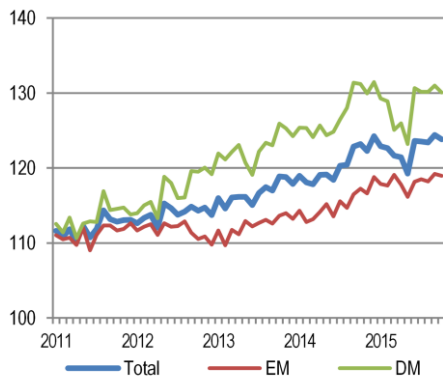


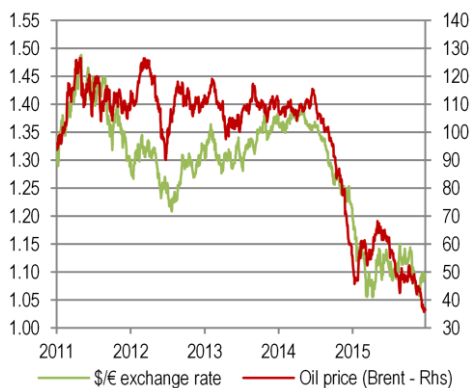
1. International trade

(volume, January 2010=100)



Source: Central Plan Bureau

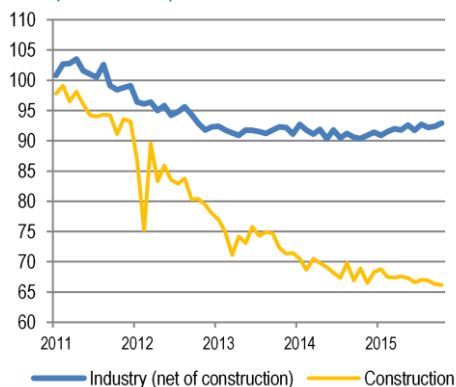
2. Oil price and exchange rate



Source: Bce, Thomson Reuters

3. Production indexes

(2010=100)



Source: Istat

The moderately positive evolution of the Italian economy is characterized by different performances across the economic sectors. Manufacturing has registered positive signals while construction has maintained a negative trend. A recent release of the leading indicator suggests a positive evolution of the economy in the following months.

The international environment

In the United States, the appreciation of the dollar and the slowdown in international demand have negatively influenced investments and foreign trade, while improvements in employment and wages have been registered, thereby explaining the consumption increase.

In November, industrial production in the manufacturing sector remained unchanged compared to the previous month. On the other hand, in December the consumer confidence indicator has risen by 3.9 points since the previous month.

In November total non farm payroll employment increased by 211 thousand compared to October, while the unemployment rate remained stable at 5%. The Conference Board leading indicator registered a further increase in November (+0.4%, after +0.6% in October).

In the Euro Area the most recent economic signals seem to confirm a moderately positive trend. In the third quarter GDP growth (+0.3% on a quarterly basis) was driven by an increase in consumption, both public and private; investments were stagnant, while imports were much more dynamic than exports.

Industrial production in October grew (+0.6% m-o-m), mainly driven by durable consumer goods (+1.9%) and capital goods (+1.4%); while in December the manufacturing PMI index recorded the strongest increase over the last 20 months. Consumption was supported by employment growth (+0.3% in the third quarter compared to the previous one), as well as very moderate inflation (+0.2% rate change in November) and a slight drop in the unemployment rate (10.7% in October, from 10.8% the previous month).

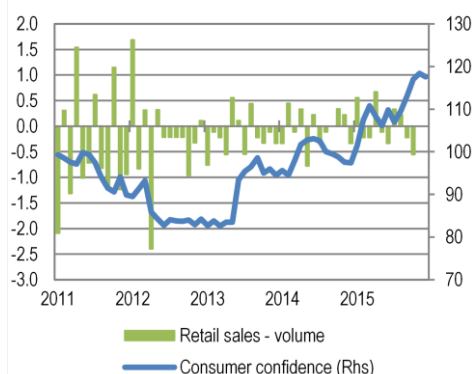
In October, CPB data showed a prolonged period of weakness in world trade volumes (-0.5% compared to the previous month, Figure 1). In December the Euro-Dollar exchange rate recorded a slight depreciation (around 1%); however, the weakening of the US dollar, albeit contained, was not accompanied by a rise in the Brent price, which reached \$ 36 per barrel (Figure 2).

