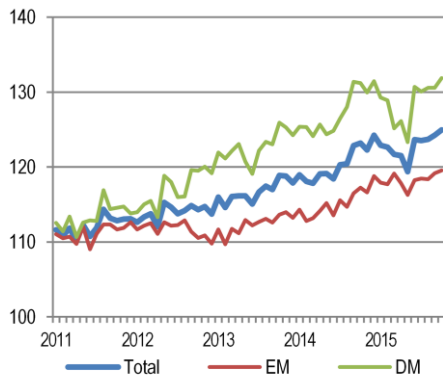


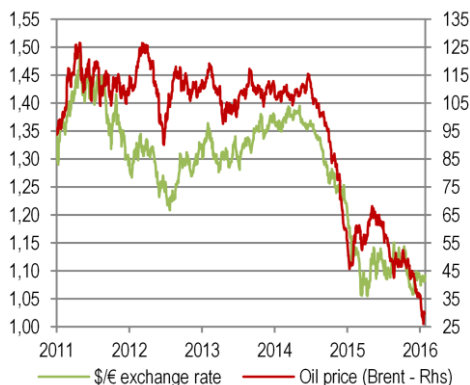
1. International trade

(volume, January 2010=100)



Source: Central Plan Bureau

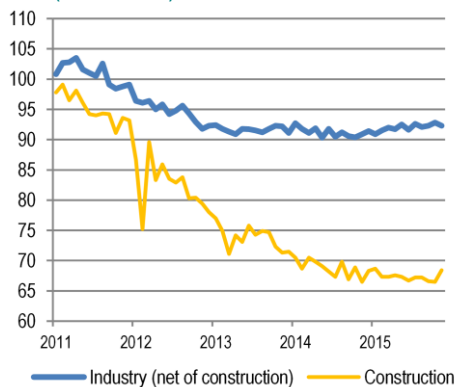
2. Oil price and exchange rate



Source: Bce, Thomson Reuters

3. Production indexes

(2010=100)



Source: Istat

The economic outlook for households and enterprises appears to evolve in different ways; disposable income is expected to rise for the former. The growth in economic activity does not yet entail an overall improvement in production among sectors. The economic leading indicator, however, remains positive in November.

The international environment

United States GDP grew in the last quarter of 2015 by 0.7% y-o-y, albeit less than +2.1% y-o-y of the third quarter.

Appreciation in US currency affected exports of goods and services and non-residential investment.

Nevertheless, the joint improvement of U.S. labor market (in January total non-farm payroll employment increased by 220 thousand compared to November), low inflation, moderate flow of interest rate boosted private consumption expenditure and residential investment.

The Conference Board consumer confidence index improved moderately in January, while the leading indicator, although slightly down in December, continues to suggest moderate growth in the short term.

In the Euro Area the most recent economic signals seem to be consistent with a moderately positive trend. According to Euro Zone Economic Outlook, GDP will grow by 0.4 % in the first two quarters of 2016.

This forecast is determined by the expected decrease in inflation that may trigger household consumption expenditure. In fact during the third quarter of 2015 consumption increased; in November the Retail sales index grew by +0,2% m-o-m.

In November, CPB data on world trade volumes grew by +2.0% compared to the previous year (Figure 1). This result (see Figure 1) is mainly driven by advanced economies (+2.8% compared to November 2014), and to a lesser extent, by emerging ones (+0.9%).

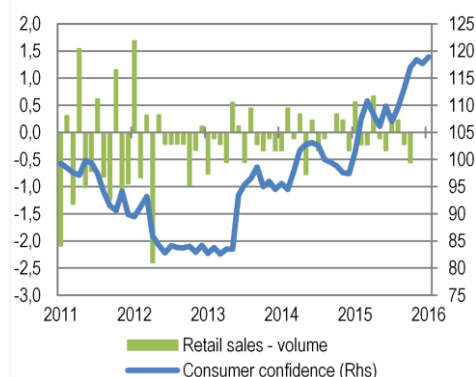
In January the Euro-Dollar exchange rate remained stable; however, the stationarity of the US dollar was not accompanied by a rise in the Brent price, which reached \$31 per barrel (Figure 2).

