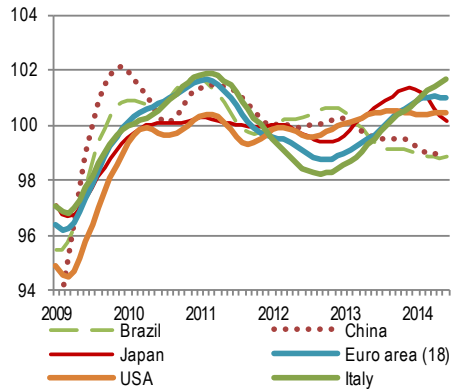


1. OECD's leading indicators



Source: OECD

In the first semester of 2014 economic activity has slowed reflecting both the negative contribution of investment and low level of export. The fall in employment is however lower than in the previous period.

The recent picture from household and business surveys confirms the difficulties of the recovery. Economic forecasts for the third quarter of 2014 point to a stagnation due to the delay in the acceleration of private investment, while private consumption is expected to evolve positively.

Geopolitical risks could influence external demand putting a drag on the exports.

The international environment

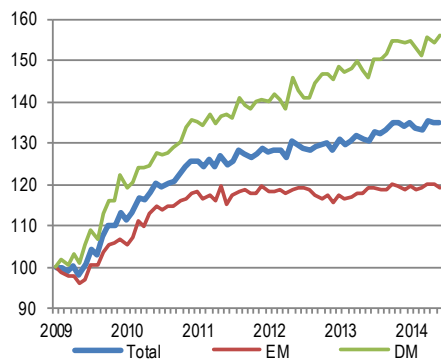
The international business cycle is characterized by a general slowdown that has been significant, especially for the Euro area (Figure 1). In the US, the increase in economic activity in Q2 2014 (1%) supports the expectation for a positive pattern in the second semester. In Japan, the increase in the consumption tax in April has determined a robust contraction in Q2. The projection for the last part of the year is strongly related to the decisions expected for fiscal policy.

In Q2, activity in the Euro area remained stable as a results of the difficulties in France (0.0%), Germany (-0.2%) and Italy (-0.2%). The activity is expected to turn positive in the second quarter, but at a low pace compared to the previous forecasts.

According to the most recent CPB data (Figure 2), world trade volumes have slightly increased in June (+0.1% m-o-m) after a fall in May. This results reflects the contraction for developing countries (-0.7%) and the acceleration of emerging economies (+1.0%).

In August, Brent prices have continued to decrease, reaching 103 US\$ per barrel. The recent announcements on monetary policy interventions by the ECB have had an impact on the euro-dollar exchange, which at the end of August has been fluctuating around 1.32 \$/€.

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



Source: CPB

The economic situation in Italy

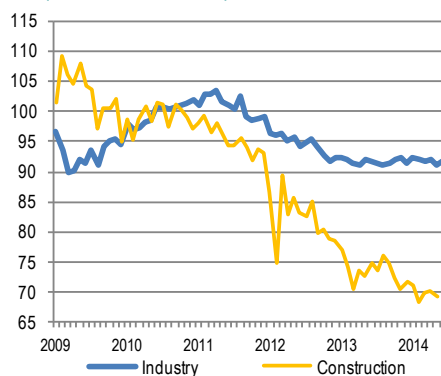
Production in different sectors

Industrial production (excluding construction) is leaping (Figure 3). In June, the seasonally adjusted index increased (+0.9% m-o-m), offsetting the decrease in May (-1.2%). Overall, Q2 exhibited a moderate contraction (-0.4% q-o-q, -1.1% excluding the energy sector) better than the results experienced in France (-0.7%) and Germany (-0.9%).

The negative co-movements in the industrial activity between European countries has implied a drag on external demand (only +0.4% comparing April and May with Q1). The decrease in Italian export has been relevant for extra-EU countries and weak domestic demand played a significant role.