The economic situation in Italy

Businesses

In October, the industrial sector further increased by 0.5% (m-o-m, Figure 3), with a particular acceleration of pharmaceuticals (6.2%) and vehicles (3.1%). Positive signals also came from the industrial turnover index (2%, m-o-m), due to non-domestic market. Over the January-October period, both indicators are positive (1.8% and 1.1%, y-o-y working days adjusted data respectively).

4. Consumer confidence and retail sales (m-o-m % change and index)



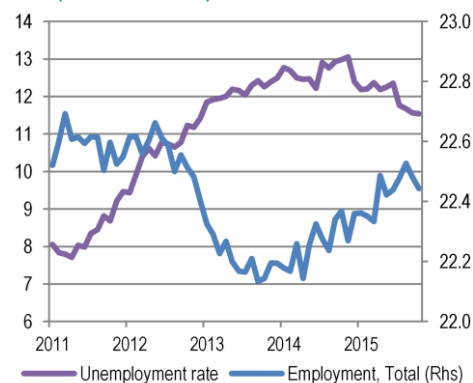
Source: Istat

Exports in non EU countries increased by 3.7% in November (-0.4% in October), as did imports by 1.1% (Figure 4). With regard to imports, in the first 10 months of the current year, the unit values index dropped significantly (-3.4% compared to the same period of the previous year) mainly due to prices of energy goods, against a rise in volume (+7%). Although the trade balance was positive (35 billion in the first 10 months of the year), these trends are expected to trigger a negative contribution to economic growth over the upcoming months.

The dynamic of industrial producer prices was still negative in November, due to deflation on domestic market and price stability on foreign markets. Economic expectations are positive; in the fourth quarter the manufacturing confidence indicator has stood on high levels. Nevertheless, economic recovery in construction has yet to come; in October the construction production index was negative for the third consecutive time (-0.2% m-o-m). On the contrary, real estate sales increased by 8.4% on a yearly basis, due to residential housing.

The market services confidence index has increased in December, in contrast with the retail trade confidence index.

5. Employment and unemployment (% and million)



Source: Istat

Households and labour market

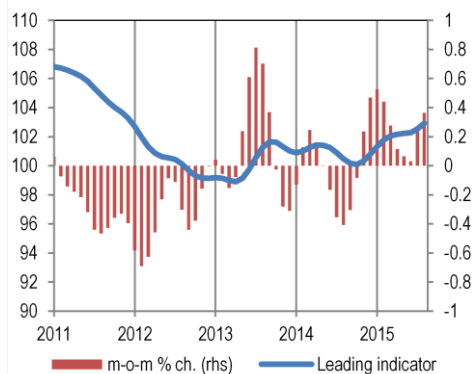
The latest information shows a divergence between the trend in retail sales and consumer confidence. In October the volume of retail sales changed negatively (-0.6% on monthly basis) due to a sharp reduction in food sales (-1.2%) and basic stability of non-food products (-0.1%).

In December there was a slight decrease in consumer confidence (Figure 5), which was widespread among all components of the composite indicator, and in particular for judgements on the economic climate and for those relating to savings opportunities, both present and future (with a fall, respectively aged 16 and 12 points, compared to November).

In recent months, employment suffered a setback: the significant increase in August was followed by a decline in September and October. In the third quarter there was a growth of hours worked, mainly in the service sector and strictly connected to the increase of job positions in the same sector. In October, the unemployment rate fell considerably (11.5%)

Although the dynamics of employment growth appear to slow down, the figures for the third quarter reported a significant increase on a yearly basis: +1.1% compared to the same period of the previous year (raw data). At the same time, there has been a significant reduction in people seeking employment (-10%, corresponding to about 299,000 units less) and the incidence of long-term unemployment.

