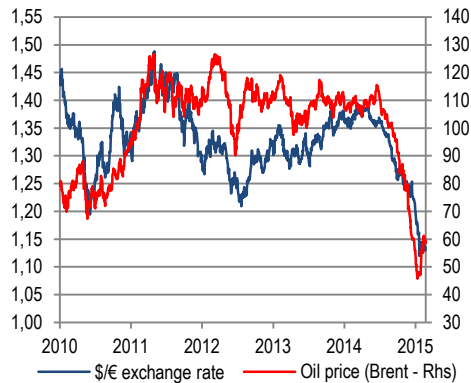


## 1. Oil price and exchange rate



Source: Thomson Datastream

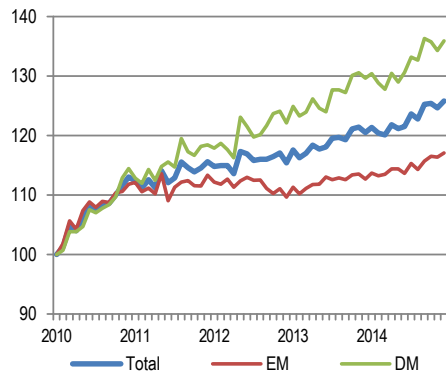
Italian economy is weakly improving. The increase of business and consumer confidence in February is paired with the rise of industrial production in December and turnover in the service sector in the final quarter of 2014. Nevertheless, labour market conditions are still tight and deflation is ongoing. In February, Istat leading indicator marked the second consecutive increase. For Q1 2015 GDP is expected to expand moderately.

## The international environment

In the US, after the GDP slowdown in Q4, main indicators have moved in the same direction: in January, the industrial production was slightly positive while retail sales decreased. The slowdown in the business cycle seems to be reflected also in the consumer expectations. Nonetheless, the outlook for the US economy remains positive: the labour market continues to create jobs and real household incomes are benefitting from a moderation in prices as a consequence of the appreciation of the dollar (Figure 1) and the decline in energy prices.

## 2. International trade - volume

(January 2009=100)



Source: CPB

In the Eurozone, GDP accelerated slightly in Q4 (+0.3% q-o-q, after +0.2% in Q3). The increase of the economic sentiment in the first two months of 2015 suggests a further cyclical improvement for the months ahead. In February, the Economic Sentiment Indicator marked a sharp rise.

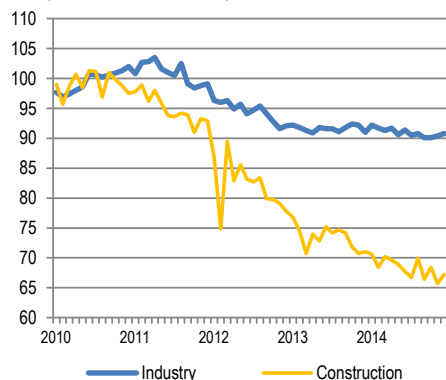
Eurozone performance is benefitting from the strength of the economic recovery in Germany. GDP peaked in Q4 2014 (+0.7% q-o-q), mainly supported by domestic demand. Business confidence is also increasing as reported by the IFO.

After the collapse of the last months, in February Brent price has reversed its trend (Figure 1), rising up to almost \$60 a barrel (on average by more than 18% from January). This upswing was fuelled by the expectations about a decrease in US shale oil supply, following the cuts in investments.

World trade in volume (Figure 2) rose by 0.9 % m-o-m in December (4.4% y-o-y); and by 3.3% in 2014 as a whole. This trend was determined by a jump in import volumes while exports stagnated.

## 3. Production indices

(base 2010 =100)



Source: Istat

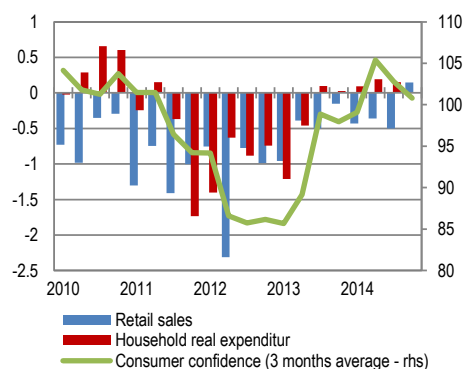
## The economic situation in Italy

### Production in different sectors

In Q4 2014, Italian GDP remained flat over the previous quarter while it decreased on a yearly basis (-0.4%). Cyclical evolution remained sluggish in 2014, due to the persistent deterioration in gross fixed capital formation, only partially offset by the support of private consumption and exports.

