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Summary [*]

The moderate recovery in the Italian economy continued between the close of 2015 and early 2016. The PBO estimates that GDP will increase by about 0.3 per cent both in the fourth quarter of 2015 and in the first quarter of 2016. Adjusted for the number of working days, growth in 2015 is expected to amount to 0.7 per cent (0.8 per cent on an unadjusted basis; the Government estimates growth of 0.9 per cent). On the basis of these assessments, annualized growth for 2016 (i.e. the growth that would be registered if GDP growth remained at the level estimated for the first quarter) would be 0.7 per cent. If that were the case, achieving the growth of 1.6 per cent forecast by the Government would require GDP to expand by an average of 0.5/0.6 per cent as from the second quarter.

Services and a slow revival of the construction sector are sustaining current economic activity. The recovery of industry has weakened and has so far been modest and narrow: just over 50 per cent of manufacturing segments are expanding. Compared with the first half of 2015, the improvement in labour market conditions has slackened, although the strong cyclical responsiveness of employment to the growth of the economy has been confirmed (in 2015, the number of people in employment increased by a similar percentage to the expansion in GDP). The effects of legislative changes, underscored by administrative data not yet registered in the national accounts, have begun to be reflected in Istat data: the proportion of fixed-term employees that have shifted to permanent contracts has increased. Falling oil prices and the weakness of demand-side pressures have kept the inflation rate close to zero: more than half of the items in the basket of goods are experiencing low inflation (less than 0.5 per cent).

The Italian recovery, like that in the euro-area as a whole, is exposed to risks in the international environment. Fears about China and the fall in oil prices have fuelled financial and currency instability, intensifying global deflationary pressures. In the current monetary policy climate, a further substantial decline in oil prices would not be entirely welcome news for importing countries. By reducing inflation expectations, in the presence of nominal policy rates at zero, the countershock pushes up real rates, thereby tightening monetary conditions. The European Central Bank's action to counter deflation through quantitative easing (QE) becomes even more challenging in such circumstances, as demonstrated by the decline in inflation expectations despite the strengthening of the monetary stimulus. The decline in oil prices worsens the financial situation of oil producers, triggering sharp slowdowns that impact the global economy. International organisations began to lower their forecasts for global growth last summer. Following this trend, the International Monetary Fund again lowered its forecast for world trade growth in 2016 and 2017 to 3.4 and 4.1 per cent, respectively (4.5 and 5.2 per cent in the Government's forecasts).

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[*] *Prepared by the Macroeconomic Analysis Department. Information updated to 21 January 2016.*

The international environment

Deflationary impulses

Deflationary pressures in the global economy have intensified in recent weeks. The slowdown in China has been accompanied by a resurgence in financial and currency instability, fuelling fears of a larger-than-expected slowdown in that country, with repercussions for the global economy. At the same time, the heightening of tensions in the Middle East and the prospect of the imminent return of Iranian oil to the market have not prompted changes in OPEC's decision to maintain production levels despite the considerable oversupply in the market. Taken together, these developments have caused oil prices to slide even further. In January, the price of Brent crude fell below $30 a barrel, the lowest level in the last twelve years. Including the decline that has occurred since mid-2014, oil prices have decreased by about 70 per cent in the last year and a half (63 per cent in euro terms). In the wake of the concerns over China and signs of weakening global economic activity reflected in the fall of oil prices, the financial markets in the developed countries have been buffeted by high volatility, with sharp falls in stock market indices.

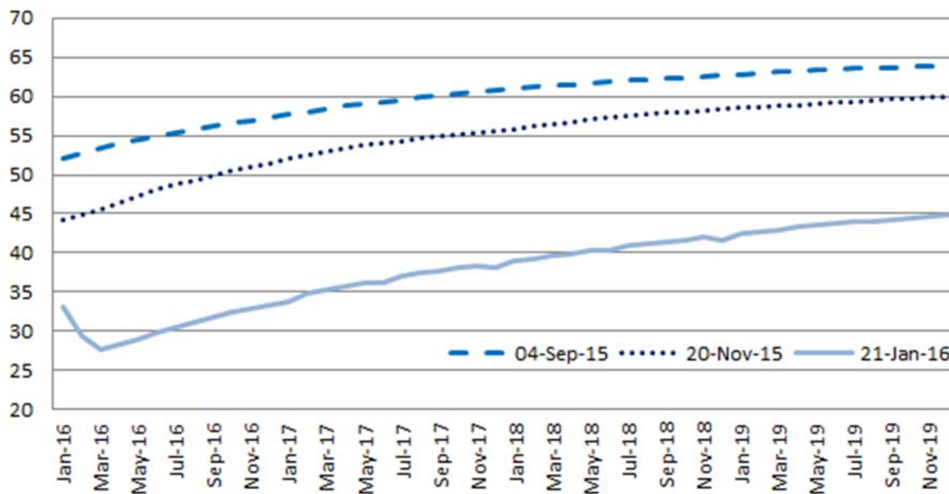
The further decline in oil prices has led to a substantial decrease in market expectations for future price levels. The forecasts contained in the Update to the Economic and Financial Document (the Update), which were incorporated in the Draft Budgetary Plan (DBP) ($54 in 2016, $59 in 2017, $62 in 2018 and $64 in 2019), were based on the prices in futures contracts in late August-early September. Compared with those figures, forward rates at the end of the second ten days of January, while still showing a gradually rising trend, have fallen by 35-40 per cent (Figure 1).

In normal conditions, lower oil prices act as a stimulus to domestic demand in importing countries such as Italy. This impulse more than offsets the loss of exports to oil producing countries, with a favourable impact on GDP growth. However, in an environment such as that currently prevailing in the euro area, where policy interest rates are at their lowest possible level, the fall in current inflation and, above all, in expected inflation threatens to produce an increase in real interest rates, with adverse consequences for growth that counter the positive impact of the improvement in the terms of trade. In particular, this may occur if the expansionary impact of unconventional monetary policy measures (quantitative easing) fails to raise inflation expectations sufficiently and offset the downward impulse imparted by the fall in oil prices. In addition to this risk, it should be noted that inflation close to zero (lower than the inflation expected when loans were taken out) makes debtor positions, whether public or private, more burdensome, rendering debt reduction more challenging and consequently reducing the expenditure capacity of sectors with large debt burdens.

Alongside these factors attenuating the stimulus to domestic demand in oil importing countries, we must also consider the possibility that the deterioration in financial conditions in the oil producing economies caused by the continued decline in oil prices will translate into a sharper-than-forecast slowdown in those countries, with a consequent impact on global demand.

In foreign exchange markets, the divergence in the monetary policy stances adopted by the ECB and the Federal Reserve fostered a depreciation of the euro against the dollar from the summer onwards (-3.2 per cent between September and the first twenty days of January). Owing to the depreciations experienced by various emerging economies, over the same period the single currency has remained stable against a broad basket of currencies (Figure 2). Looking forward, futures contracts reflect a stabilization of the dollar/euro rate during 2016, followed by a moderate appreciation of the euro (1.5-2 per cent annually between 2017 and 2020).

Figure 1 **–** Price of Brent in futures contracts
(*dollars per barrel*)



Source: based on Barchart data.

