

Italy

Economy contracts at slowest rate for two years in third quarter

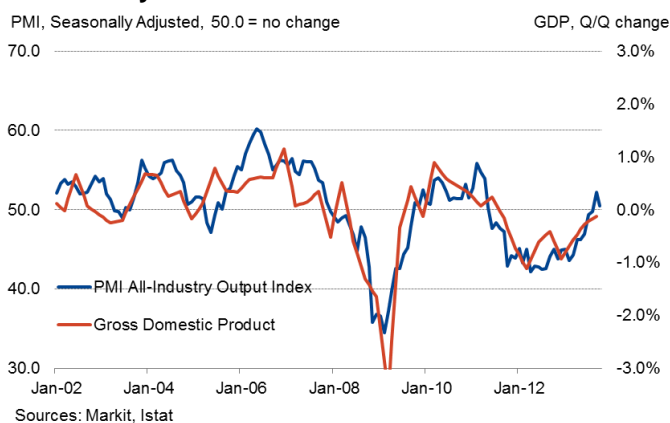
- **Gross domestic products falls 0.1%, in line with consensus**
- **Gain in industrial activity offset by contractions in services and agriculture**
- **PMIs so far point to stabilisation in Q4**

Official data showed Italy's longest post-war recession extending into the third quarter, but an easing in the rate of decline and upbeat business survey data suggest a return to growth is possible in Q4.

Italy's economy contracted 0.1% in Q3, according to a preliminary estimate from the national statistics body ISTAT, extending its current downturn to nine successive quarters but also showing the weakest rate of decline seen over this period. This was in line with the consensus among economists polled by Reuters, and compared with a 0.3% decrease in gross domestic product in the three months to June. GDP was down 1.9% on the year, which was also broadly in line with expectations.

The economy is now 9.1% smaller than its pre-financial crisis peak reached in Q3 2007, but the downturn appears to have bottomed out and latest survey data point to stabilisation in the final quarter of the year.

All-Industry PMI vs GDP



Markit's All-Industry PMI Output Index (covering services, manufacturing and construction) registered at

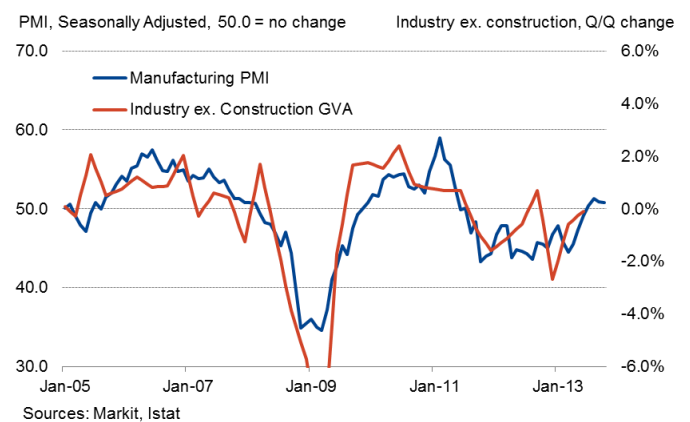
a level that has historically been consistent with a flat trend in GDP in October. Should output stabilise in the final quarter, this would mean a 1.9% contraction for the year as a whole, which is fractionally worse than the 1.8% decline forecasted by the government.

PMIs bode well for fourth quarter

ISTAT provided few details regarding the breakdown of GDP, but did comment that declines in services and agricultural output were partially countered by an expansion in industrial activity. This is consistent with the picture painted by recent PMI data. The headline Manufacturing PMI posted its highest quarterly average for more than two years in Q3, consistent with modest growth. [The index remained in positive territory in October, albeit dipped slightly to a three-month low.](#)

One area of strength signalled by the manufacturing survey in recent months has been exports sales, the level of which rose throughout the third quarter and again markedly in October. This is providing a well-needed boost to the sector at a time when domestic demand remains relatively subdued.

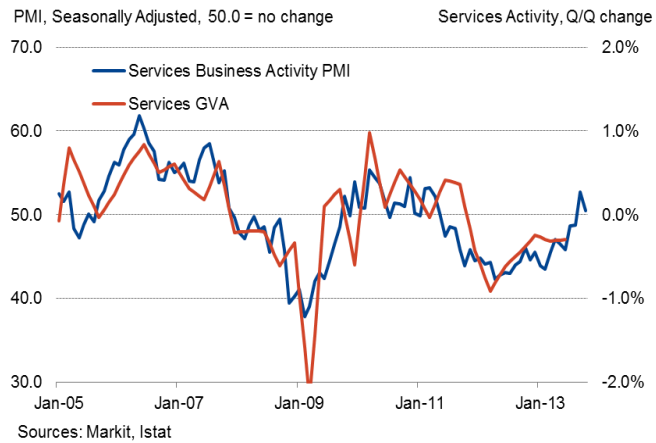
Manufacturing PMI signals modest growth in Q3



ISTAT's indication of a further contraction in service sector output also tallies with the business survey data. The level of business activity at services firms was shown by PMI data to have decreased in both July and August, before rising in September to the greatest

extent for two-and-a-half years. Although growth continued into October, it lost momentum and was overall only marginal.

Services activity contracts



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