This outturn underlies a growing heterogeneity between the manufacturing and the construction sector (Figure 3). In manufacturing, the growth rate was positive in December, mainly due to the progress in capital and durable goods. The observed recovery in production in the final months of 2014 has been associated with an increasing number of industries reporting expansion: in December, the share exceeded 50% for the first time since August 2013. Nonetheless, based on the recent business surveys, the short-term outlook of the sector remains cautious. In 2014, industrial production declined for the third consecutive year (-0.8% net of calendar days effect), although at a slower pace than previous years.

#### 4. Retail sales, expenditure and consumer



Source: Istat

This result is mainly related to the persisting difficulties in the domestic market, since the value of industrial sales decreased by 1.2% last year.

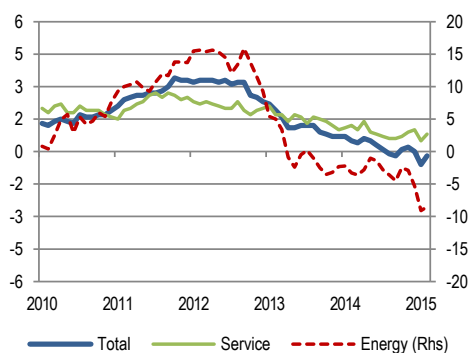
By contrast, sales in foreign markets marked an acceleration (+2.9%), despite being lower than the potential demand for Italian products.

In the construction sector, business cycle remained substantially subdued. In Q4 2014, the production index showed a high variability, when the rise in December (+2.3% q/q) followed the sharp drop in November (-3.9%). However, in 2014 as a whole, the reduction was still pronounced (-6.9% net of calendar effects). Surveys reported a stability in February.

In Q4 2014, turnover index in the services sector improved (+0.8% y-o-y) after the two consecutive falls observed in Q2 and Q3. This result was supported by the positive outturn in wholesale, transport and storage, accommodation and rental activities sectors. A partial recovery affected the professional, scientific and technical services. Information and communication still showed a negative growth rate (-1.9% y-o-y). In 2014 as a whole, the level of sales remained unchanged. For the beginning of the current year, indications coming from the business surveys describe a further improvement in the assessment of new orders and business activity.

#### 5. Prices

(y-o-y percentage change)



Source: Istat

#### Households and Labour market

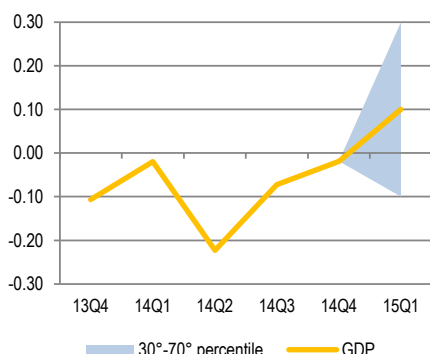
Following the modest increase in households' expenditure in Q3 2014, preliminary data for the fourth quarter showed a continuation of this trend (Figure 4). Retail sales in value decreased by 0.1% but, taking into account the negative inflation rate (-0.2%), they slightly improved in real terms. Consumer confidence increased both in January and February this year, mainly supported by the improvement in evaluations on economic situation.

Labour market is not showing signs of a substantial improvement: preliminary estimates on the vacancy ratio were confirmed at 0.5% in Q4, the same value since the last quarter of 2013, thus reflecting a persisting stagnant labor demand.

In February, entrepreneurs' employment expectations were mixed among sectors: improving in manufacturing, stable in services, deteriorating in construction.

#### 6. Actual GDP and forecast

(y-o-y percentage change)



Source: Istat

#### Prices

The direct and indirect effects of the sharp fall in oil prices on consumer prices became more evident at the beginning of the current year. In February, the annual inflation declined to -0.2% (Figure 5). Energy price inflation decreased by -8.5% reflecting both the fall in non-regulated component and the reductions in electricity and gas prices. On the other hand, the indirect effects, in terms of lower production costs, were transmitted to the other sectors reducing the core inflation (+0.5% in February). Since last fall, non-energy industrial goods inflation hover around zero.

#### The outlook

Business confidence increased further in February, with a significant rise in the market services and a moderate evolution in manufacturing. The leading indicator of the Italian economy recorded in December the second positive variation in a row. According to the Istat short-term forecasting model, economic growth is projected to improve moderately in Q1 2015: GDP is expected to increase by +0.1% (q-o-q) (Figure 6).