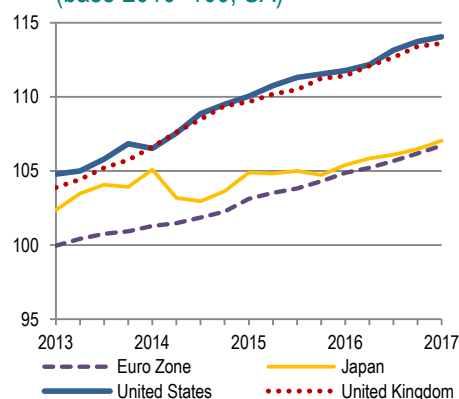
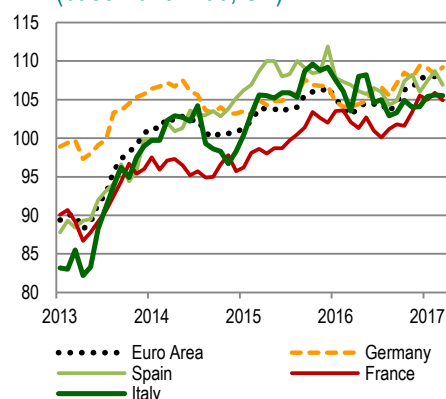


1. GDP Eurozone, United States, Japan, United Kingdom (base 2010=100, SA)



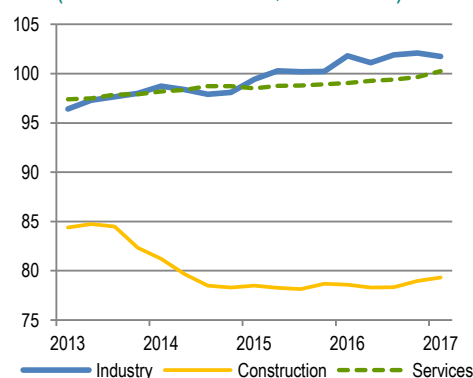
Source: Oecd

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



Source: Dg Ecfm

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



Source: Istat

In a context characterized by the slowdown of the US economy and the consolidation of Euro Area growth, the Italian economy accelerates driven by households consumption. Labor market is improving, showing a rise in employment and a significant reduction in unemployment. The inflation rate is slowing down. The leading indicator remains positive.

The international environment

In the first months of 2017, the US economy slowed down according to the second release of GDP estimate for the first quarter (+0.3% compared to +0.5% in Q4, Figure 1). Gross fixed capital formation, household consumption and net exports have been the main drivers of growth while private inventories provided a negative contribution.

In April, non-agricultural workers increased (+211 thousand units) slightly accelerating compared to the previous month. The unemployment rate improved (4.4% in April compared to 4.5% in March). The US economy is expected to continue to grow at moderate rates. According to the Conference Board, in April, the leading indicator improved. Consumer confidence in May was slightly weakened, driven by negative expectations on medium-term economic outlooks.

Economic growth in the Euro Area is getting stronger. In the first quarter of 2017, GDP accelerated compared to the end of 2016 (+0.5% compared to +0.4% in the fourth quarter of 2016). In addition, for some countries, such as France and Italy, the preliminary estimate has been revised upwards.

The positive performance of the labour market (in April the unemployment rate declined further reaching 9.3%) would provide further support to private consumption and disposable income. Leading and coincident economic indicators, however, show signals of weakness. In May, the Economic Sentiment Indicator declined slightly compared to the previous month (Figure 2): confidence in trade and service sectors slowed down, while in manufacturing and for consumers remained steady. In the same month, the Euro-Coin leading indicator slightly decreased driven by the slowdown in manufacturing activity.

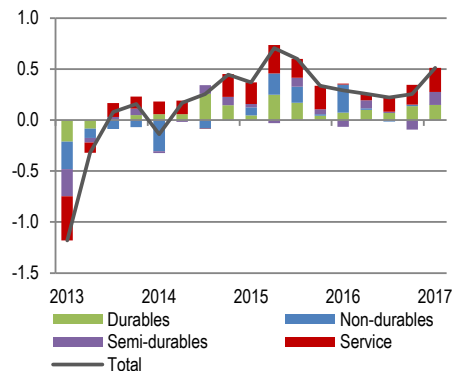
In May, the euro exchange rate against the dollar continued to appreciate compared to the previous month (+3.0%), favouring US exports. In the same period, Brent's prices fell (-4.7%), dropping to \$51.4 a barrel on average. In the following months, a moderate increase in crude oil prices is expected. According to Central Plan Bureau data, world trade accelerated in March (+1.5%), driven by the positive trend of trade (in volume) of the emerging economies (+ 3.2%).