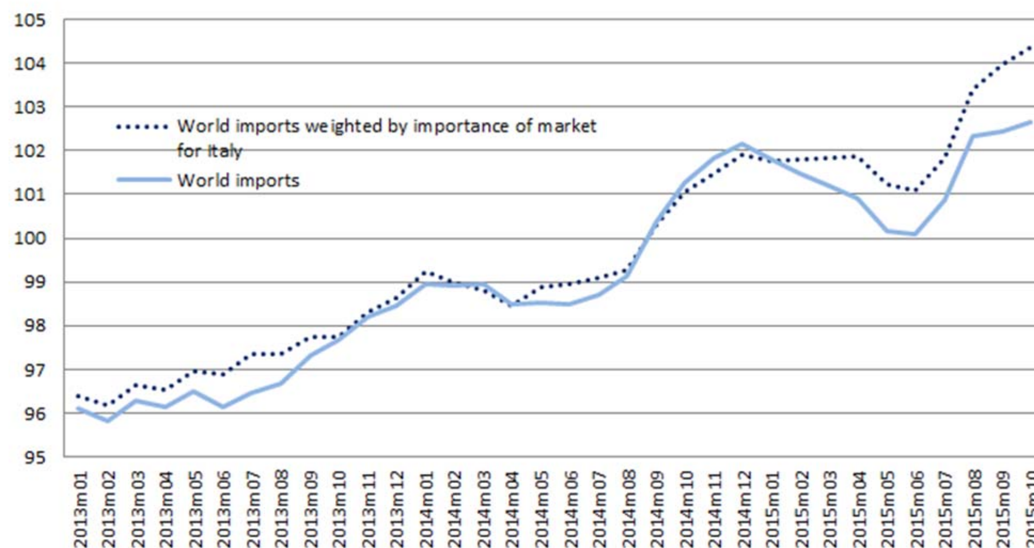
Figure 2 – The euro exchange rate
(2010 = 100)

Source: ECB, Bank of International Settlements and PBO estimates.

Trade recovered in late 2015, but growth forecasts are revised downwards

Despite the high volatility and uncertainty, the world economy continued on a moderately expansionary path in the final months of 2015, driven by the performance of the advanced economies. Following the decline posted in the first half of 2015, international trade showed signs of rebounding beginning in the summer (Figure 3). The recovery in recent months did not, however, prevent a substantial deceleration for the year as a whole: according to Central Planning Bureau (CPB) data, world imports grew by an estimated 2 per cent in 2014 (+3 per cent in 2014), while those of the markets most important for Italian exports are estimated to have increased by 2.5-3 per cent (+3.5 per cent in 2014). Looking ahead, the most recent projections of the IMF (January) continue to reflect an acceleration in world trade, but at a much slower pace than those issued in October: world trade is forecast to grow by 3.4 per cent this year (-0.7 points from the previous forecast) and 4.1 per cent in 2017 (-0.5 points). These forecasts suggest that growth in the two years will be slower than forecast in November by the European Commission and the OECD (+3.6 per cent in 2016 and +4.5/4.8 per cent in 2017), as well as the projection used in September by the Government in developing the Italian forecasting scenario (+4.5 and +5.2 per cent respectively in the two years).

Figure 3 – World imports and Italy's key markets
(*2014 = 100; quarterly moving averages of seasonally adjusted monthly data*)



Source: based on Central Planning Bureau data.

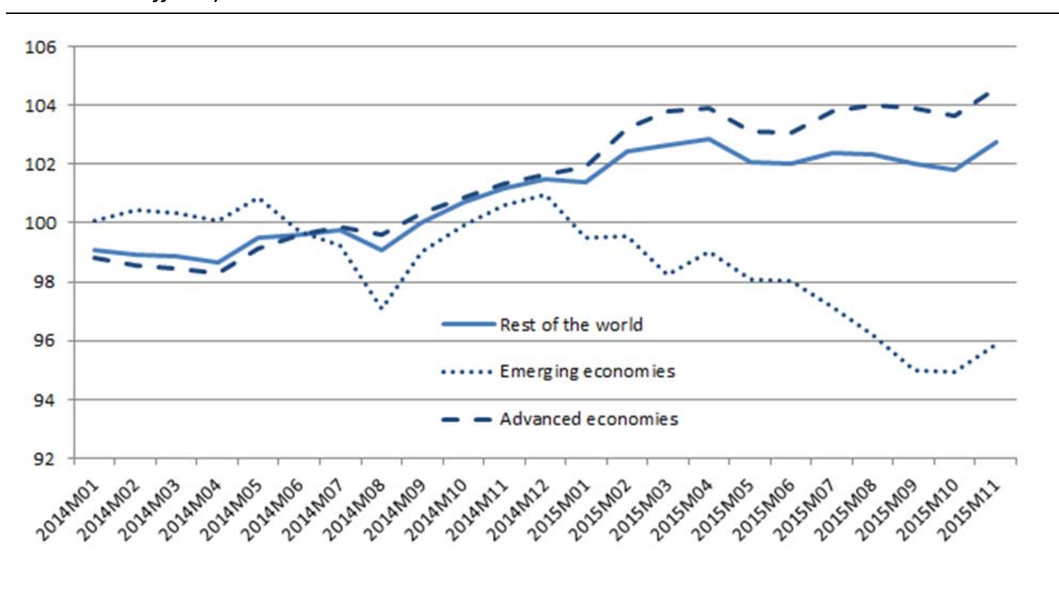
The recovery shows signs of moderating in the advanced economies

The United States is still providing the greatest support for the international economy. Economic activity in that country continued to expand in the third quarter (+0.5 per cent, following an increase of 1 per cent in the second), and is driven by domestic demand. Economic indicators reveal a continuation of growth in the fourth quarter, despite some signs of weakening. In particular, manufacturing industry appears to be slowing, reflecting the effects of the appreciation of the dollar and the easing of demand in the emerging countries. In addition, the stagnation in retail sales in December suggests that the contribution of consumption is abating. In line with expectations, in mid-December the Federal Reserve made an initial increase in interest rates (+25 basis points) after seven years (December 2008) of rates at zero. The decision was prompted by improvement of conditions in the labour market. Looking forward, the normalization of US monetary policy should be gradual in consideration of the weak upward pressures on wages and prices.

In the euro area, GDP grew by 0.3 per cent in the third quarter (+0.4 per cent in the second, +0.5 per cent in the first). Economic activity was driven by the good performance of private consumption and stockbuilding, while investment stagnated and exports decreased. The easing of financial conditions in response to the action of the ECB is fostering recovery, which nevertheless remains exposed to the risks of the international slowdown and the adverse effects of low inflation. In December, leading indicators and business confidence surveys continued to be positive, but there were signs of a slowdown in industry (-0.7 per cent in November), reflecting the decline in

exports to the emerging economies (Figure 4). In its forecasts published in January, the IMF projects growth in the euro area of 1.7 per cent in 2016, a small upward revision (+0.1) compared with its assessment in October and in line with the forecasts of the European Commission and the OECD in November. These projections assume that internal European demand will offset the weakening of foreign demand.

Figure 4 **–** Volume of euro-area exports by foreign market
(2014 = 100; quarterly moving averages of data adjusted for seasonal and calendar effects)



Source: based on Eurostat data.

