

# Italy

## Economic Growth To Turn Positive, Underperformance To Persist

- Istat confirmed this morning that Italy's real GDP was overall flat QQ (i.e. -0.03%) in Q4, in line with the flash estimate, after drops of 0.1% QQ in Q3 and 0.2% QQ in Q2. This marked the 14th consecutive quarter with either negative or flat real GDP QQ growth. In YY terms, real GDP fell by 0.5% in Q4, still the lowest YY growth rate among the eight largest EA member states (see Figure 1). Italy's YY real GDP growth underperformance vs. the euro area average has expanded from 0.8pp on average between 1999 and 2007 to 1.6pp on average since Q1-2012, and was 1.4pp in Q4-2014. Italy's real GDP has fallen back to 2000 levels (see Figure 2). The growth gap has worsened noticeably relative to Spain (to 2.5pp in Q4-2014) and (albeit less dramatically) relative to other periphery countries (e.g. to 1.5pp on average relative to Portugal and Greece), while it has remained around 2pp relative to Germany. We reckon this real GDP growth deficit can be attributed mainly to poor business competitiveness and weaker profitability compared to the rest of the periphery over the previous years. Domestic demand fell by 0.3% YY in Q4, with fixed investment dropping by 3.0% YY (+0.2% QQ) and private consumption rising by 0.5% YY (+0.1% QQ).
- Labour Force Survey (LFS) data released by Istat this week showed the unemployment rate rising to 13.0% of the workforce in Q4, up from 12.8% in Q3 and 12.2% on average in 2013, and marking a new record high since the start of the series (1992). The jobless rate rose by 0.6pp YY, the largest YY increase across the 19 EA countries (see Figure 3). Employment was flat QQ in Q4, after a 0.1% QQ rise in Q3, while the workforce rose by 0.3% QQ in Q4 (also +1.3% YY), due mainly to an increase in the participation rate (among people aged 15 to 64 years) to 64.7% (from 63.6% in Q3). There are hints of better job growth in January (0.1% MM). Nevertheless, with more people joining the labour force, we expect the unemployment rate to remain at historically high levels in coming quarters (and to average 12.9% in 2015).
- Looking ahead, preliminary data available so far suggest the Italian economy is likely to resume positive economic growth in Q1. The composite PM has risen to 51.1 on average in Jan-Feb from 50.3 in Q4, the EU Commission economic sentiment indicator rose to a 4-year high of 102.5 points in February, while the Istat business confidence indicator rose to 99.1 in February (the highest level since June 2014, Figure 4). We expect Italy's real GDP to rise by 0.3% QQ in Q1, the first QQ increase since Q2 2011, driven by faster export growth and a modest gain in domestic demand. Nevertheless, the pace of economic recovery is likely to remain modest (we project +0.8% YY on average in 2015), and the underperformance of the Italian economy relative to the rest of the euro area is likely to persist.

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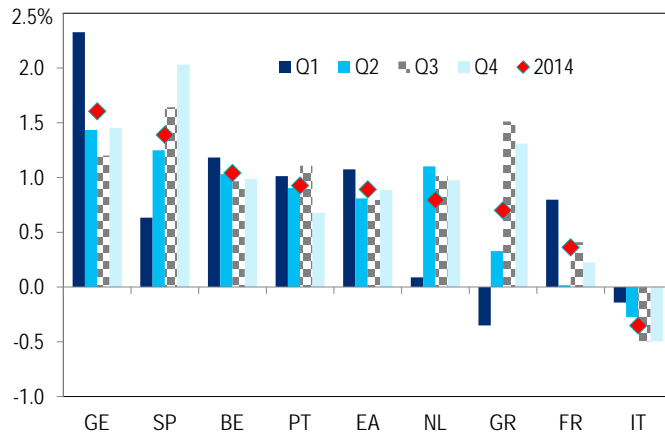
Antonio Montilla  
+44-20-7986-3282  
antonio.montilla@citi.com

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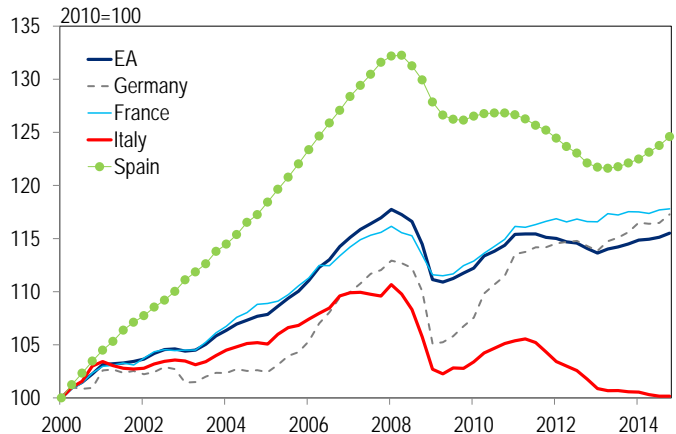
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Figure 1. Selected EA Countries – Real GDP Growth (% YY), 2014



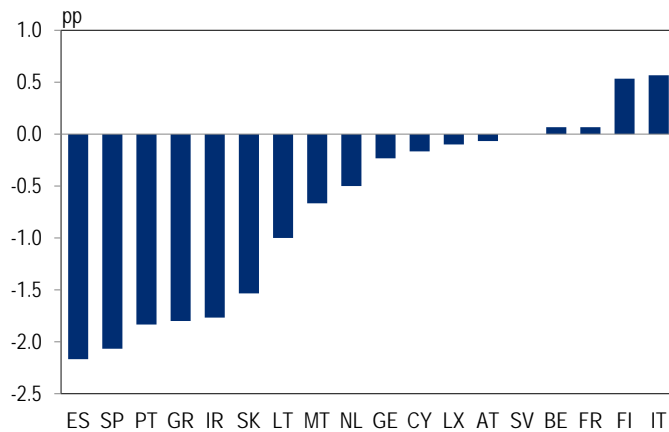
Sources: Eurostat, National Sources, and Citi Research.

Figure 2. Selected EA Countries – Real GDP (2000=100), 2000-2014



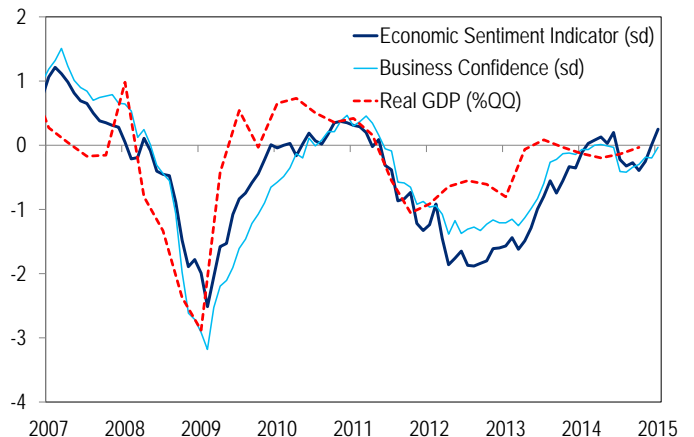
Sources: Eurostat, National Sources, and Citi Research.

Figure 3. Selected EA Countries – YY Change in Jobless Rate (pp), Q4 2014



Sources: Eurostat, and Citi Research

Figure 4. Italy – Real GDP (%QQ), and Business Surveys (SD from Long-Term Average), 2007-2015



Sources: European Commission, Istat, and Citi Research

## Appendix A-1

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