

Italy

First quarter GDP disappoints, but PMI shows brighter start to second quarter

- **GDP falls 0.1% in Q1, contrary to expectations**
- **Weakness in industry underpins contraction**
- **April PMI data point to rebound**

The Italian economy disappointingly slid back into contraction at the start of the year. However, positive PMI data in April and signs of a turnaround in consumer spending point to a quick return to growth in the second quarter.

Italy's gross domestic product fell 0.1% in the opening quarter from the final three months of 2013, defying analysts' expectations of a 0.2% expansion (poll by Reuters) and reversing a marginal gain at the end of last year. The preliminary estimate from ISTAT also suggested GDP was down 0.5% from the same period one year ago.

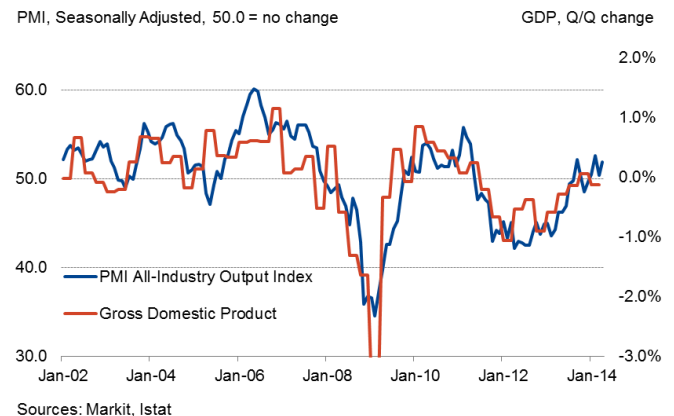
Few details were made available by ISTAT, their only comments being that the downturn reflected weakness in industry, while services was stagnant and agriculture made a slight positive contribution to overall GDP. Indeed, the three months to March saw contractions in output across both mining & quarrying (-3.0%) and utilities (-4.7%) offset a slight upturn in manufacturing (+0.7%).

PMI data suggest possible rebound in Q2

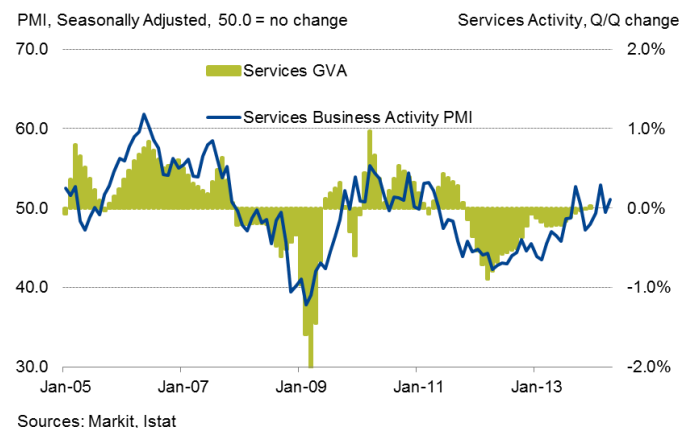
These latest developments at the sector data are consistent with the picture painted by recent PMI™ data. The headline Services PMI averaged 50.6 in the opening quarter, a level that has historically been consistent with little change in service sector output. After having fallen into contraction territory in March, the index has since edged back above the 50.0 threshold on the back of sustained growth in new business and pointed to expansion in services activity at the start of the second quarter.

Manufacturing PMI data meanwhile showed the upturn gaining momentum moving into Q2, with the headline index rising to its highest in three years on the back of faster increases in output, new orders and employment. Behind the much improved trends at factories has

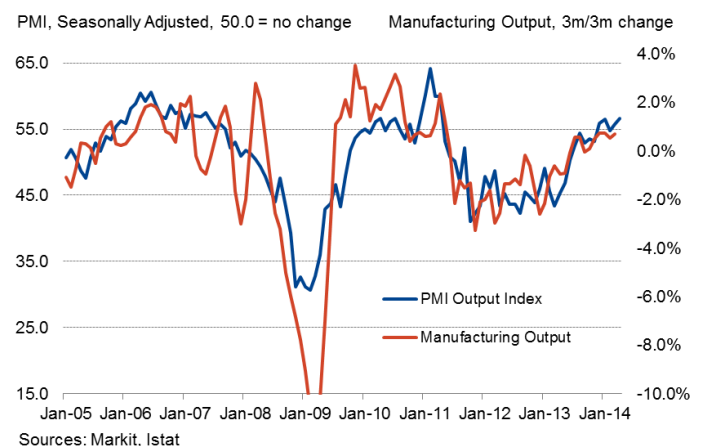
Italy GDP and the PMI



Service sector stagnant



Growth in manufacturing gathering pace



been robust growth in exports sales, which in April hit a 37-month high.

Domestic drag lifting?

Corroborating the improving outlook for the economy as suggested by the PMI data has been a turnaround in the jobs market, with ISTAT reporting a rise in total employment at the end of the first quarter compared with December 2013 – the first such calendar quarterly growth since the end of 2011. With weakness in household consumption having long been a drag on economic performance, a better jobs outlook is a factor that is likely to aid a recovery in the year ahead.

In fact, the suggestion from the survey data is that household expenditure has already bottomed out, a reflection of renewed consumer confidence and real wage growth. The [Markit Retail PMI](#) – measuring month-on-month changes in actual like-for-like sales – which has a good track record of tracing developments in household expenditure, rose to a 38-month high and was close to the no-change mark of 50.0 in April.

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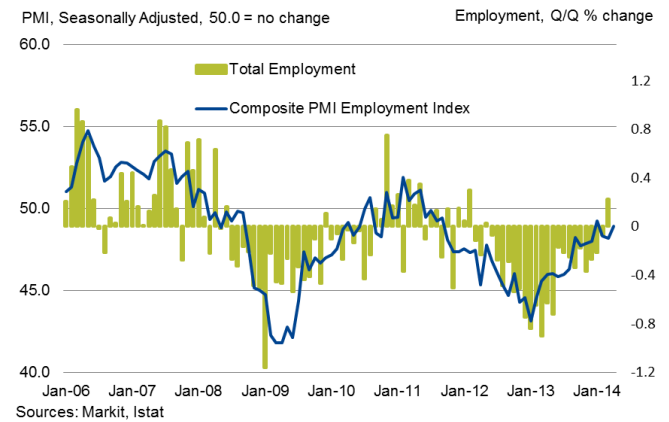
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Employment returns to growth



Retail PMI vs. Household Expenditure