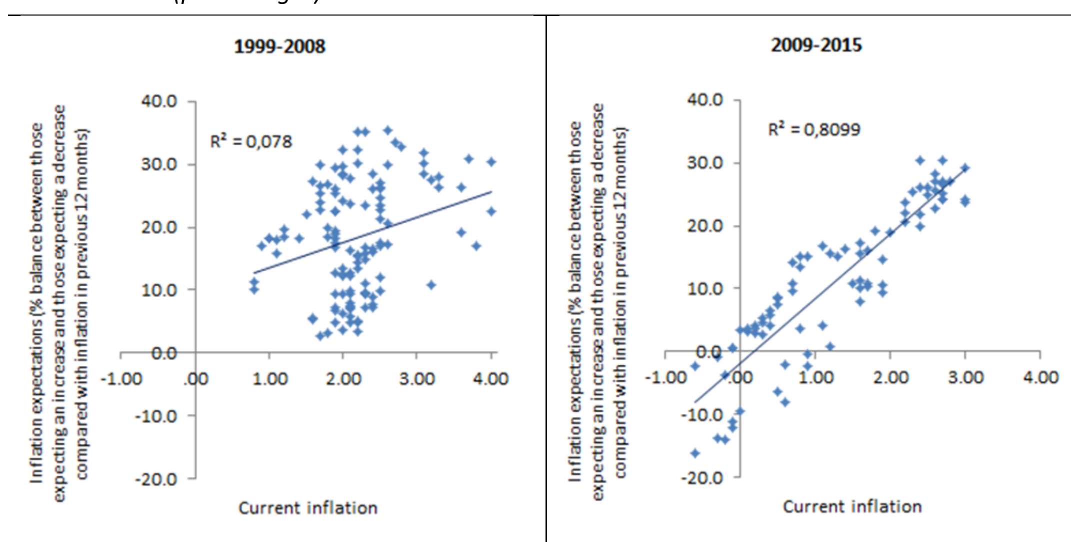
Inflation and monetary policy in the euro area

Inflation remains very low in the euro area, reflecting the adverse external factors and persistent spare capacity. In December, consumer prices rose by 0.2 per cent (as in November), while core inflation (excluding energy and unprocessed food products) was 0.8 per cent (0.9 per cent in November). In view of the unsatisfactory results of its efforts to revive inflation, on December 3 the ECB decided to increase its monetary stimulus by lowering the rate on deposits held by banks with the Eurosystem even further (from -0.2 to -0.3 per cent), extending (from September 2016 until at least March 2017) its asset purchase programme, broadening the range of eligible securities (including those issued by local governments) and reinvesting principal payments on maturing securities. At its subsequent meeting on 21 January, the ECB announced that, in view of the further decline in oil prices and the risk of a global economic slowdown, in March (when new forecasts become available) it will review the adequacy of the measures taken, standing ready to strengthen them if necessary.

The challenges faced by monetary policy in stimulating inflation and, above all, expectations appears to reflect a change that the crisis has brought about in the

formation of expectations. Considering short-term (one year) inflation forecasts of consumers, as reflected in monthly surveys, we see that before 2009, there was a relatively weak link between developments in current inflation and in expectations as measured by surveys.[1] By contrast, in recent years, with the systematic decreases in inflation forecasts, the formation of expectations seems to have become more adaptive, i.e. more closely linked to observation of current inflation developments and, therefore, less affected by the ECB target (inflation close to 2 per cent), which has gradually diverged from actual inflation (Figure 5).[2] This change makes it more difficult for monetary policy to anchor the expectations of operators, especially in the presence of exogenous shocks (such as the drop in oil prices) that, by depressing current inflation, impact expectations about future prices. Confirmation of these difficulties can be seen in the evolution of inflation expectations over the medium to longer term measured by break-even inflation, which do not appear to have been affected by the decisions of the ECB in December, declining in January to close to the minimums observed at the beginning of 2015 (Figure 6).

Figure 5 – Euro area: inflation and consumer expectations
(percentages)

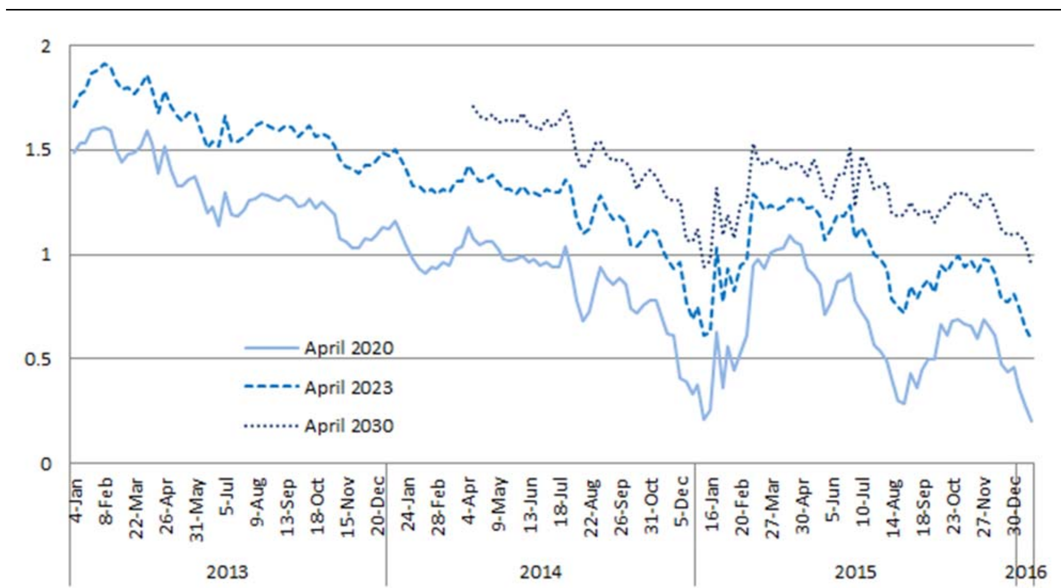


Source: based on Eurostat and European Commission data.

[1] Surveys quantify consumer inflation expectations for the twelve months subsequent to the survey month as the difference between the percentage of those who expect a more rapid increase in prices and those who expect a slower rise than inflation measured in the previous twelve months.

[2] For more on this change, see also Busetti F., D. Delle Monache, A. Gerali and A. Locarno,(2015) "Trust but verify, De-anchoring of inflation expectations under learning and heterogeneity", Bank of Italy mimeo.

Figure 6 – Inflation expectations for the euro area based on break-even inflation
(yield differential between ordinary and indexed Bund; weekly data)



Source: based on Bundesbank data.

