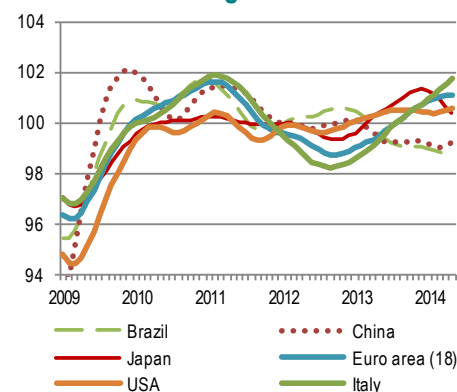
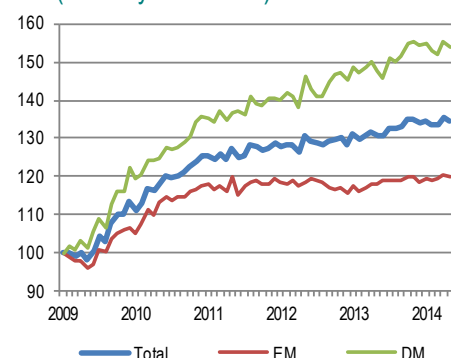


### 1. OECD's leading indicators



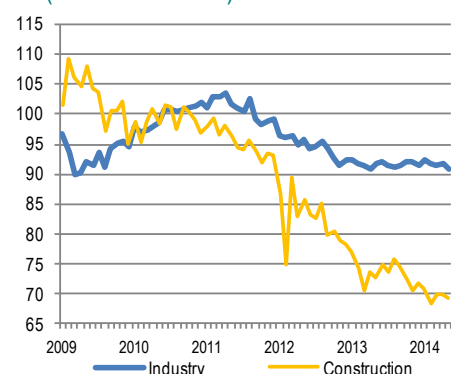
Source: OECD

### 2. International trade - volume (January 2009=100)



Source: CPB

### 3. Production indices (base 2010 = 100)



Source: Istat

The recovery in economic activity is slower than expected. Overall, household and business surveys provide a mixed picture while first positive results emerge in the labour market presents the first positive results. In July, firms confidence increased in the construction and service sectors while it remained stable in manufacturing. Household confidence decreased due to the negative opinions on the current and expected outlook for the economy. The weak external demand put weigh the recovery in the short-term.

### The international environment

The international business cycle is characterized by a slowdown in emerging markets and a stable but heterogeneous growth in the advanced economies (Figure 1). In the US, the sharp contraction in GDP in the first quarter 2014 (-0.5%) has been followed by a significant rebound in Q2 (1%). A solid expansion is expected to continue also in the second half of this year.

In Japan, the increase in consumption tax in April is expected to have had a negative impact on the second quarter, as signalled by the weak level of PMI. This weakness is likely to persist in the second semester. The outlook for the euro area continues to be positive despite the fragility in Q2, as highlighted by the drop in industrial production in May for the main economies (-1.4% for Germany, -1.3% for France, -0.9% for Spain). However, in the second half of the year a more dynamic economic growth is expected for the euro area as a whole.

According to the most recent CPB data (Figure 2), world trade volumes decreased in May (-0.6% m-o-m) after an increase of 1.6% in April. However, over the year, data show a slight increase starting from March (from 2.1 to 2.9%). In developed countries, the monthly decline in imports and exports volumes was mainly due to the contraction in Japan, while in emerging countries, the moderate growth rate in exports was mainly due to positive growth in Asian economies (2.5%). In July, Brent prices decreased below 110 \$ per barrel in association with the loosening of geopolitical tensions in Iraq. On a monthly average, the depreciation was close to 4%. The euro-dollar exchange rate in July was substantially stable (1.357 \$/€).

### The economic situation in Italy

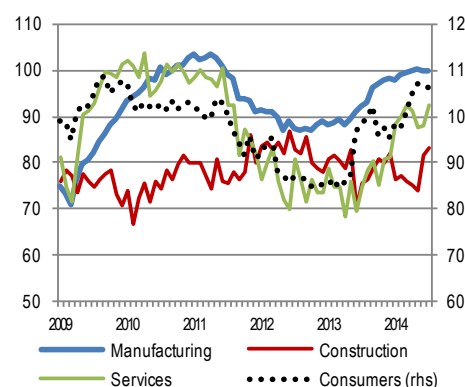
#### Production in different sectors

Industrial production (excluding construction) is leaping (Figure 3). In May, the seasonally adjusted index markedly declined (-1.2% m-o-m), offsetting the increase in April (+0.7%). Overall, Italy's industrial production is registering a stagnation since April last year, after more than two years of contraction. Over the first five months of 2014 the (calendar effects adjusted) index was essentially unchanged from the same period a year earlier. This result was strongly influenced by the energy sector (-6.7%). Excluding this latter, the index increased by 1.2%.

