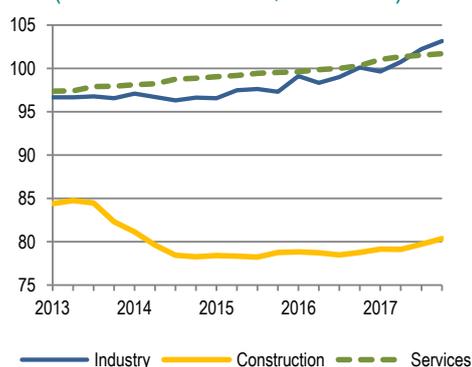


### 1. Economic Sentiment Indicator (base 2010=100, SA)



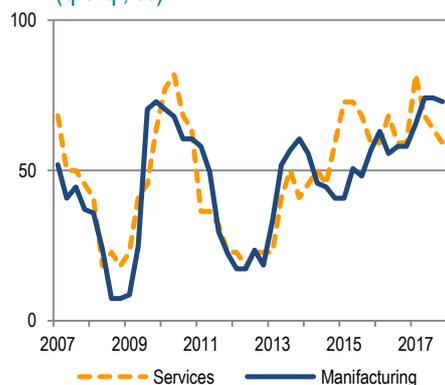
Source: Dg Ecfm

### 2. Value added by sector (chain linked volume, 2010=100)



Source: Istat

### 3. Diffusion indexes : manufacturing and services sectors (q-o-q, %)



Source: Istat

In the fourth quarter of 2017, Italian economy continues to strengthen supported by the capital accumulation process, while final consumption showed lower increases. The manufacturing sector and exports are reinforcing. The leading indicator remains stable at high levels, suggesting that economic growth will continue at the current pace.

#### The international outlook

In the fourth quarter, US GDP slightly decelerated (+0.6% compared to +0.8% in Q3). GDP growth was driven by the positive contribution of the domestic demand components. The change in inventories and net exports, on the other hand, had a negative contribution. In January, the non-farm payroll increased by 200 thousands, accelerating compared to the previous month. The unemployment rate remained stable at 4.1% as in the three previous months. The evolution of the US economy is expected to continue at a positive pace in the first part of 2018: in January the Conference Board leading indicator showed a further increase and, in February, consumer confidence improved driven by expectations for both the current and future economic situation.

In the euro area, the positive phase is strengthening. Preliminary estimates of GDP showed an increase of +0.6% in Q4. The rate of unemployment rate was stable at 8.6% in January. The leading and coincident indicators of business cycle provide mixed signals. In February, the Economic Sentiment Indicator (ESI) decreased slightly (Figure 1): the business confidence improved in the service sector and decreased in industry, constructions and retail trade. In the same month, the consumer confidence decreased markedly. In February, the Euro-Coin indicator was practically unchanged. The ECB's expansive monetary measures are encouraging recovery in the credit market.

In February, the euro-dollar exchange rate decelerated (+1.3% with respect to +3.1% in January). Brent's prices suffered a setback in February (-5.6%), reaching on average \$65.2 per barrel (down from \$69.1 January).

In December, CPB data show a slightly upswing of world trade (+0.3%), because of an increase in volume trade for advanced countries (+0.9%) and a decrease for emerging economies (-0.4%) driven by the bad performance of Latin America countries. Overall, world trade shows a positive dynamics over the whole year (+4.5%).

#### The economic situation in Italy

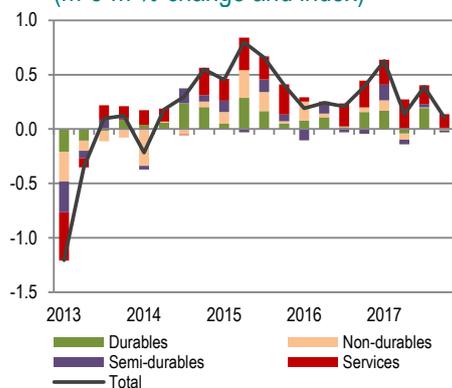
##### Businesses

In Q4 Italian GDP increased by 0.3%, slightly decelerating compared to the previous quarters (+0.4% in Q2 and Q3). GDP growth was driven by investments and net foreign demand which both contributed positively (+0.3 percentage points). The contribution of final consumption was modest (+0.1 percentage points) while change in inventories provided a negative contribution (-0.4 percentage points).