6. Leading indicator (index and % change)

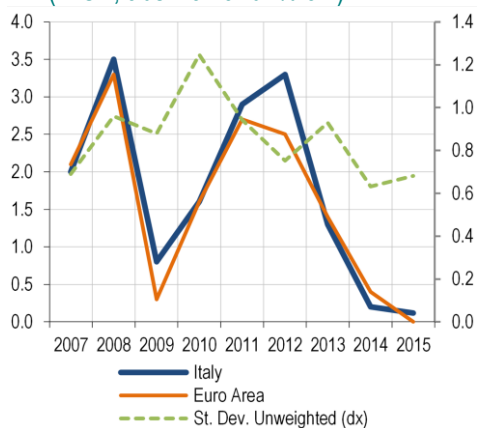


Source: Istat

The outlook

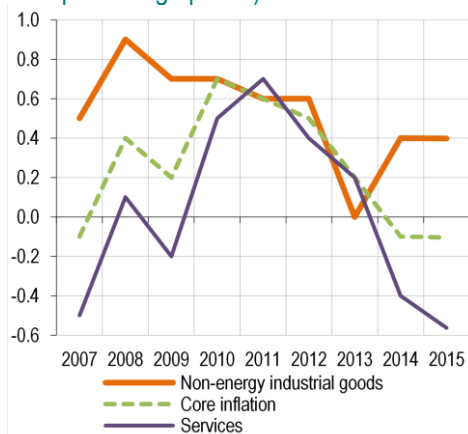
The economic trends in the fourth quarter may lead to positive developments in the near future. Positive signals come from manufacturing, while production in construction remains weak. Consumption and the labour market point to a slowdown. The composite leading indicator, however, marked a further increase in October, thereby strengthening the expansion phase (Figure 6).

7. Dispersion and inflation in Italy and in the Euro Area (HICP; abs. val. and % ch.)



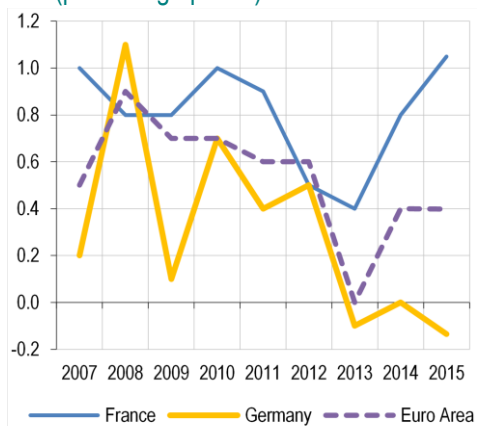
Source: Eurostat, Istat

8. Core inflation and main components (differentials with Area Euro, percentage points)



Source: Eurostat, Istat

9. Italian Inflation differentials of non-energy industrial goods (percentage points)



Source: Eurostat, Istat

Monthly focus

Dispersion and inflation differentials between Italy and Euro Area countries

Inflation dynamics remains one of the most critical issues involving the current situation in Italy and in the Euro Area. Although a lasting deflationary phase seems to be unlikely, such a long period of weak inflation casts doubts on macroeconomic costs and the effectiveness of monetary policies.

In the first quarter of 2015 inflation witnessed the strongest drop; in the following quarters its dynamic has remained weak mainly due to energy prices, in spite of a slight recovery. The current dynamics are shared by the 19 countries of the Euro Area, albeit due to different cost structures and asymmetric economic cycles. Dispersion among the 19 countries (measured as a simple standard deviation) reached a minimum in August 2014, slowly recovering in the following months (Figure 7). Over the last year, slightly different evidences emerged in terms of dispersion between non-energy industrial goods and services, as there has been a moderate increase in the former and a reduction in the latter.

In this framework, the Italian inflation differential with respect to the euro area has turned negative, while in the first 11 months of the current year it became positive. Core inflation shows the same dynamics; indeed, the spread has decreased since 2011 and since 2014 is negative, i.e. in favour of Italy, also as a result of a less favourable economic situation. This trend is mainly attributable to services, differently from non-energy industrial goods which still maintain a positive spread, in spite of the weak domestic demand (Figure 8). Since 2013, this sector has shown zero spread compared to Germany, while the gap with France is still wide and increasing (0.8 and 1 percentage points respectively in 2014 and in the first 11 months of 2015), despite a greater similarity with the French business cycle (Figure 9).

The evolution of inflation in the next months is crucial to understand whether past core inflation dynamics will remain unchanged, so as to maintain competitiveness unaltered compared to other European competitors.