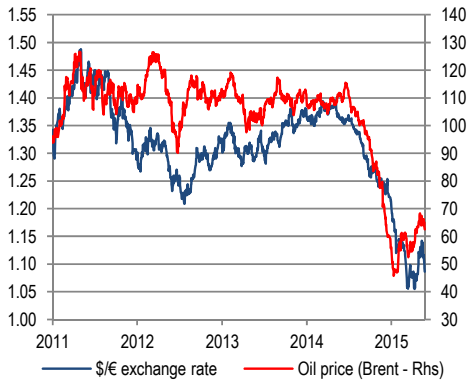
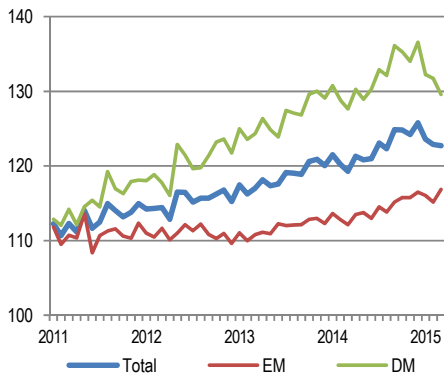


1. Oil price and exchange rate



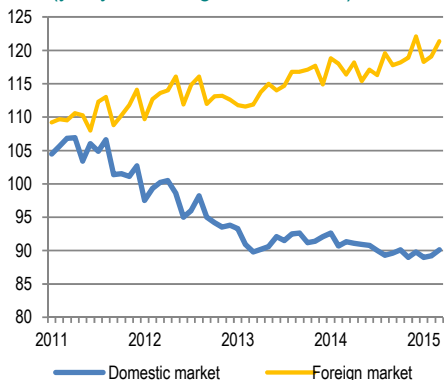
Source: Thomson Datastream

2. International trade - volume (2010=100)



Source: CPB

3. Turnover in industry (y-o-y % change, 2010=100)



Source: Istat

In Q1 GDP expansion was mainly driven by the positive performances of manufacturing and construction sectors. Consumption was lower than expected while investment markedly increased driven by transport equipment. Consumer price index turned positive. In accordance with the leading indicator, expansion is expected to continue in the second quarter.

The international environment

The second release of US GDP widened the previous indications of a sharp economic slowdown in Q1 (-0.2% q-o-q). This trend is due to temporary factors (weather, port disruption in the west coast) and to cyclical conditions, like the dollar appreciation, that could affect economic activity even in Q2.

Nonetheless, the underlying trend remains positive. In April, Conference Board's leading indicator marked a sharp increase, driven by building permits. In May, the rise in consumer confidence was sustained by strengthening market expectations on employment. The labour market continued to improve, with a rebound in employment and a slight decrease in unemployment (5.4%).

In Q1, euro area GDP showed an acceleration (+0.4%). However, in recent months business cycle seems to have lost momentum. After the increase in April, the ESI confidence indicator showed a stasis in May due to the worsening of consumer confidence and a marginal improvement in business sentiment. Industrial production and retail sales decreased in March while the construction sector recorded a rise (+0.8%).

The euro exchange rate against the dollar appreciated in May (+3.5%) (Figure 1) while Brent prices continued to increase, reaching \$65.2 per barrel (+9% compared to April). The slowdown in emerging economies, and in China in particular, could explain the disappointing performance of world trade. According to figures from the Central Plan Bureau, world trade volume decreased in Q1 (-1.5% q-o-q), the highest drop since Q3 2009 (Figure 2).

The economic situation in Italy

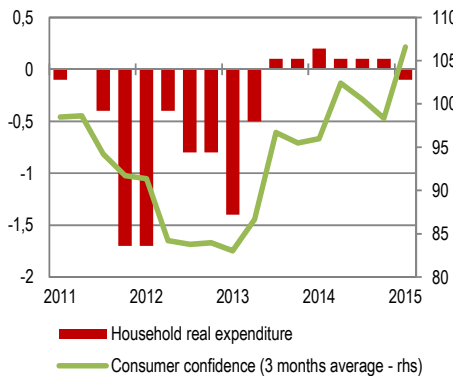
The firms

In early 2015, signals of recovery in economic activity gradually strengthened, as GDP significantly accelerated in Q1 (+0.3% q-o-q). The rise was driven by increases in both manufacturing and construction value added (respectively, +0.6% and +0.5%) while it stagnated in services.