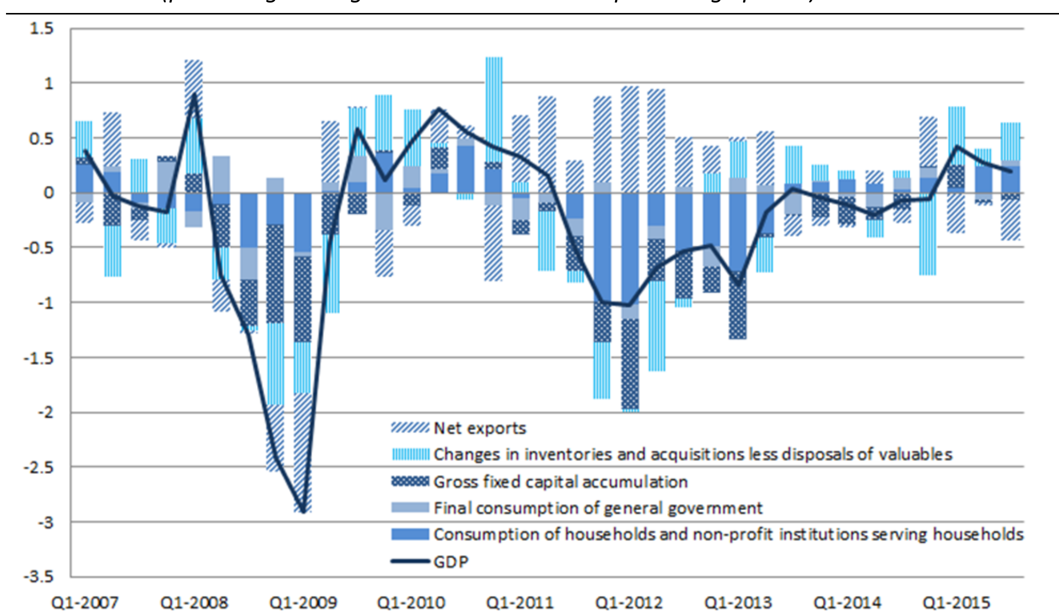
Italian economy

The recovery continued in the third quarter, but at a slower pace

The Italian recovery has continued at a moderate pace in recent months, slightly slower than the average for the first half of the year. In July-September, GDP expanded by 0.2 per cent (after increases of 0.4 and 0.3 per cent respectively in the first and second quarters), being driven, as in the first half of the year, by domestic demand (with a contribution of 0.6 points to the change in output), as net exports contracted (-0.4 points, Figure 7).

Among the components of domestic demand, the growth is still buoyed by stockbuilding (with a contribution of 0.3 per cent to GDP growth) and household consumption (up 0.4 per cent, as in the second quarter), while total investment posted a further decline (-0.4 per cent after -0.1 per cent in the second quarter). Excluding the contribution of inventories, final demand (domestic and net foreign) diminished by 0.1 per cent, continuing the overall sluggishness that marked the first half of the year (-0.1 and +0.1 per cent respectively in the first and second quarters).

Figure 7 – Change in GDP on previous quarter and contributions of the components of demand
(percentage changes and contributions in percentage points)

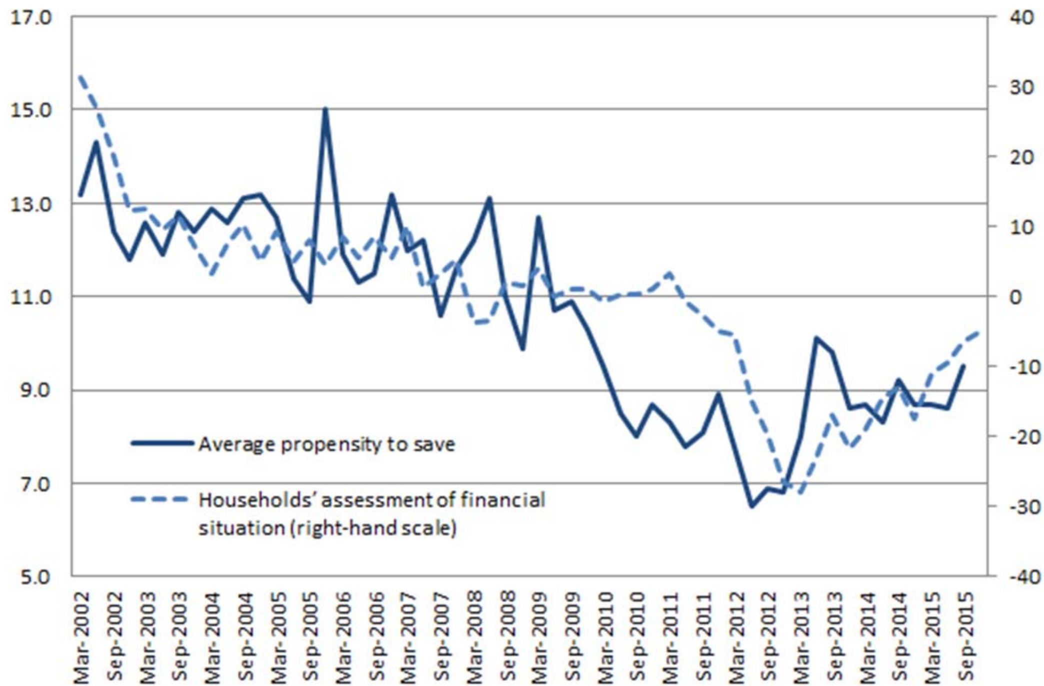


Source: ISTAT.

The growth in consumption has been fostered by the improvement in confidence and the increase in disposable income, which has in turn been boosted by the improvement in labour market conditions. The purchasing power of households increased significantly in the second quarter (up 1.4 per cent on the previous three months), although only part of this went towards more spending, with most of the gain being channelled into savings. The latter rose by almost one percentage point as a proportion of income (to 9.5 per cent) between the second and third quarter. The year-on-year increase in households' propensity to save reflects both precautionary behaviour in a context of persistent uncertainty and a need to replenish savings eroded during the crisis years (Figure 8).

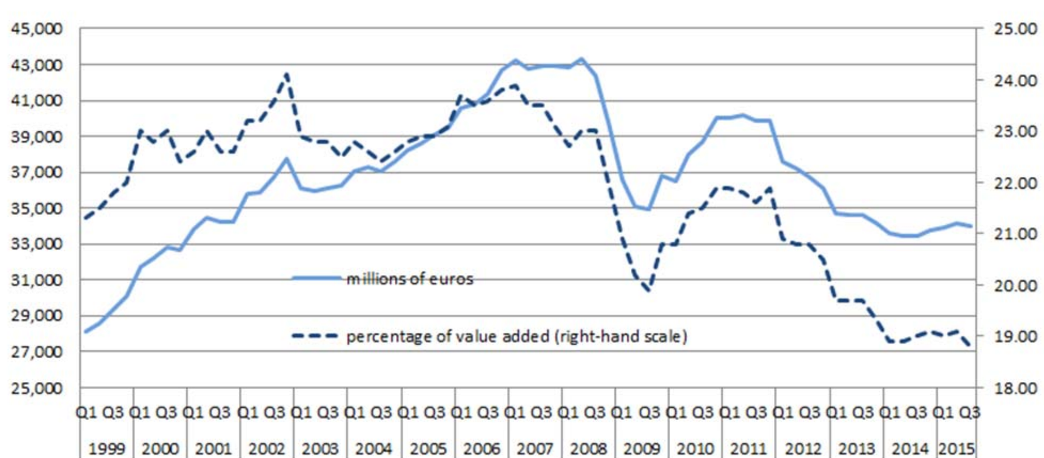
Considerable variability continued to mark investment in plant and machinery, which contracted again in the third quarter (-0.6 per cent) after having gradually risen since start of 2014. Investment in transport equipment (+0.4 per cent) only partly recouped the decline in the previous three months, expanding at a substantially slower pace than in the first half of 2015, when temporary factors (the EXPO event in Milan) also played a role. In July-September investment in construction stabilized in both residential and non-residential building. The slow recovery of capital formation is confirmed by the expenditure in gross fixed capital formation by non-financial corporations, which in the third quarter was just 1.8 per cent higher than the low registered in the second quarter of 2014 and is still below this level in terms of sector value added (Figure 9).

