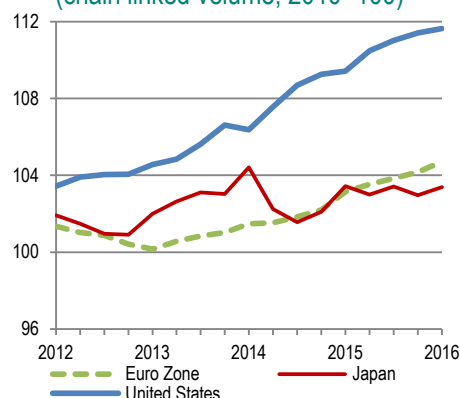


1. GDP of United States, Japan and Euro Zone

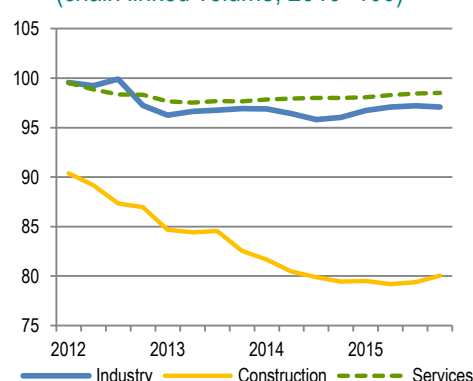
(chain linked volume, 2010=100)



Source: IHS

2. Value added by sector

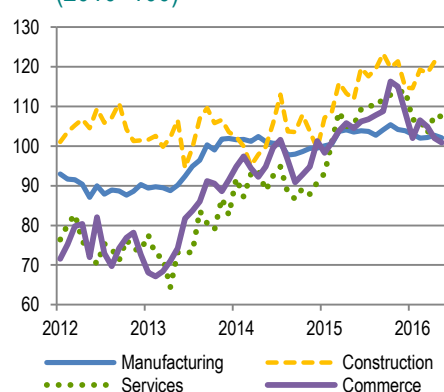
(chain linked volume, 2010=100)



Source: Istat

3. Business confidence indicators

(2010=100)



Source: Istat

Italian economy continues to grow at a moderate pace due to the consolidation of the positive contribution of domestic demand to GDP. The main driver of growth is represented by consumption together with an improvement for investments. Business expectations and manufacturing orders exhibit a weak performance in such way that the composite leading indicator for Italian economy registers a further decrease suggesting a slowdown in the growth rates of economic activity in the short term period.

The international environment

The U.S. GDP estimation for the first quarter of 2016 has been revised upwards for a decimal point (from +0.1% to +0.2% q-o-q). The revision is due to an improvement in not residential investments, exports and changes in inventories accompanied by a stronger decrease in imports (Figure 1). Economic fundamentals remain solid. In April consumption expenditure and household disposable income registered a significant increase (respectively +0.2% and +0.8% m-o-m). The Conference Board confidence indicator saw a strong rising trend due to most all the components except for consumer expectations. Labour market situation is stable with reference to unemployment and the increase in not farm employees has decelerated (+123,000 and +38,000 units respectively in April and May).

In the Euro Area, GDP registered an increase in Q1 (+0.5% q-o-q compared to the preliminary estimates equal to +0.6%). Spain (+0.8%), Germany (+0.7%) and France (+0.6%) showed more dynamism due to increase in domestic demand. In Q1 for Euro Area industrial production increased by 0.8%, production in construction by 1.1% and retail trade by 0.7%. Unemployment stayed stable in April (10.2%) with a slight decrease in persons seeking for a job.

Leading indicators for business cycle give mixed results for growth prospects. In May the Eurocoin index decreased slightly compared to the previous month, registering a decrease for the fourth consecutive month due to the weakness in prices. The Economic Sentiment indicator showed a slightly improvement.

In May the Euro-US exchange rate remained stable after the increase in April (+2.9%). The Brent price increased at \$47.6 per barrel (in May +11.0% m-o-m).

In March CPB data showed a decrease of world trade volumes (-0.5% m-o-m) following the positive growth rate in February (+1.3%): in the first quarter the decrease was equal to -1.7% (-3.4% for emerging countries and -0.4% for advanced economies).

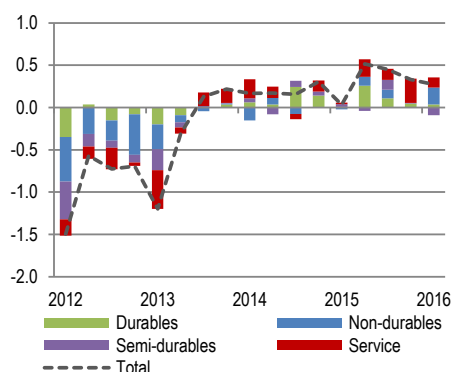
The economic situation in Italy

Businesses

Italian economy continued to grow at a moderate pace. In Q1 2016 GDP, adjusted for calendar effects and seasonally adjusted, rose by 0.3% q-o-q. The positive contributions to growth are due to resident households and ISP expenditures and changes in inventories (both with a contribution of 0.2 percentage points), while the foreign component made a negative contribution to growth (-0.2 percentage points). Compared to the previous quarter, national final consumption and gross fixed investment increased to the same degree (+0.2%), while the slowdown in world trade has affected the trend in exports.