The economic situation in Italy

Businesses

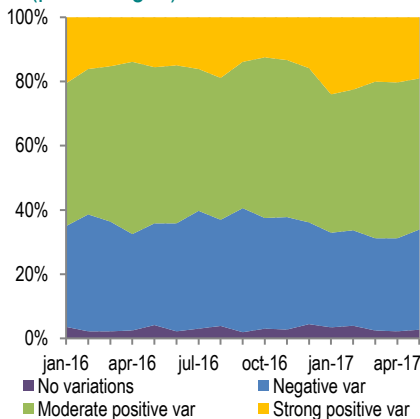
In the first quarter of 2017, gross domestic product, adjusted for calendar and seasonal effects, increased by 0.4% compared to the previous quarter, accelerating with respect to the fourth quarter of 2016 (+0.3%). Domestic demand excluding inventories contributed positively by 0.3 percentage points to GDP growth; net foreign demand provided a negative contribution (0.2 percentage points), with an increase in both imports of goods and services (+1.6%) and exports (+0.7%) in the first quarter compared to the previous quarter.

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



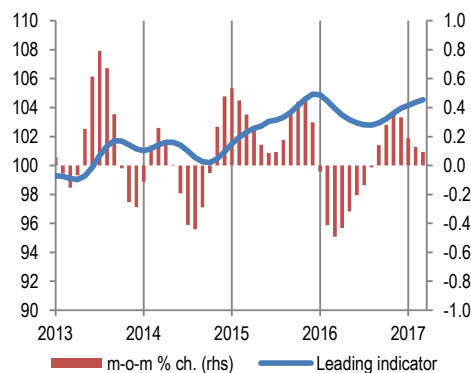
Source: Istat

5. HICP products: diffusion indices of price changes (percentages)



Source: Istat

6. Leading indicator (index and % change)



Source: Istat

On the demand side, final consumption increased by 0.5% while gross fixed capital formation decreased by 0.8% interrupting the positive trend started in the third quarter of 2014. The slowdown of investments has been driven by the lower expenditure in machinery, equipment and other products (-2.2%) and transport equipment (-0.8%), while investment in construction kept positive rates of growth (+0.6%).

In the first quarter of 2017 value added in manufacturing decreased by 0.5% following the positive rates registered in the previous two quarters (+0.9% for both quarters, Figure 3). In the same period, industrial new orders increased (+1.5% compared to the previous quarter) due to the positive trend in foreign markets component (+6.1%). Construction and services sector value added improved (+0.5% and +0.6% respectively in the first quarter of 2017). Growth in services was driven by the increase in professional and administration activities (+1.3%), financial and insurance activities (+1.1%, after 4 quarters of slowdown) and wholesale and retail trade; transportation; accommodation (+0.8%). The information and communication sector and other services, instead, decreased (-0.5% and -0.2% respectively).

Households and labour market

In the first quarter of 2017, final consumption accelerated (+0.5%), driven by the increase in both households and government spending (+0.6% and +0.5% respectively Figure 4). Among household expenditure components the sustained progress of the durable goods continued (+1.8%) together with the consolidation in services consumption (+0.4%).

The labor market is improving: the latest figures show that employment in April increased (+0.4% compared to March, 94 thousand more people) after the break observed in March. Both gender components increased: men (+0.6%) and, to a lesser extent, women (+0.1%) including both permanent (+0.3%, 39 thousand more employed) and temporary employees (+1.3%, +34 thousand units more). In April, the rate of unemployment dropped significantly to 11.1%, four tenths lower than in March, a level below the average for the last four years. The fall in the unemployment rate is driven by both employment and inactivity growth (+0.2% compared to March). Despite the positive figures in April, the following month, entrepreneurs expectations about employment for the next three months are overall worsening and below long-term values in almost all sectors.

Prices

Preliminary estimates of consumer prices slowed down in May. The consumer price index for the whole nation (NIC) increase by 1.4%, half a percentage point lower than in April, returning to the same rate as in March. Among the components in the basket of the Harmonized Consumer Price Index (HICP), the share of products with more dynamic prices (growth rate more than 2%) dropped to 19.1%, about 5 percentage points less than the maximum registered at the beginning of the year (Figure 5); at the same time, the incidence of products with decreasing prices grew (31.2% from 29.5% in January).

The Outlook

In May, both the index of consumer and business confidence worsened. For consumers all components declined albeit with different intensity. For the second consecutive month, unemployment expectations also increased. Business confidence diminished in manufacturing (with worse both order reviews and production expectations) and services; in construction remained largely stable and in the retail company improved. The leading indicator remains positive (Figure 6).