Figure 8 – Propensity to save and households' assessment of their financial situation
(shares and percentage balances)



Source: based on Istat data.

Figure 9 — Gross fixed capital formation of non-financial corporations
(millions of euros and percentages)



Source: Istat.

At the international level, the slowdown in the emerging economies impacted exports in the third quarter (-0.8 per cent). Sales decreased in China, Latin America and Russia, while there was a moderate increase in exports to the euro area and, above all, the United States. Motor vehicles continued to be the most dynamic component of exports.

Imports also have weakened, decelerating (with growth of 0.5 per cent) compared with the pace registered in the first half of 2015.

At the sectoral level, the recovery was driven by industry in July-September (+0.4 per cent), accompanied by a small expansion in services (+0.1 per cent) and a slight contraction in construction (-0.1 per cent), which appears to be gradually stabilizing after the prolonged decline in recent years.

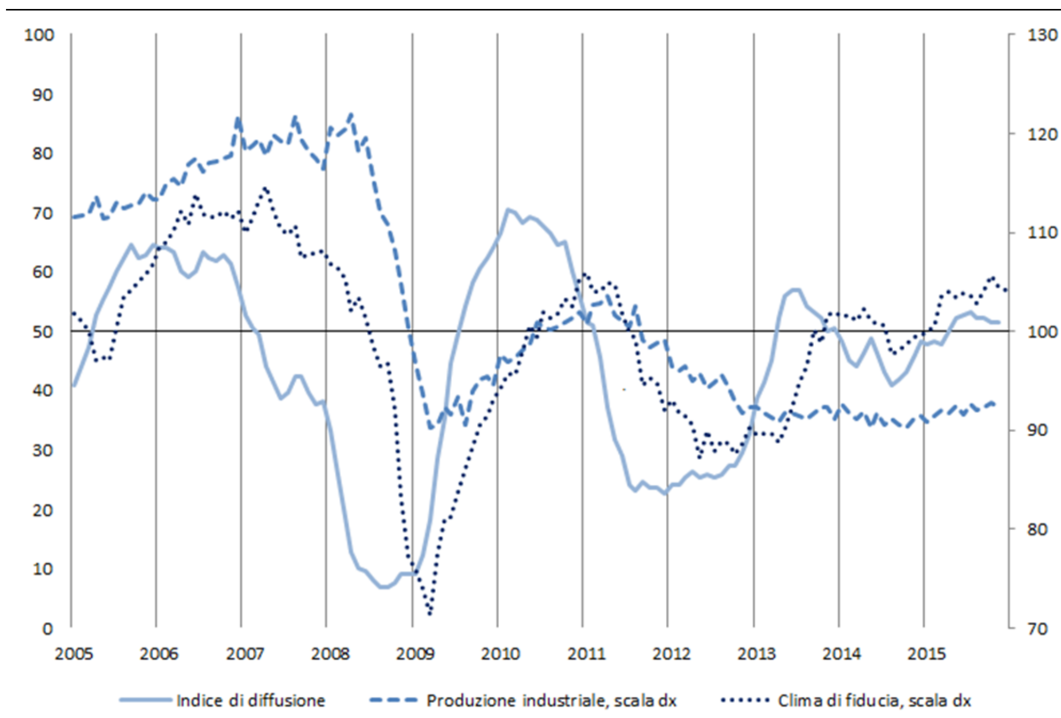
Recent developments: a moderate and narrow recovery in industry

Data for the fourth quarter of 2015 signal a slowdown in the modest recovery in manufacturing. In November, industrial activity fell 0.5 per cent, involving all segments (with a contraction of 1.3 per cent in consumer goods, 0.8 per cent in capital goods, 0.7 per cent in energy and 0.4 per cent in intermediate goods). The transport sector continued to expand. The deceleration in industry reflected the slowdown in international economic activity. The good performance of exports in November (+3.5 per cent on October), driven by the rebound in world trade, appears to mitigate, but not eliminate, the deceleration of foreign sales in the final quarter of 2015.

The recovery in manufacturing remains concentrated in just a few sectors. A diffusion index[3] of the recovery (Figure 10) remains well off the values that typically characterize a cyclical expansion. For example, after the collapse of 2009, which had involved more than 90 per cent of industrial sectors, the index soared to 70. In the current recovery, however, it is only slightly above the threshold value of 50 that separates expansion from recession. The movement in the diffusion index also appears to correlate with fluctuations in the confidence indicator. This may suggest that the disconnection in the last period between developments in industrial production (a slight recovery) and in market sentiment (rising more substantially) primarily reflects the increase in the spread of the recovery, but from the extremely low values (close to 20 per cent) to which the share of firms that could be considered in a growth phase had fallen. The improvement in confidence under way since the end of 2013, albeit with ups and downs, would therefore indicate that the number of manufacturing segments in recession has declined, but the extent and intensity of the industrial recovery remain very limited.

[3] The diffusion index is calculated by taking the share of manufacturing sectors (186 ATECO 4-digit sectors, excluding energy) in expansion, i.e. with a positive trend growth rate (obtained with a Kalman filter in an unobserved component model with trend, slope and seasonal components). Thus, a value of 50 indicates that 50 per cent of the sub-sectors are expanding. By construction, all the sub-sectors in the diffusion index have an equal weighting (1/186).

Figure 10 – Diffusion of the recovery in the manufacturing sector
(2010 = 100; seasonally adjusted)



Source: Istat and analysis based on Istat data.

Signs of improvement in construction and services

As for non-manufacturing sectors, signals from construction have been less unfavourable in recent months. Business confidence, albeit with marked fluctuations, has remained on an upward trend, while the prolonged downturn in the index of production has been interrupted, with a significant increase in November (+2.5 per cent) that could produce an overall gain for the last quarter of 2015. The real estate sector has been displaying relatively favourable signs, with sales appearing to be in recovery and house prices rising in the third quarter for the first time in four years (+0.2 per cent; +1.4 per cent for new homes). The improvement in credit conditions and the purchasing power of households should sustain the gradual recovery of the sector.

Services are also showing signs of recovery, despite persistent differences among the various sectors. Business confidence continued to improve in the fourth quarter in both market and retail services. However, signs of weakness have appeared in retail sales (which contracted by 0.2 and 0.6 per cent in volume terms in September and October respectively). According to the Confcommercio consumption indicator, November appears to have posted a rise after the adverse developments in the previous three months.