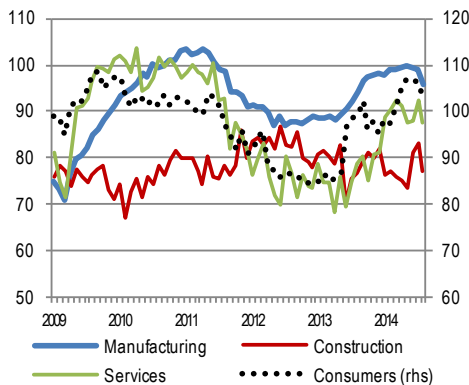
The construction sector remains weak. According to national accounts, investment in construction dropped again in Q2 (-0.9%). The only positive signal for the sector comes from the survey on households credit conditions that has shown a stronger performance.

3. Production indices (base 2010 =100)



Source: Istat

4. Business and consumer confidence



Source: Istat

Business and Consumers confidence

In August, the business surveys presented negative results for all economic sectors (Figure 4). The fall for the manufacturing sector is associated with a reduction in the expectations for the next period and the increase in the level of inventories.

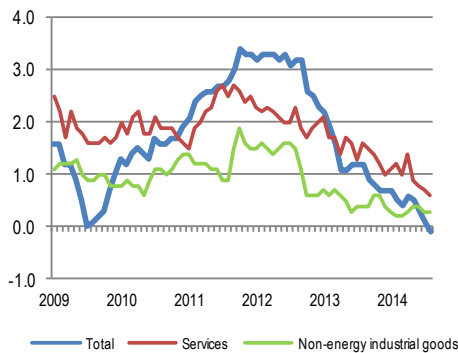
The confidence index in construction dropped due to the negative signals from employment expectations.

The decline in the confidence index of services was characterized by the negative sentiment on economic expectations, while the decrease in retail trade is related to the projection on sales.

In August, consumer confidence continued to decrease. This is the result of less positive households' opinions on the current and future situation of the Italian economy, on labour market conditions and on the convenience (current and future) of savings. As in the previous month, household opinions on convenience in purchasing durable goods worsened.

However, according to national account, in Q2 the private consumption shows a moderate increase (+0.1%).

5. Prices



Source: Istat

Labour market and prices

The labour market presents a mixed picture. In Q2 the decline in employment and the growth in the numbers of unemployment slowed down.

On the contrary in July, employment fell again (-0.2% m-o-m) while unemployment went back to its highest value of 12.6%.

In August, preliminary estimates of the yearly rate of change in the CPI (Figure 5) registered the new minimum since the last 50 years. The 0.1% contraction (y-o-y) was the result of the positive but weak increase in services (0.6%) and a marked reduction for energy (-3.7%). According to the confidence surveys, expectations are for a substantial price stability in the short term.

The outlook for the Italian economy

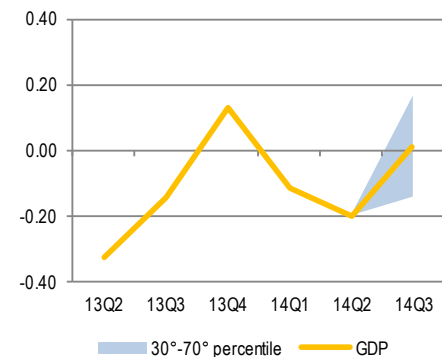
In the first semester of 2014, the contraction in economic activity was mainly driven by the delay in private investment recovery, while private consumption experimented a slight increase. Also, the low level of the international cycle has affected negatively the performance of the GDP.

In July and August, according to the information from business and household surveys, the recovery of the Italian economy is more difficult than expected. Moreover, signals from labour market remain negative.

The short-term macroeconomic model developed by Istat¹ suggests that the difficulties in the recovery will continue in the next months. The projection for Q3 is 0.0% (q-o-q) with a band interval ranging from -0.2% to 0.2%. This result reflects a positive contribution by private consumption and the negative dynamics of investments and inventory.

The forecast value of Q3 implies a negative year to year growth rate (-0.3%) measured on Q1-Q3 period.

6. Quarterly GDP and forecast for Q3 2014



Source: Istat

¹ The annual outlook for the Italian economy in 2014-2016 will be published by Istat on 3 November 2014.