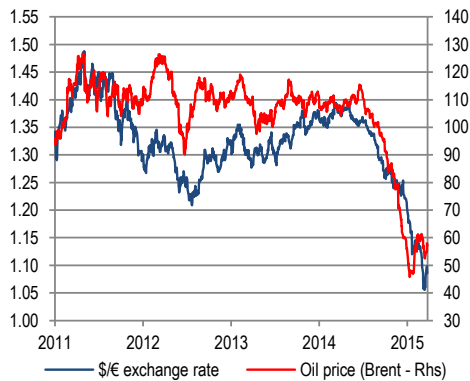


1. Oil price and exchange rate



Source: Thomson Datastream

In the first months of 2015 indicators on Italian economic improve but not uniformly. The rise in business and consumer surveys is not transmitted to production yet. Nonetheless, in January the share of expanding sectors in manufacturing was stable around 60%. The labour market does not show a clear improvement, while deflationary pressures are receding. The leading indicator continues to rise suggesting an increase in the economic activity in the first quarter.

The international environment

In the US further signals of a slowdown in economic activity emerged recently. In February, both retail sales and industrial production in manufacturing sector declined, coupled with a reduction in capacity utilization. The appreciation of the dollar dragged exports of goods and services. However, the strength of the US business cycle continued to be reflected in the performance of the labour market, while in February there was a significant increase in non-agricultural employment and a reduction in unemployment (5.5%).

In the Euro area, internal and external shocks (QE, drop in energy prices, exchange rate depreciation) are providing a stimulus to the economy and are sustaining business and consumer confidence. In March, the European Commission index showed a sharp increase of consumer sentiment, due to a more positive assessment on future unemployment and an upward revisions of the future general economic situation. These evidences, together with the positive development in the labour market (the unemployment rate fell to 11.3% in February) and the strengthening of consumers' real disposable personal income, are consistent with an acceleration in consumption. March figures also marked a clear improvement in business confidence, reflecting a more optimistic views on expected production and on the current orders.

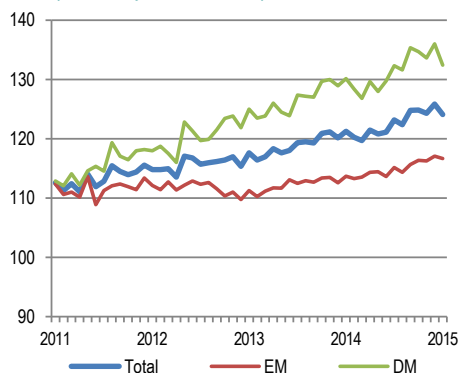
After the substantial decline in recent months, oil is now fluctuating between 55 and 60 dollars a barrel (Figure 1). In March, Brent's average price slightly fell (about 3%) compared to February. The recent recovery from the late January trough is, in part, due to an increase in demand from European refineries.

Euro depreciation against the dollar halted at the end of March; however, compared to the previous month, it was 4.5% weaker.

In January, world trade volume decreased (-1.4% m-o-m), reversing the increase in December (Figure 2), due to the fall in import volumes (-2.4% m-o-m) and to a softer decrease in exports (-0.5%).

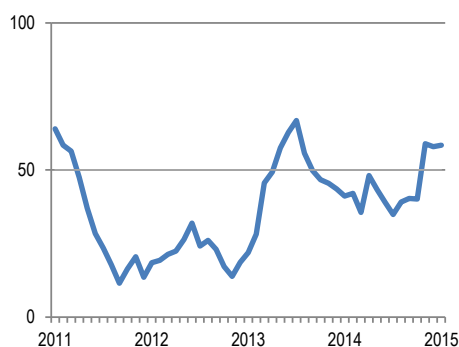
2. International trade - volume

(January 2010=100)



Source: CPB

3. Diffusion index (%)



Source: Istat

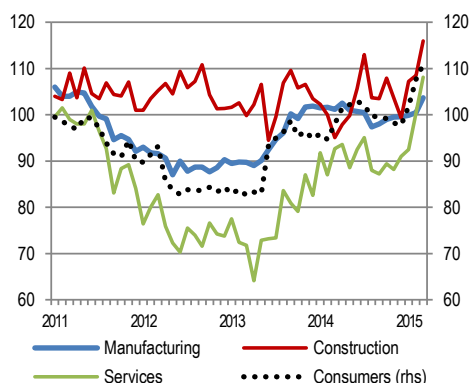
The economic situation in Italy

Production in different sectors

At the beginning of 2015, the recovery of productive activity remains uncertain, curbed by the manufacturing sector while services sector improves, and construction sector evolves at a more erratic pace. In Q4, according to Quarterly National Accounts (QNA), the change in total value added was negative for the third quarter in a row (-0.1% q-o-q), as a result of a favorable contribution from the services, flat construction activity and a negative contribution from industry, despite the recovery showed by the latter in November and December on a monthly base.