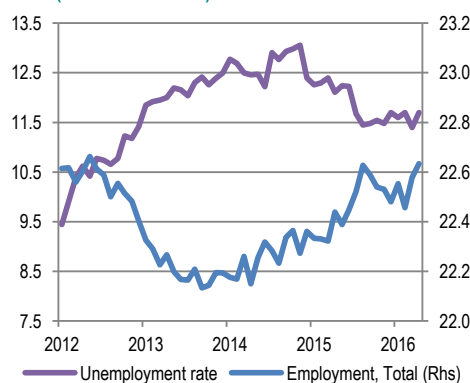


4. Households' consumption expenditure (m-o-m % change and index)



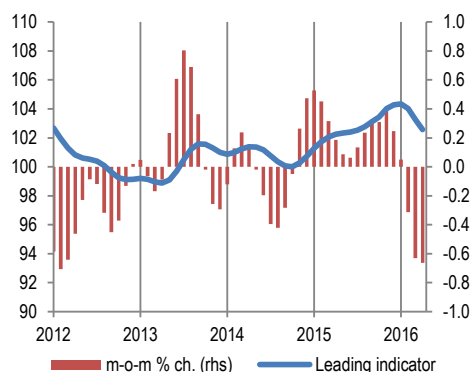
Source: Istat

5. Employment and unemployment (million and %)



Source: Istat

6. Leading indicator (index and % change)



Source: Istat

The modest increase in investment is the synthesis of the ongoing growth of the plant and equipment investments (+1.3%) and the recovery of the products in intellectual properties (+1.1%). On the other hand there was a reduction in construction (-0.5%). Investments in transports have made a positive contribution but with a significant slowdown (+2.4%).

For industry excluding construction, the robust growth of value added in the first quarter (+1.2% over the previous quarter) is accompanied by conflicting signals from the orders (-1.4% q-o-q in the first quarter) and the confidence climate that decreased slightly in May and continues to oscillate on the same level since the beginning of the year.

In construction, the positive results of the second half of the past year were not confirmed in the first three months of 2016, when the economic decline of the investments involved, with similar intensity, both residential and non-residential buildings and other works. In May, the climate of business confidence remained at a high level. Furthermore, according to the survey of the Bank of Italy, in the first quarter of 2016 the proportion of operators who reported a decrease in the prices of housing has continued to shrink.

In the first quarter of 2016 value added of services showed a further slight improvement (+0.2%), supported by the economic growth of the real estate business, trade, transport and accommodation and the public administration (+0.3% for each sector). Turnover data on services sector showed a sharp slowdown in sales in the employment activities, which are usually leading of business cycle (+2.2% change y-o-y compared to +12.2% in the fourth quarter of 2015).

Households and labour market

In the first quarter of 2016, resident households expenditures grew at the same rate of the previous quarter (+0.3% q-o-q, Figure 4). The most significant increases were registered in expenditures for non-durable goods (+0.7%) and durable ones (+0.5%, a slowdown compared to previous quarters) while expenditures for services were weaker (+0.2%); purchases in semi-durable goods registered a significant decrease (-1.0%). Even the government expenditure recorded a slight increase (+0.2%). The decline of consumer confidence started in January continued in May. The job market shows a mixed pattern into its components. In April, the increase in employment affected both men (+0.3% m-o-m) and, to a lesser extent, women (+0.1%, Figure 5). The increase involved employees on a permanent basis (+0.2%, 35,000 units more). In the same month, the unemployment rate started to rise (11.7%, one decimal point more than in March), due to the evolution of the female component.

Prices

Consumer price inflation remains negative, but the annual pace of falling prices results in attenuation. According to preliminary estimates, in May the index for the entire resident was -0.3% y-o-y, following -0.5% in April. Looking at m-o-m growth rates, price increases affected the most volatile items and a higher frequency of purchase. Excluding energy, inflation was positive and increased slightly even though the overall picture is of substantial stability. The downward trend in consumer price inflation was affected by the reduction of prices in the upstream of the final distribution stage, influenced by indirect effects of the fall in oil prices, combined with a relative recovery in the euro exchange rate.

