# Italy's Economic Outlook - 2012-2013

■ During 2012, the deceleration in global economic growth will halve real international trade growth compared to 2011. Oil is expected to reach 112.2 dollars per barrel in 2012, falling to 107.3 dollars per barrel in the following year. In 2013, the world trade is expected to expand at 4,7% in volumes, up from 2.5 in 2012. Against this background, the euro/dollar exchange rate is assumed to stabilize at around 1.29 over the forecasting horizon.

■ The subdued global environment will affect economic activity in Italy. In 2012, GDP is expected to fall by 2.3% in real terms as a result of a reduction in domestic demand. This is only partially offset by the positive contribution of external demand, as import growth is projected to turn strongly negative. Total investment will drop substantially due to tight credit conditions and persistent negative economic sentiment. Private consumption is expected to fall, reflecting a decline in households' purchasing power and rising unemployment.

■ In 2013, GDP growth is expected to decrease by 0.5%. Exports will be the main support of GDP growth, reflecting a mild recovery in global trade. Private consumption and investment are expected to remain weak. As a result, the contribution of domestic demand to output growth is estimated to be negative.

■ This outlook is subject to a number of downward risks. A revival of euro-area financial tensions, widening sovereign credit risk spreads on Italian bonds and a slower-than-expected global trade recovery could harm Italy's GDP growth substantially, leading to a deeper and longer recession in 2013.

TABLE 1: FORECAST FOR THE ITALIAN ECONOMY - 2012-2013 (% CHANGE ON PREVIOUS YEAR)

|  | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Gross Domestic Product | -5,5 | 1,8 | 0,4 | -2,3 | -0,5 |
| Imports of goods and services (fob) | -13,4 | 12,5 | 0,6 | -7,9 | 0,9 |
| Exports of goods and services (fob) | -17,5 | 11,4 | 6,0 | 1,3 | 2,4 |
| Domestic demand (including inventories) | -4,4 | 2,1 | -1,0 | -5,0 | -1,0 |
|     Residential households consumption expenditure | -1,6 | 1,2 | 0,1 | -3,2 | -0,7 |
|     Government Consumption | 0,8 | -0,6 | -0,8 | -1,2 | -1,5 |
|     Gross fixed capital formation | -11,7 | 2,1 | -1,8 | -7,2 | -0,9 |
| Households consumption expenditure deflator | -0,1 | 1,5 | 2,8 | 2,7 | 2,0 |
| Gross domestic product deflator | 2,1 | 0,4 | 1,3 | 1,4 | 1,4 |
| Compensation of employees per full-time equivalent | 1,8 | 2,3 | 1,3 | 0,9 | 1,0 |
| Full time equivalent employment | -2,9 | -0,9 | 0,1 | -1,2 | -0,5 |
| Unemployment rate | 7,8 | 8,4 | 8,4 | 10,6 | 11,4 |
| Trade balance (level as % of GDP) | -0,5 | -1,9 | -1,5 | 0,9 | 1,5 |
| Contribution to GDP | | | | | |
|     Domestic demand (net of Inventories) | -3,2 | 0,9 | -0,3 | -3,6 | -0,9 |
|     Foreign balance | -1,1 | -0,3 | 1,4 | 2,8 | 0,5 |
|     Inventories | -1,2 | 1,3 | -0,7 | -1,5 | -0,1 |