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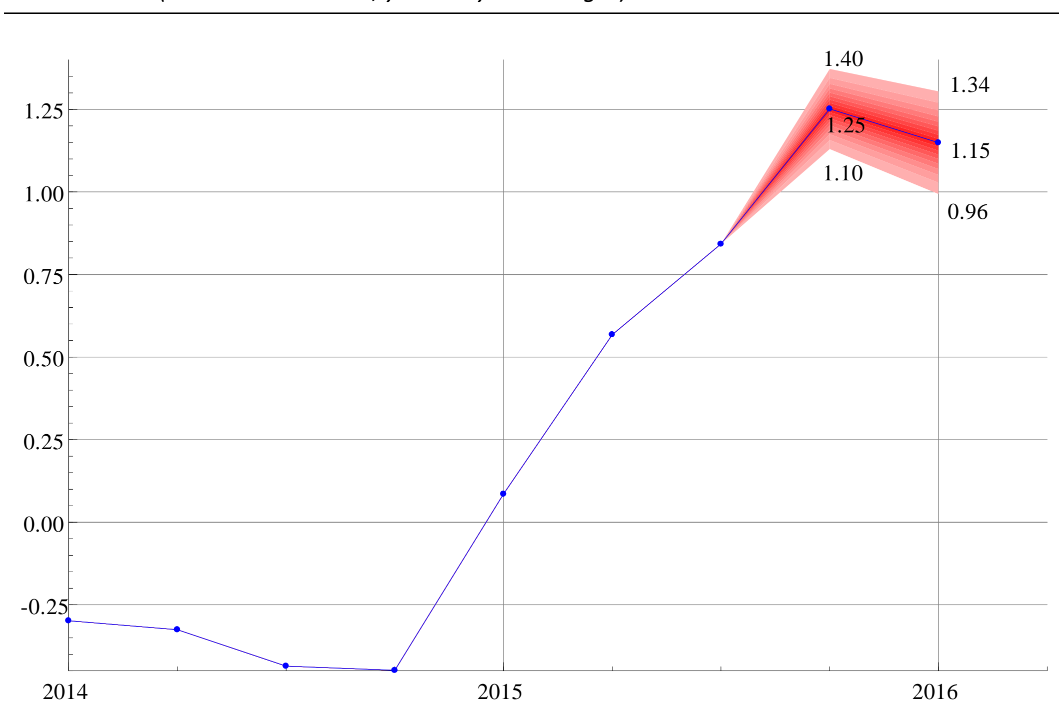
Gradual recovery in GDP continues in late 2015 and early 2016

Overall, these trends seem to indicate that the recovery in Italy is continuing at a slightly slower quarterly pace than in the first half of 2015, with the sectoral composition shifting towards services and construction. The short-term forecasting models used by the PBO[4] indicate GDP growth of 0.3 per cent in both the fourth quarter of 2015 and the first quarter of 2016. The increase over the corresponding period of the previous year would be 1.25 and 1.15 per cent, respectively, in the two quarters (Figure 11).

The estimated growth in the last quarter of 2015 produce growth for the year as a whole, adjusted for the number of business days, of 0.7 per cent. On an unadjusted basis (there were three more days than in 2014), the expansion of economic activity could reach 0.8 per cent (0.9 per cent in the Update/DBP estimates). Taking account of the estimate for the first quarter of this year, annualised growth in 2016 over 2015 (i.e. the growth that would be achieved if GDP growth remained at the level of January-March) would be 0.7 per cent. If this were the case, in order to achieve growth of 1.6 per cent for the year, as assumed by the Government, GDP would have to increase by an average of 0.5/0.6 per cent as from the second quarter.

Figure 11- GDP, forecasts and standard error
(chain-linked values; year-on-year changes)



Source: based on Istat data and PBO estimates.

[4] The method used for forecasting GDP and its components is based on mixed frequency models and MIDAS models (see Frale, C., M. Marcellino, G. Mazzi, and T. Proietti (2011): "EUROMIND: A monthly indicator of the Euro Area economic conditions", Journal of the Royal Statistical Society, Series A, 174, 439-470 and Frale, C., Monteforte, L. (2011), FaMIDAS: a mixed frequency factor model with MIDAS structure, Bank of Italy Working Papers, no. 788).

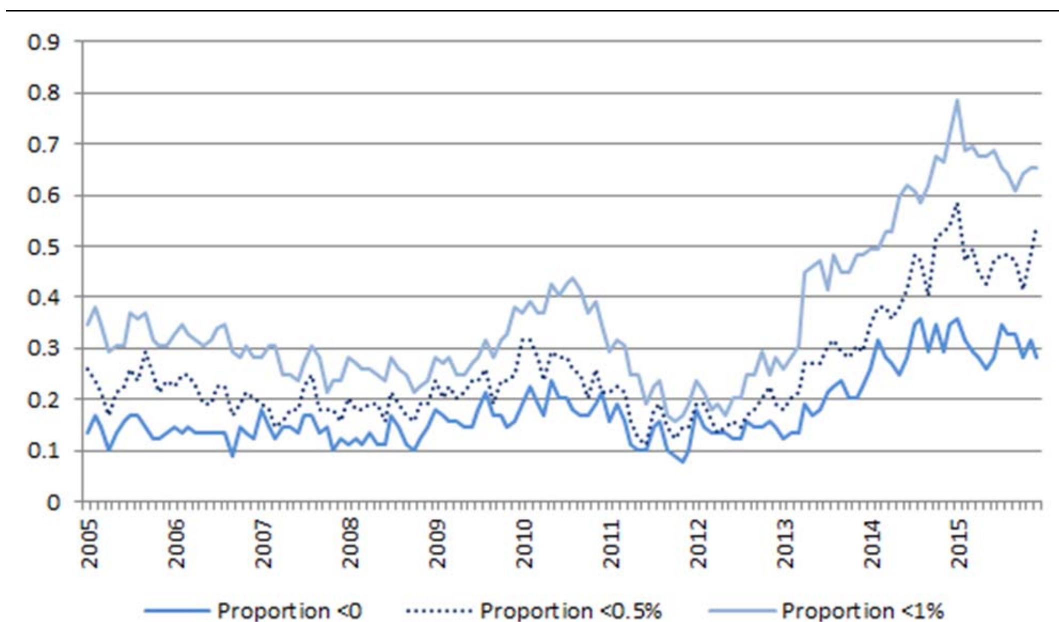
Zero inflation

In the final months of 2015, consumer price inflation remained exceptionally weak. The main factor was the fall in oil prices. In addition, pressures on the demand side also remained very modest. In December 2015, the annual rise in the harmonized index of consumer prices (HICP) showed a further slight deceleration (+0.1 per cent). The annual average increase in 2015 was 0.1 per cent (0.2 per cent in 2014).

In the fourth quarter, developments in consumer prices (+0.2 per cent) were affected by the progressive decline in the energy component (-6.7 per cent). Conversely, food prices continued to rise (+1.7 per cent), driven by the unprocessed component. A composite indicator of these trends, core inflation (excluding energy and unprocessed food products), decelerated for the second consecutive quarter (+0.6 per cent).

Overall, upward pressures on consumer prices appear weak and limited to a relatively small share of goods and services. In the basket of elementary items of the HICP, the share of those whose prices contracted fell in the final quarter of 2015 (29 per cent, compared with about 33 per cent in the previous three months). By contrast, the share of goods and services experiencing very low inflation (less than 0.5 per cent) increased, comprising more than half of total items. The share of items whose prices rose by less than 1 per cent was unchanged at nearly two-thirds of the total (Figure 12).