In Q4 gross fixed investments recorded a significant change (+1.7%), slowing down compared to the marked growth of the third quarter (+3.2%). The greatest support came from transport equipment (+8.2%) and, to a lesser extent, from machinery, equipment and other products (+1.3%).

#### 4. Households' consumption expenditure

(m-o-m % change and index)



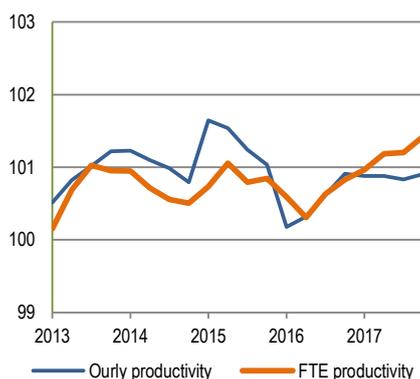
Source: Istat

The positive contribution of the foreign demand was driven by stronger increase of exports with respect to imports (respectively +2.0% and + 1.0% q-o-q).

In Q4, value added in manufacturing increased (+0.9% q-o-q) in deceleration with respect to the previous quarter (+1.5%, Figure 2). Industrial new orders confirms the positive trend in the manufacturing sector (+3.6% in Q4). In the same quarter construction value added increased (+0.8% q-o-q); services sector value added improved at a more modest extent (+0.2%), as a result of a positive trend in financial and insurance activities (+ 0.7%), in real estate activities (+0.4%), in commerce, transport and accommodation (+0.4%) and in Public Administration (+0.3%). The growth phase of manufacturing and services continues to affect most of the sectors. In Q4, the diffusion index, which measures the percentage of increasing sectors out of total, for both sectors continues to remain above 50%: In manufacturing, it has recorded a high value (73% of groups is expanding) while in the services sector there has been a slight reduction compared to the previous quarter (Figure 3).

#### 5. Labour productivity

(Indexes 2012=100)



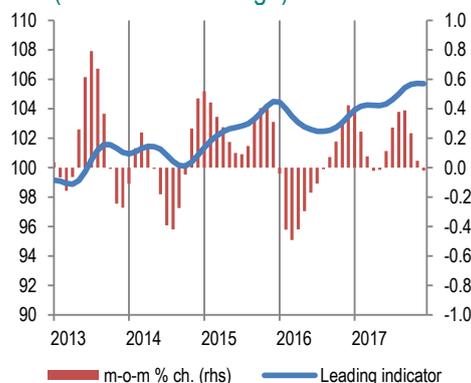
Source: Istat

#### Households and labour market

In the fourth quarter, national final consumption showed a modest increase (+0.1%), with both household and public government expenditures registering the same growth rate (+0.1%). The household consumption components dynamic is very close to the overall trend: durable goods and consumption in services increased slightly (+0.2%) while non-durable goods remained stable (Figure 4). The main indicators of the labor market remain unchanged compared to the previous month. Over the quarter November-January, the employment rate was stable compared to the previous quarter, while the unemployment rate declined (-0.1 percentage points) and the inactivity rate was up (+0.1 percentage points). According to the quarterly national accounts data, in the presence of moderate increases in both hours worked and full time equivalent units, in Q4 labor productivity improved in terms of both measures (+0.1 and +0.2 percentage points respectively compared to Q3, Figure 5). Expectations for the coming months about employment remain stable. In the fourth quarter of 2017, the seasonally adjusted vacancy rate was 1.0%, a high but stable level compared to the previous quarter.

#### 6. Leading indicator

(index and % change)



Source: Istat

#### Prices

In February, inflation signed a slowdown after three months of stability: the consumer price index (NIC) registered a growth rate (+0.6%) lower by three-percentage point compared to the quarter November-January. Core inflation marked a modest improvement in February (+0.7% m-o-m). The recovery of core inflation is due to the service component (+0.8% compared to the previous +0.6%).

Short-term expectations of manufacturing companies exhibit some element of caution while consumers' expectations show somewhat a less dynamic inflation in the longer period.

#### The Outlook

In February, the consumer confidence index remained stable due to worst expectations on the general economic situation and unemployment, balanced by improvements in the personal and current components. The composite business confidence remains at high levels with a decrease only for retail trade businesses. In particular, assessments on order books in manufacturing improved. The leading indicator remains stable at high levels, suggesting that economic growth will continue at the current pace (Figure 6).