In January 2015 the unexpected drop in industrial production was mainly driven by the contraction of capital goods (-1.8%). According to the index of industrial turnover, this fall proved moderate in the domestic market (-0.9%) and steeper in the foreign destination markets (-3.1%).

4. Confidence indicators



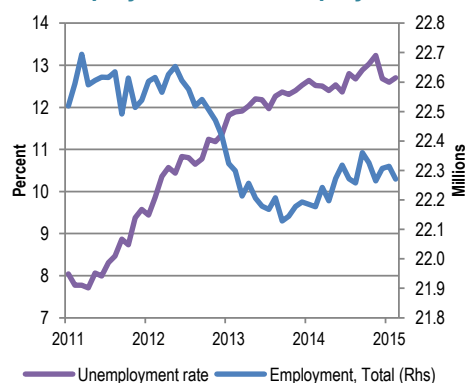
Source: Istat

This reduction is however expected to be temporary as exports towards extra Eu markets significantly rebounded in February (4.5%). Overall, the loss in volume did not mitigate the spread of the cyclical recovery: in January the share of the expanding sectors remained steady and close to the 60% threshold (Figure 3). Furthermore, short term prospects, provided by business surveys, point to a recovery in growth rates, especially for the intermediate and investment goods.

In January, the index of production in the construction sector recorded a positive growth for the second month in a row (1.0% m-o-m), but the three month average remained negative (-1.6%), affected by the strong drop in November last year. Recent soft indicators point to a significant increase in confidence, especially linked to the housing sector.

In Q4, the service sector sustained the evolution of the Italian economy (+0.1 percentage point its contribution to the growth rate of total value added), due to the positive pattern of both real estate and professional services. The trade and the transport activities did not provide any support, while it turned to be negative for the communication and financial services. In the short-term, a recovery is expected in both market services and retail trade.

5. Employment and unemployment



Source: Istat

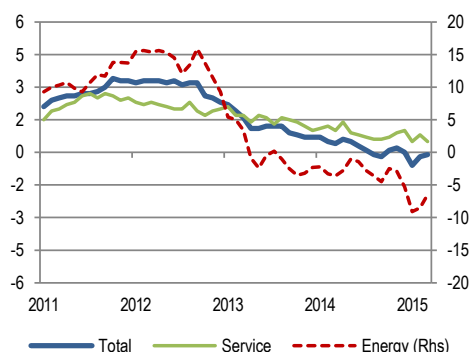
Households and Labour market

Recent data confirmed the ongoing improvement in household conditions. In January the 3-months moving average of retail sales, deflated by the CPI, increased by 0.2% with respect to the previous months. Consumer confidence increased for the third month in a row in March (Figure 4) as a consequence of the increase in the economic and personal climates as well as the current and expected perspectives.

The labor market is still showing mixed signals. According to the Labour Force Survey, employment declined by 0.2% (m-o-m) in February, following the January doldrums and the ups and downs of end-2014 (Figure 5). The unemployment rate rose slightly (by 0.1 percentage point compared to January). However in Q4, the rise in the number of hours worked (0.2% on average, according to the QNA) was relevant in the industrial sector (0.8%). This followed a decrease in the use of the Wage Guarantee Fund (Cassa Integrazione Guadagni), especially significant in the manufacturing sectors (10.9 hours less than in the same quarter of 2013). In the same period, people looking for a job, inactive persons, potential labor force and discouraged workers all rose contemporaneously.

6. Prices

(y-o-y percentage change)



Source: Istat

Prices

In March the inflation rate was negative for the third consecutive month. According to the flash estimate, annual rate of change in consumer prices (NIC) stood at -0,1%, as in February (Figure 6). Deflationary pressures coming from volatile components eased: as for the energy component, the subdued increase of oil costs from February to March, due to the recent depreciation of the euro, led to the second m-o-m increase. For unprocessed food, prices confirmed the turnaround, staying into positive territory (+2.3%). Core inflation, conversely, decelerated to 0.4%, due to a slowdown in services and almost zero inflation in non-energy industrial goods.

The Outlook

In March 2015, business confidence registered a marked improvement as summarized by the increase in the IESI composite index. The most significant upturns were in the construction sector and in the market services. Milder increases were recorded in the manufacturing and in retail sectors. Moreover, in January the composite leading indicator of the Italian economy remained positive for the third consecutive month, supporting the expectations of a rebound in economic activity in the first quarter of the current year.