The economic situation in Italy

Businesses

The available data for the fourth quarter of 2015 show an unstable evolution of the manufacturing sector. In November, the economic slowdown in industrial production and turnover (-0.5% and -1.1% q-o-q) offset the increase recorded in October (+0.5% and +1.9%). In the first 11 months of 2015, both indicators (measured on data adjusted for working days) reported a more significant increase in industrial production (+1.1% y-o-y, Figure 3) compared to industrial turnover (+0.6%).

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



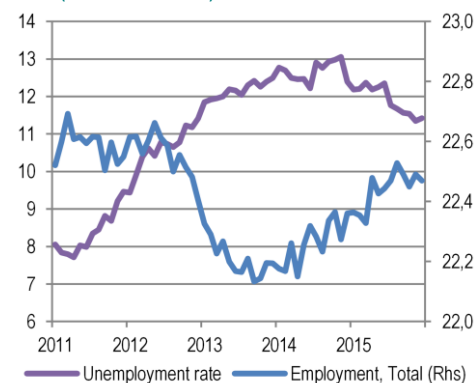
Source: Istat

Following the positive results recorded in November (+3.5% q-o-q), over the period Sept.–Nov. 2015, the economic momentum of exports is once again positive (+0.4%) and becomes stronger if measured net of energy (+1.0%, Figure 4). Imports have continued to be affected by the fall in oil prices. In November the positive result measured in value (+1.4%) has mitigated the negative quarterly change (-1.5%). The change in volume calculated on the first 11 months of 2015 is markedly higher (+7.0%).

Industrial orders marked a downturn over the Sept.-Nov. quarter (-1.8%) due to strong reductions in foreign orders (-3.3%). In January, there was a slight decrease in the confidence index in manufacturing, caused by the deterioration in the judgements on orders and production expectations, especially for intermediate goods (Figure 5).

In November, production in construction yielded the first positive results. The seasonally adjusted index showed a strong rebound (+2.9% q-o-q), resulting in a positive change for the Sept.-Nov. quarter (+0.3%). In January, the market services confidence index slowed down, influenced by the worsening of opinions on the expectations of the overall economic situation.

5. Employment and unemployment (% and million)



Source: Istat

Households and labour market

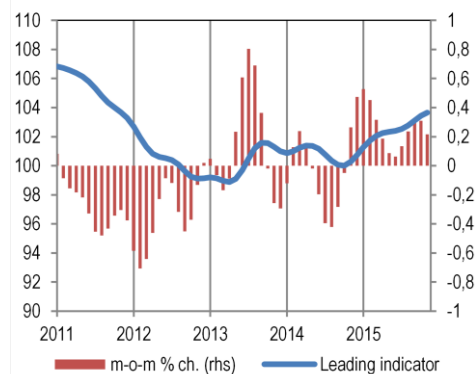
In the third quarter of 2015 households' purchasing power increased by 1.4% q-o-q. The increase in gross disposable income is consistent with the recovery of gross saving rate (+0.9% q-o-q) and the rise in final household consumption expenditure (+0.4%). In November, the seasonally adjusted retail trade index increased by 0.3% driven by the growth of food goods (+0.7%). Further positive signs come from the moderate increase in consumer confidence in January.

In the fourth quarter of 2015, the employment rate came to a halt (-0.1%, Figure 5). However, the number of employees continued to grow (+0.5%, +67,000 employees, q-o-q).

In December, the unemployment rate stood at 11.4%; more specifically, unemployment among men returned to grow (+2.3%). In January, employers' expectations on employment in the next three months were slightly lower in the manufacturing sector and retail trade, while continuing to improve in market services.

In 2015 the index of wages according to collective agreements per employee registered an increase (+1.2% y-o-y; +1.6% in the private sector and zero in the civil service).

6. Leading indicator (index and % change)



Source: Istat

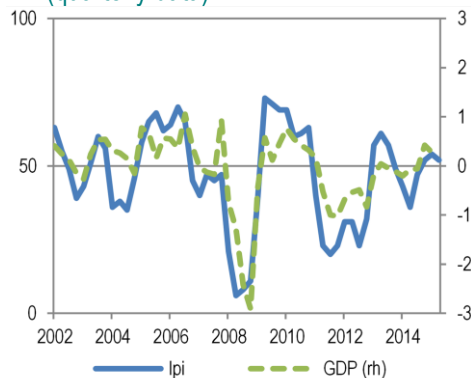
Prices

In January the Italian consumer price index for the whole nation (NIC) recorded an increase of 0.3%, y-o-y (Figure 8). Excluding the two most volatile components (unprocessed food and energy), core inflation rose by 0.8%. Producer prices index on domestic market decreased in December (-4.0%, q-o-q).

