

Italian forecasts add to Wall St gloom

By Guy Dinmore in Rome, Daniel Pimlott and Michael Mackenzie in New York and Krishna Guha in Washington

The Bank of Italy slashed its 2008 GDP growth forecast for the country yesterday, citing a worsening global outlook dominated by the US subprime crisis and rising raw material costs.

In cutting its growth projection from 1.7 per cent to 1 per cent, the central bank's latest quarterly bulletin also warned of the danger of a more serious slowdown in Italy and other developed economies.

Italy began to feel the full impact of the global slowdown in the fourth quarter of 2007, the bank said, warning of a "concrete risk credit conditions for firms and families may undergo a significant tightening".

The growing fear of a US-led slowdown sent shares tumbling on both sides of the Atlantic yesterday after new data showed American consumers were starting to pull back on spending.

Seasonally adjusted retail sales fell by 0.4 per cent in December, according to the commerce department. Excluding volatile purchases of automobiles and parts, sales were also down by 0.4 per cent, more than the market had expected.

October and November sales were also both revised down, though the November figure remained very strong.

Retail sales for 2007 grew at their slowest pace for five years.

The data contributed to substantial falls in stocks. The FTSE Eurofirst 300 index fell 2.6 per cent to its lowest level since October 2006. London's FTSE 100 index fell 190.1, or 3.1 per cent, to 6,025.6 – its lowest since August. The index has fallen nearly 7 per cent since the start of this year.

The S&P 500 was down 2.1 per cent at 1,386.78, set for its lowest close since March. Bond prices approached four-year highs as investors briefly increased bets that the Federal Reserve could cut interest rates by as much as 75 basis points this month.