Figure 12- Proportion of goods and services experiencing deflation or low inflation *(as a percentage of total elementary items of the HICP)*

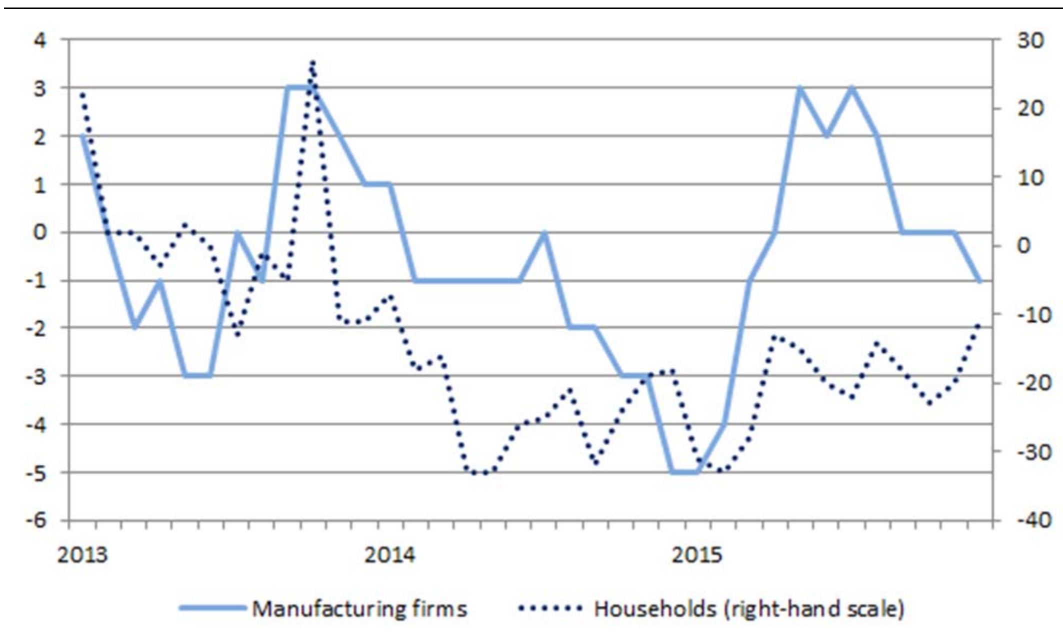


Source: Based on Istat data.

Developments in price components in the upstream stages of inflation continued to appear generally weak. This main involved the prices of industrial products sold on the domestic market (-4.7 per cent in November), reflecting a sharp decline in the energy component (-10.7 per cent), partially offset by a modest increase in the prices of consumer durables and intermediate goods. By contrast, the decrease in the prices of imported industrial products (-4.7 per cent in November) was entirely attributable to declines in the prices of energy and intermediate goods.

Looking ahead to the next few months, price inflation is expected to remain very low. An improvement in domestic demand would exert only a weak impulse in the face of downward pressures from energy prices. Firms' inflation expectations, as drawn from Istat surveys, signal a weakening in sales prices for the coming months, particularly in the manufacturing and services industries. By contrast, operators expect a slight rise in prices in construction. According to survey data, consumer inflation expectations are essentially stable (Figure 13).

Figure 13- Price expectations of manufacturing firms and households
(seasonally adjusted percentage balances)



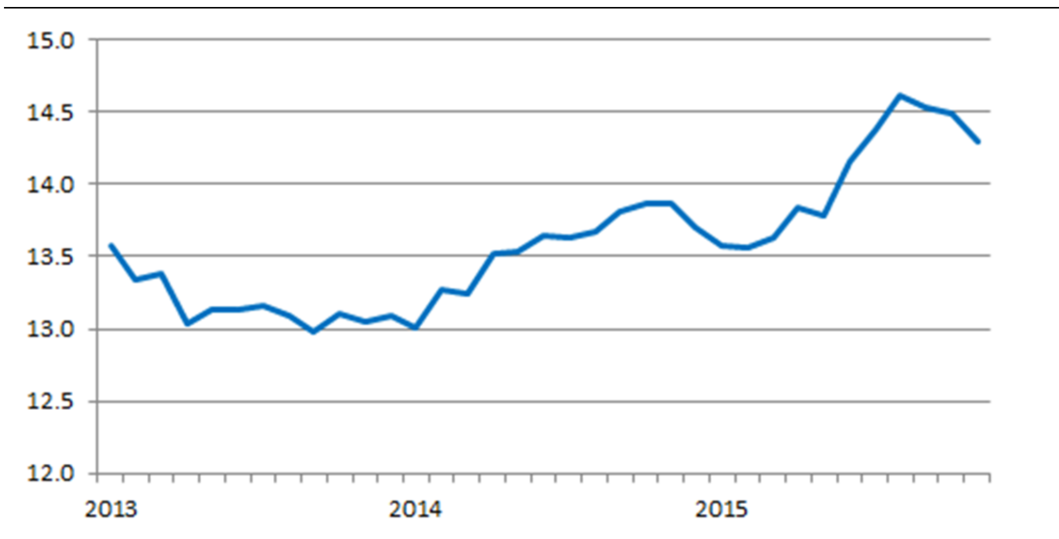
Source: based on Istat data.

The improvement in the labour market slows; more employees on permanent contracts

In the second half of 2015, the improvement in the labour market decelerated. According to the Labour Force Survey, overall net employment increased by 0.2 per cent in the third quarter, slowing from 0.5 per cent in previous quarter. Employment then contracted in the autumn (-0.2 per cent on average in the period from October to November compared with the previous three months), owing to the stagnation of payroll employment and a reduction in self-employment (-0.7 per cent). The standstill in payroll employment was the net result of a rise in permanent employment (+0.2 per cent, following a decline in the previous three months), which offset the contraction in the fixed-term component (-0.8 per cent, after significant increases in the second and third quarters of 2015). Overall, in the first eleven months of 2015, the rise in payroll employment (+1.1 per cent) was driven both by the increase in permanent jobs (+0.5) and a substantial rise in fixed-term positions (+5 per cent, Figure 14).

The rate of increase in persons in employment (+0.8 per cent) is in line with the pace of growth in the real economy. A breakdown by age group continues to show employment growth concentrated among the older age groups (50 years and over, as a result of raising the retirement age). Initial signs of improvement in the youth segment were observed from the third quarter (+3.2 per cent in the 15-24 age group), with the gains continuing in the autumn months (+0.2 per cent in October – November compared with the previous three months).

