

# Italy's Economic Outlook - 2012-2013

■ During 2012, the deceleration in global economic growth will halve real international trade growth. The easing of tensions in the commodity markets is expected to lower oil prices to 113.3 dollars per barrel in 2012 and further to 110 dollars the following year. In 2013, the global economic recovery is expected to lead to stronger international trade. Against this background, the euro/dollar exchange rate is assumed to stabilize at around 1.30 over the forecasting horizon.

■ The subdued global environment will affect economic activity in Italy. In 2012, GDP is expected to fall by 1.5% in real terms as a result of a reduction in domestic demand only partially offset by the positive contribution of external demand, as import growth will turn strongly negative. Total investment is forecast to drop substantially owing to tighter credit conditions and negative economic sentiment. Private consumption is also projected to fall, reflecting a decline in households' purchasing power and rising unemployment.

■ In 2013, GDP growth is expected to turn mildly positive (0.5%) as stronger global trade sustains export growth, notwithstanding import recovery. With private consumption and investment remaining weak, domestic demand's contribution to output growth is estimated to be negligible.

■ This outlook is subject to a number of downward risks. A revival of financial tensions, widening sovereign credit risk spreads and a slower-than-expected global trade recovery could lower GDP growth significantly.

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  | -1.5 | 0.5  |
| Imports of goods and services (fob)                | -13.4 | 12.7 | 0.4  | -4.8 | 2.3  |
| Exports of goods and services (fob)                | -17.5 | 11.6 | 5.6  | 1.2  | 4.0  |
| Domestic demand (including inventories)            | -4.4  | 2.1  | -0.9 | -3.2 | 0.0  |
| Residential households consumption expenditure     | -1.6  | 1.2  | 0.2  | -2.1 | -0.2 |
| Government Consumption                             | 0.8   | -0.6 | -0.9 | -0.8 | -0.1 |
| Gross fixed capital formation                      | -11.7 | 2.1  | -1.9 | -5.7 | -0.4 |
| Households consumption expenditure deflator        | -0.1  | 1.5  | 2.7  | 2.9  | 2.1  |
| Gross domestic product deflator                    | 2.1   | 0.4  | 1.3  | 2.0  | 2.0  |
| Compensation of employees per full-time equivalent | 1.8   | 2.3  | 1.4  | 1.4  | 1.0  |
| Full time equivalent employment                    | -2.9  | -0.9 | 0.1  | -0.6 | 0.3  |
| Unemployment rate                                  | 7.8   | 8.4  | 8.4  | 9.5  | 9.6  |
| Trade balance (level as % of GDP)                  | -2.0  | -3.6 | -3.1 | 0.0  | 0.6  |