The Outlook

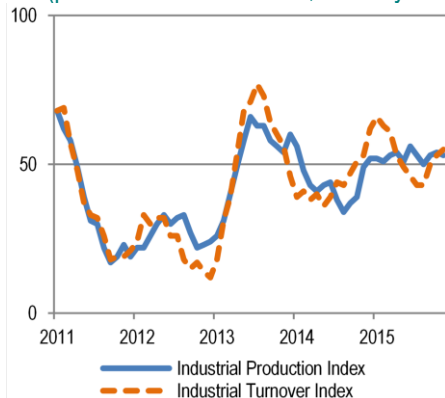
Families and enterprises appear to evolve differently. As a summary of these trends, the leading economic indicator (Figure 9) remains positive in November, suggesting the moderate pace of Italian economic growth.

7. Diffusion index and GDP (quarterly data)



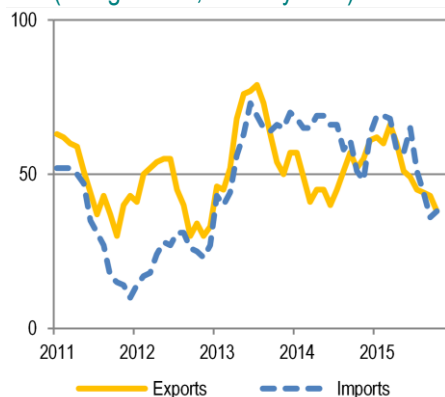
Source: Istat

8. Diffusion index (production and turnover, monthly data)



Source: Istat

9. Diffusion index (foreign trade, monthly data)



Source: Istat

Monthly focus

The diffusion of the recovery among the industry sectors

The Italian economy has embarked on a moderate upward tendency since the first quarter of 2015. The strength of the ongoing recovery seems to differ among economic sectors, however. This report uses ad hoc diffusion indexes to describe the evolution among manufacturing sectors. Diffusion indexes are computed as the ratio of sectors showing a month-on-month increase over the total number of sectors.¹

Figure 7 displays the evolution over time of (the quarterly average of) the diffusion index² of the manufacturing sectors and the (quarterly) real GDP growth rates. It emerges a close overlap between the two series: the diffusion index tends to be above 50 during expansions and below that threshold in periods of economic slumps.

Similar results arise when considering the temporal pattern of the diffusion index built on (real) industry turnover. As shown in Figure 8, the two indexes move together over time, with the turnover-based diffusion index being characterized by a relatively higher volatility. Latest readings point to a moderate grow for the Italian economy in 2015.

Diffusion indexes makes it possible to identify clusters of sectors according to their evolution over a given time span. Focusing on the most recent period (from January 2015 onwards), sectors which experimented more expansions than contractions in terms of production - in both the first semester of 2015 and the second part of the year - account for about 28% of the total. Notably, production of auto vehicles and of rubber and plastic products showed the most remarkable results. This evidence holds true when considering (real) industry turnover, which also points to marked increases in the electrical equipment sector.

In an effort to better understand the current development of the cyclical pattern of the manufacturing sector, diffusion indexes have also been computed using disaggregated import and export volumes (at the NACE-3-digit level, Figure 9). Although the series tend to co-move quite closely, traces of dis-alignment can be detected in 2012 and 2014.

Putting the evidence from Figure 8 and Figure 9 together, economic busts in terms of production are associated with a high degree of synchronicity with the developments in the external sector. The current juncture, which exhibits (production and turnover-based) diffusion indexes standing around 50, seems to suffer from the deceleration observed in external trade.

¹ Every time series having 3 digit ATECO is seasonally and working day adjusted. The trend estimate is given by the output of Hodrick-Prescott filter applied to the seasonally and working day adjusted indexes. If the first difference of the mentioned trend is positive, a value of one is assigned, while a value equal to zero is assigned if the first difference is negative. The diffusion indexes are calculated as the ratio between the number of ones and the number of time series considered multiplied by one hundred.

² The quarterly diffusion index is given by the average of monthly diffusion indexes.