Figure 14 – Fixed-term employment as a proportion of total payroll employment *(percentages)*

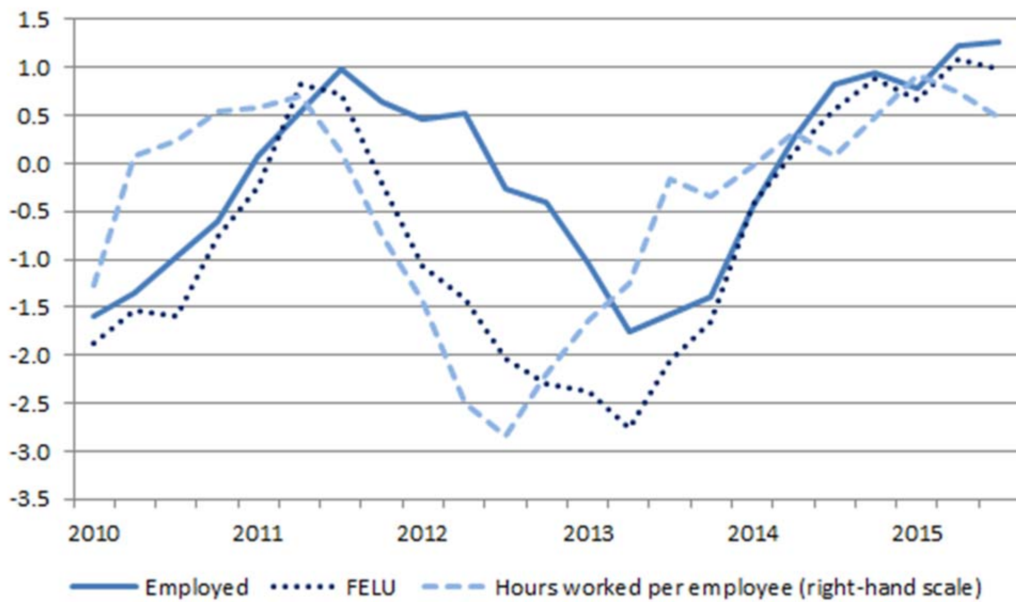


Source: based on Istat data.

The favourable developments in payroll employment have benefited from the recovery. The effects attributable to contribution relief for permanent contracts (effective from January 2015) and the amendment of the rules governing individual dismissals (the Jobs Act) presumably also had an influence. Support for this explanation, albeit partial, can be drawn from data from the Observatory on Insecure Employment established by INPS, which provides monthly data on changes in private-sector payroll employment (hiring, terminations, changes in status) excluding domestic and farm workers. In the period from January to November 2015, the number of fixed-term employment relationships transformed into permanent contracts exceeded 469,000 (+25.7 per cent compared with the same period a year earlier); in the same period, new permanent jobs in the private sector increased by 37 per cent. Similar indications are also provided by the data from mandatory employment reporting to the Ministry of Labour and Social Policy. Other support is offered by the figures on changes in labour market status (employment, unemployment, inactivity) recently made available by Istat. They show that since the beginning of 2015 transformations from fixed-term employment to permanent contracts have been increasing: between the third quarter of 2014 and the third quarter of 2015, 19.3 per cent of workers on fixed-term contracts were hired in permanent positions; in the corresponding period a year earlier, the share was 18.5 per cent.

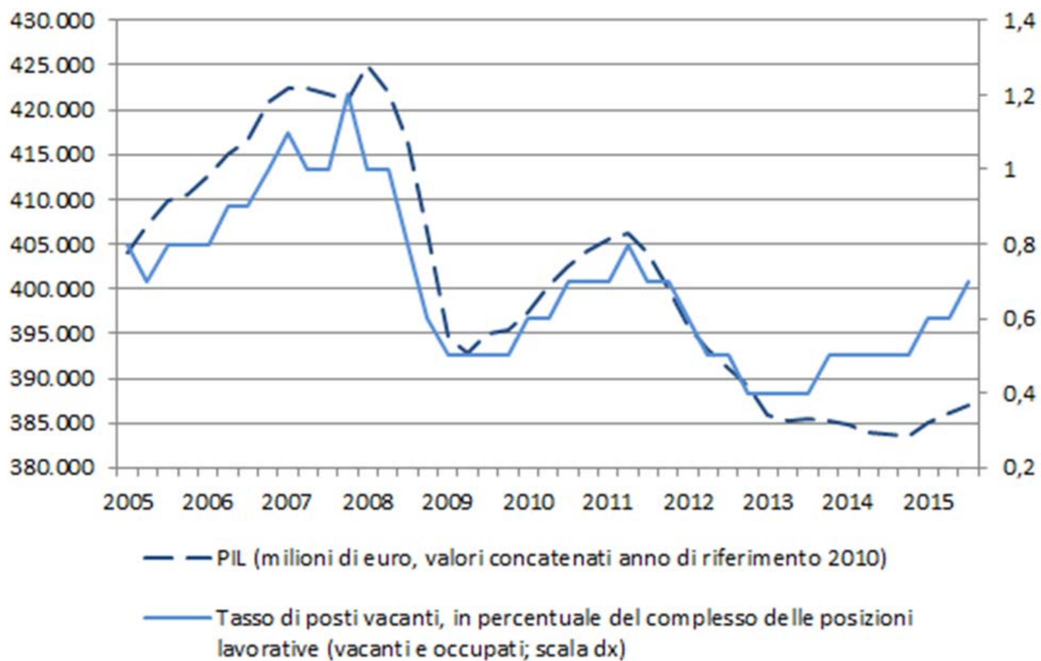
Labour demand continued to strengthen. According to national accounts data, in the third quarter of 2015, new full-time equivalent labour units rose by 0.2 per cent (a slowdown compared with the previous quarter), driven by increases in the manufacturing and services sectors. The substantial deterioration in the construction industry (-1.5 per cent) eroded the gains achieved in this sector in the first half of the year. The sharp decline in recourse to wage supplementation was reflected in an increase in hours worked (+0.3 per cent), although this was smaller than the growth in employment in terms of the number of persons employed. This resulted in a modest decline in hours worked per employee. This suggests that the introduction of tax incentives for new hiring may have made it more advantageous for firms to increase hiring than expanding overtime work (which was unchanged in the second and third quarters) (Figure 15). The rise in labour demand was reflected in a further increase in the vacancy rate, which in the third quarter returned to its level in the fourth quarter of 2011 (Figure 16).

Figure 15 – Payroll employment, standards labour units and hours worked per employee
(year-on-year percentage changes)



Source: based on Istat data.

Figure 16 – GDP and job vacancies
(millions of euros, chain-linked values, reference year 2010 and percentages)



Source: Istat.

The number of job-seekers decreased significantly in the third quarter of 2015 (-5.2 per cent on the previous period), returning to the levels of late 2012. Flow data indicates that the rate of long-term unemployment (out of work for at least one year) declined, while at the same time increases were seen in both the likelihood of finding employment (21.8 per cent between the third quarter of 2014 and the third quarter of 2015) and, albeit to a lesser extent, of exiting the labour force. Alongside the increase in the number of people employed, the third quarter was also characterized by an increase in inactive individuals (+0.7 per cent compared with the previous quarter): the outcome was a further contraction in the labour force (-0.5 per cent, following the decline recorded in the first quarter). Reflecting these developments, the unemployment rate fell to 11.7 per cent (down 1.2 percentage points compared with the peak reached a year earlier) and, in the autumn (October-November), declined to 11.4 per cent as a result of an additional fall in the number of unemployed (-2.6 per cent in October-November compared with the previous quarter) and no change in the labour supply. The reduction in the unemployment rate also involved the 15-24 age group (where it fell by 0.8 percentage points in October-November to 38.7 per cent). While declining, the rate of long-term unemployment remained high (57.1 per cent of total unemployed in the third quarter of 2015).