In March, the pace of activity in industry (excluding construction) increased for the second month in a row (+0.4% m-o-m), supported by the production of consumer (+1.4%) and intermediate goods (+0.3%). In spite of the setback, capital goods are set to improve significantly in the near future. In Q1, the overall index increased by 0.3% (+0.7% excluding energy), after the rise in Q4 2014. In March, the industrial sales in value increased by 1.3% (compared to February), driven by improvements in both domestic and foreign markets (Figure 3). In May, according to business surveys, firms' assessments on current production level and the prospects on the order-books stabilized.

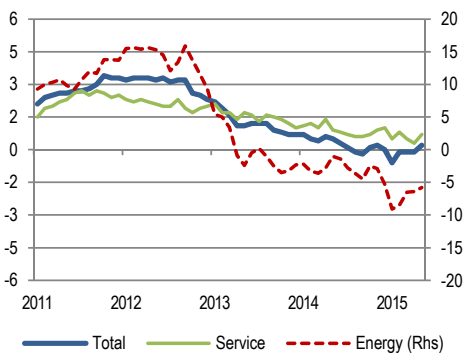
Construction value added increased in Q1 (+0.5% q-o-q) after reductions in five quarters in a row. In May, the confidence climate deteriorated, following the drop of employment expectations in the field of specialized construction.

4. Consumption and confidence (q-o-q % change and level)



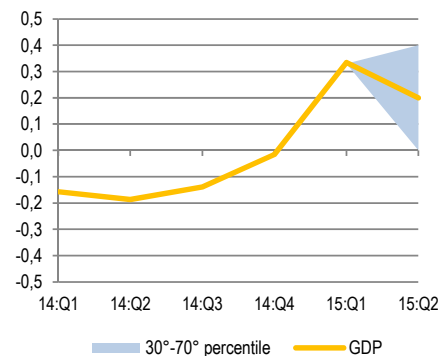
Source: Istat

5. Prices (y-o-y % change)



Source: Istat

6. GDP forecast for Q2 2015 (q-o-q % change)



Source: Istat

Value added stabilized in the services sector. Significant improvements concerned the financial and insurance activities (+1.1%) while a fall was observed for information and communication (-1.1%). In May, short-term surveys signal a stabilization of activity in the market services and a moderate improvement in retail trade.

Households

In the first quarter of 2015 consumption dynamics disappointed the expectations of an expansion, considering the consumer confidence peak registered in the first three months of the year (Figure 4). In the first three months this year, consumption expenditure contracted by 0.1%, mainly because of a contraction in non-durables.

For the second month in a row, in May consumer confidence decreased to 105.7 (from 108 in April) reflecting a decrease in all the underlying components.

The labour market

In the first months of 2015 labour market remained on a negative intonation. The vacancy rate marginally improved (+0.1 percentage points compared to Q4 2014) as a consequence of stability in industry and services and increase in construction. In May households' unemployment expectations increased, while businesses' 3-month ahead employment expectations rose only in the manufacturing sector.

Prices

For the first time since the end of last year, and after four months of negative changes, the consumer price index (NIC) showed a positive growth trend in May (Figure 5). According to the flash estimate, inflation set at 0.2%, 0.3 percentage points more than last April's outturn. The turnaround is primarily due to the changed international developments and higher costs for energy. The rise in fuel prices eased the disinflationary contribution of energy (-5.8% the annual rate) while food inflation remained stable at 1%. The main components of underlying inflation indicate mixed developments. Service prices increased to 0.7% while non-energy industrial goods remained stable at 0.3%, still conditioned by poor pipeline pressure. The annual rate of change in producer prices for consumer goods was near zero in April.

The outlook for price developments over the short term remains moderate, but it is expected to have bottomed out in previous months.

The outlook

Based on the development of short-term indicators, the cyclical recovery of the Italian economy is projected to continue in the coming months. In Q1, the overall turnover index recovered slightly (+0.1% y-o-y, not seasonally adjusted) for the first time in a year, supported by the favorable evolution of services (+0.5% y-o-y, including retail sales), while manufacturing contributed adversely (-0.5%). Overall, the composite business confidence climate index (IESI) was stationary in May.

Economic growth is therefore expected to continue in the coming months. The composite leading indicator rebounded in April, after the March break. According to the Istat short-term forecasting model of Italian economy, GDP is expected to grow by 0.2% in Q2 (q-o-q), with a prediction interval between 0 and +0.4% (Figure 6). Both domestic demand (excluding inventories) and net export are expected to support growth. According to this view, the carry-over for 2015 is 0.4%.