The Outlook

The positive results recorded in the first quarter were accompanied by some signs of weakness in the business expectation and orders of manufacturing sector. The composite leading indicator for Italian economy (Figure 6) registered a further decline, suggesting the slowdown in the pace of growth in economic activity in the short term.

Tab1. Frequencies and durations of sector cycles
(Q1 2001 – Q1 2016)

	Added Value for services	Mean disaggr. series
Number of cycles	2.0	3.4
Average durations	22.5	13.4
Average durations expansion	16.0	6.6
Average durations contraction	6.5	6.8

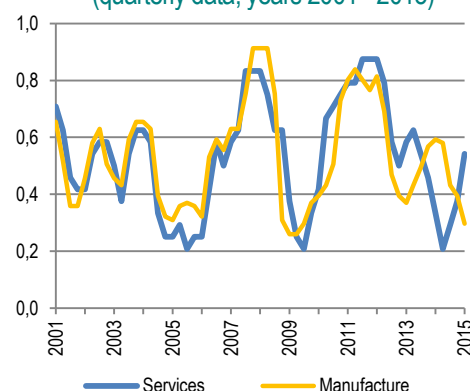
Source: Elaboration on Istat data, quarterly data

Tab2. Concordance Indices
(Q1 2001 – Q1 2016)

	Pairwise	Added Value for services
Mean	55.5%	60.5%
SD	10.2%	11.2%
Median	55.7%	56.6%
Maximum	80.3%	88.5%
Minimum	27.9%	44.3%

Source: Elaboration on Istat data, quarterly data

7. The diffusion indices of contraction - Services e Manufacture
(quarterly data; years 2001 - 2015)



Source: Elaboration on Istat data, quarterly data

The diffusion of the recovery in the services sector

The turnover of services, expressed in current values, registered in 2015 an annual average increase (+1.7% compared to 2014). The economic trend was positive in all quarters since the third quarter of 2014 (in Q3 2015, the change was equal to zero). Also in the first quarter of 2016 the index registered a positive growth rate (+0.3%).

The following analysis highlights the cyclical characteristics of the services sector, using the disaggregated quarterly series of turnover in services sector. In particular, the phases of expansion and contraction of each series together with their concordance and their relationship with the cycle of the manufacturing sector¹ will be identified.

For the period from Q1 2001 to Q1 2016, the series of quarterly turnover in services sector considered are 24, corresponding to the groups of economic activity of Wholesale and Retail trade and repair of motor vehicles and motorcycles and the eight series for Wholesale trade. For the other economic activities, the current availability of the indicators required more aggregate analysis at division level of economic activity (Transportation and Storage) or section or subsection. The series have been deflated using deflators of national accounts for some service sectors, the indices of producer prices of services and industry, consumer prices and the prices of agricultural products². In the analysis the volume index of retail sales for food products and non-food products have been considered. The value added series of services³ have been used as benchmark for the aggregate dynamics derived from the quarterly series of turnover in services sector. The dating of the cycle for each series was determined using the dating criterion proposed by Harding and Pagan⁴.

In the time span considered, two complete cycles for the value-added services have been identified, with the expansion phases of longer average duration than recessions. The average calculated on the disaggregated series has, as expected, higher volatility. The series are characterized by a higher number of cycles and a lower value for the average length of the expansion phases (Table 1). On average the dynamic for all the sectors showed a high degree of synchronicity, as measured by the concordance index, with 55.5% of all possible pairs of sectors sharing the same cyclical phase. With reference to the value added for services sector the concordance rate is even higher (60.5%, Table 2).

Cyclic analysis also allowed to build a diffusion index for the services sector making it possible a comparison with the manufacturing ones. The diffusion index for recessions measures the fraction of sectors in recession at a given point in time with respect to all the sectors considered. The trend of the indices, taking the higher value during recessions, indicates the presence of a strong correlation between the service cycle and the one for manufacturing (Figure 7): the correlation between the two series of indices is equal to 0.81. The index for manufacturing sector also shows a leading behavior than that of the services in the peak of economic activity points (lower values of diffusion index), such as in Q2 2002 and Q3 2009. The most recent values of the indices show, for the first time in the period considered, the presence of a discrepancy between the trends, with a worsening in the services sector compared to an improvement in the manufacture.

¹ Rapporto annuale Istat 2016, 21-25

² The procedure used is in line with international experiences for the estimate of the production services (Compilation Manual for an Index of Service Production, OECD 2007). The deflated series have been seasonally adjusted with TRAMO-SEATS method of JDemetra + software.

³ The added value of services includes sectors (financial, insurance, public administration, etc.) for which the turnover survey does not collect information

⁴ Harding D., Pagan A. "Dissecting the cycle: a methodological investigation", Journal of Monetary Economics 49 (2002) 365–381.