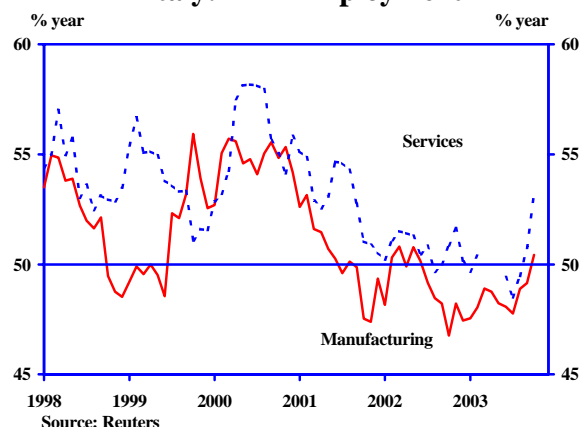


ITALY

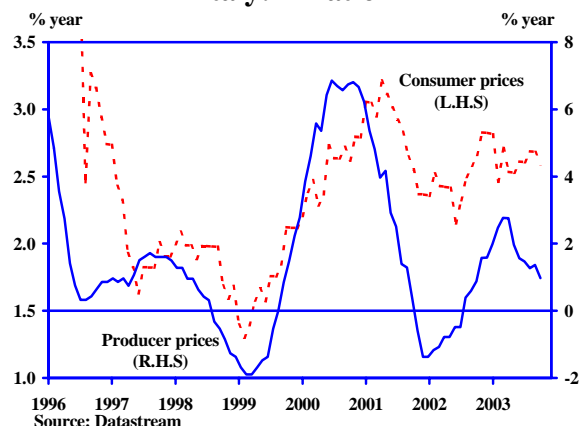
Recovery will be slow

- The latest indicators offer some positive signs but Italy still seems to be lagging behind the eurozone as a whole. The services sector continues to lead the way - the PMI rose to 55.7 in October - but recovery in manufacturing is struggling to take hold. After GDP growth of 0.3% in 2003 we expect a rise of just 1.4% in 2004.
- October's manufacturing PMI did point to expansion - for the first time in eight months - but overall production is likely to have fallen during October as a result of the half-day general strike and the nationwide power failure. Export orders also improved but the strength of the euro will prevent manufacturers from cashing in fully as external demand picks up.
- But the surprise in both PMI surveys was the strength of the increase in hiring. Services jobs expanded at the fastest rate in over two years and even manufacturers created more jobs. The stronger labour market outlook suggests that employment growth may be able to sustain consumer demand despite relatively weak growth in real incomes.
- Meanwhile consumer price inflation remains stubbornly high - 2.6% in the year to October. The impact of the hot summer on food prices will fade but, with growth skewed towards the inflation-prone services sector, inflation is likely to remain substantially above the Eurozone average into next year. We forecast inflation of 2.6% for 2003 as a whole and 2.2% in 2004.

Italy: PMI Employment



Italy: Inflation



Key Indicators: Italy

Percentage changes on a year earlier unless otherwise stated

	Industrial production	Nominal retail sales	CPI	Industrial producer prices	Contracted hourly earnings	Household confidence (1982=100)	Business expectation (balance)	Trade balance € bn
2002								
Nov	1.9	2.9	2.8	1.6	2.2	107.5	-11	0.7
Dec	0.5	2.9	2.8	2.0	2.2	104.5	-15	0.1
2003								
Jan	0.4	3.0	2.8	2.5	2.2	106.9	-8	-2.0
Feb	-0.4	3.2	2.5	2.8	2.2	107.3	-16	-0.4
Mar	-0.7	0.8	2.7	2.8	1.7	105.8	-21	-0.4
Apr	0.3	5.7	2.5	2.0	1.7	107.6	-13	-0.7
May	-3.0	3.6	2.5	1.6	1.7	107.3	-5	-0.3
June	-1.7	0.3	2.6	1.5	1.7	106.9	-8	-0.5
July	-0.6	2.3	2.6	1.3	2.1	108.7	-12	0.3
Aug	0.7	-0.6	2.7	1.4	2.6	107.1	-4	0.1
Sep	-	-	2.7	1.0	2.7	106.8	-8	-
Oct	-	-	2.6	-	-	104.7	-	-