has been growing as well. Car sales still fell on a quarterly basis in 10Q4 and retail sales are also likely to have declined on the quarter. These monthly indicators have only a very limited predictive power for total private consumption, but the renewed fall in consumer confidence supports our expectation that consumer spending did not contribute much to economic growth in the final quarter of last year. The recent developments also points to continued weakness in spending at the start of the year.

Wage growth drops below inflation



Source: Reuters EcoWin, Rabobank

The broad based fall in consumer confidence is not that surprising given the renewed rise in the unemployment rate and the further drop in wage growth. The rate of unemployment was back up to 8.7% in November from 8.2% in August and a previous cyclical high of 8.5% in May. Nominal wage growth was 1.7% y-o-y in December and was lower than inflation in the last three months of 2010. So after two years of wage growth being above inflation, real hourly wages are now falling. Public wages have been frozen since the start of this year as the government sets out to bring down the deficit. The high unemployment rate will further restrain wage growth in the private sector. As such, there will be only very limited room for a rise in consumer spending.

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