The negative dynamics in industrial production was mainly due to the external demand (-1.9% m-o-m the non-domestic market turnover in May; -4.9% m-o-m the extra-EU export in June), but also weak domestic demand played a role.

Construction sector remains weak as well. In May production in construction was down by 1.1% y-o-y, although in Q1 residential sales increased (4.1% y-o-y) while prices decreased less (-0.7% q-o-q) than in the previous quarter.

#### 4. Business and consumer confidence



Source: Istat

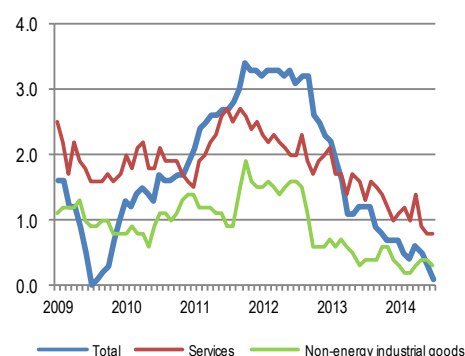
#### Business and Consumers confidence

In July, the composite Istat Economic Sentiment Indicator showed an improvement (Figure 4) as a consequence of a substantial stability in the manufacturing sector and an increase for construction and services. Industry assessments on orders fell slightly, but production expectations and the degree of capacity utilization increased. In construction, the improvement was due to the recovery on the opinions in civil engineering and in specialized constructions, while the view on residential sector was unchanged. The growth in the confidence index of services was characterized by the positive feedback of the transport and the storage sectors and, to a less extent, from the business services. Tourism and ICT appeared suffering mainly because of lack of demand and credit conditions.

In July, consumer confidence decreased by compared to June. This is the result of less positive household's opinions on labour market conditions, current and future situation of the Italian economy and the convenience (current and future) of savings. Household opinions on convenience in purchasing durable goods worsened as well. Their level is currently well below the long-term average.

After two consecutive quarters of increase, the propensity to save decreased by 0.2 percentage point (q-o-q) in Q1. Looking ahead, the current level of confidence is consistent with a moderate evolution of consumption expenditure, although retail sales remain weak (0.3% in April and -0.7% in May).

#### 5. Prices



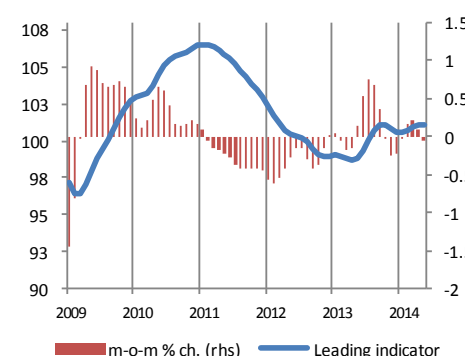
Source: Istat

#### Labour market and prices

The labour market showed a moderate improvement in June. On a monthly basis, employment increased 0.2 (m-o-m) following the positive results of May (0.1), while unemployment fell by 0.3 percentage point to 12.3%.

In July preliminary estimates of the yearly rate of change in the CPI (Figure 5) registered a new minimum since July 2009. The 0.1% increase (y-o-y) was the result of the positive but weak increase in services (0.6%) and non-energy industrial goods (0.3%). Energy and food, alcohol and tobacco recorded a negative variation (-2.8% and -0.7% respectively). According to the confidence surveys, expectations are for a substantial price stability in the short term.

#### 6. Leading indicator



Source: Istat

#### The outlook for the Italian economy

In the last months, the recovery of the Italian economy seems more difficult than expected reflecting the uncertainty prevailing amid households and firms. Households are still adjusting their balance sheet and maintaining a prudential behavior on consumption decisions. Weak internal demand and a moderate growth of external demand suggest caution in planning investment by firms. Industrial production forecast point to a moderate negative second quarter of the year and newly estimated leading indicator<sup>1</sup> of the Italian economy suggests this weakness will continue in Q3.

On the other hand, recent ECB decision to support bank lending to households and non-financial corporations via Targeted Long-Term Refinancing Operations (TLTRO) could ease access to credit in the second part of this year.

<sup>1</sup> The indicator is a synthesis of a set of variables (qualitative, quantitative) selected on the base of their ability to anticipate economic cycles (on average about 5 months) – see Altissimo, Marchetti, Oneto (2000) "The Italian Business Cycle: Coincident and Leading Indicators and some Stylized Facts", Temi di Discussione No. 377, Banca d'Italia.