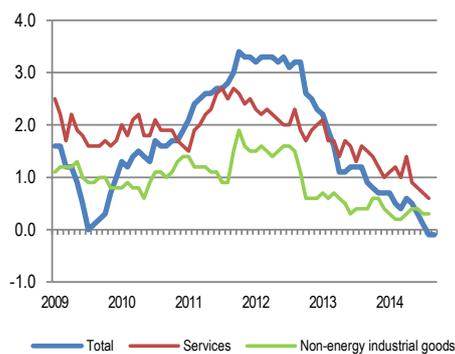


### 1. International trade - volume

(January 2009=100)



Source: CPB

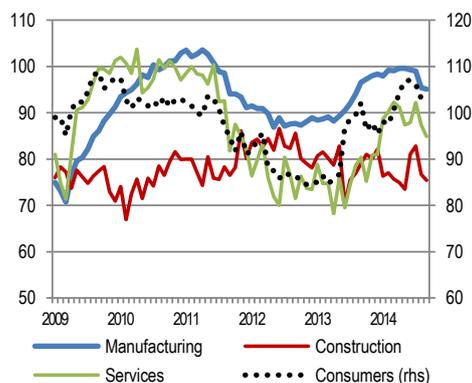
### 2. Production Indices

(base 2010 = 100)



Source: Istat

### 3. Business and consumer confidence



Source: Istat

The Italian economy continues to experience difficulties, while euro area GDP growth remains weak. Subdued output growth reflects internal demand gaps, in particular a continued contraction in investment. Business confidence has decreased over the past two months, reaching the levels hit at the beginning of the year. The decline has been marked in the service sector. However, the real effective exchange rate depreciation spurred by ECB monetary stance could help trigger a recovery in exports.

### The international environment

Recent data provide evidence of substantial asymmetries in the business cycle across advanced economies. In the United States, the upward revision in GDP growth in the second quarter, along with the improvement in business and consumer confidence, support the recovery of the economic cycle. In Brazil and Russia, a stagnation is expected for the current year, while the increase in public spending before the election is boosting the Indian economy. China is foreseen to achieve government's economic growth target, although the weakness in import raises doubt about the strength of domestic demand.

In the euro area, economic activity is evolving at a slow pace compared to the US. Output stagnation in Q2 is driven by a drop in investment and a contraction in public expenditure. According to preliminary estimates for the Eurozone Economic Outlook, in Q3 GDP growth is expected to exhibit a modest recovery, driven by internal demand.

In July, international trade has accelerated (1.4% m-o-m) and the volume index is now back to the level prevailing at the beginning of the year (Figure 1). In the absence of a major acceleration in the final part of the year, the growth rate in 2014 will be close to the one experienced in 2013 (2.6%).

The €/€ exchange rate dynamics reflects the relative strength of the business cycle in the US and in the euro area. Consequently, at the end of September, the exchange rate was around 1.28 dollar per euro. The expectation of additional expansionary measures in the pipeline by the ECB and the phasing out of the Fed asset buying program are also contributing to weaker exchange rate both in nominal and real effective terms.

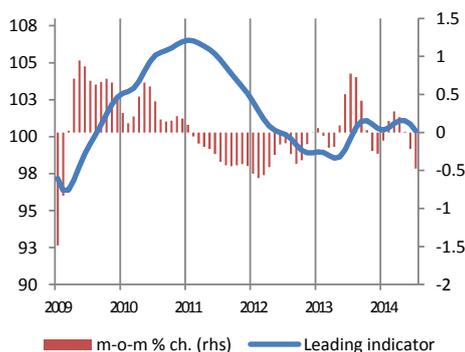
As a result of dollar appreciation and excess supply in a context of weak global demand, oil prices continued to fall to below US\$ 100 pb since the second week of September.

### The economic situation in Italy

#### Production in different sectors

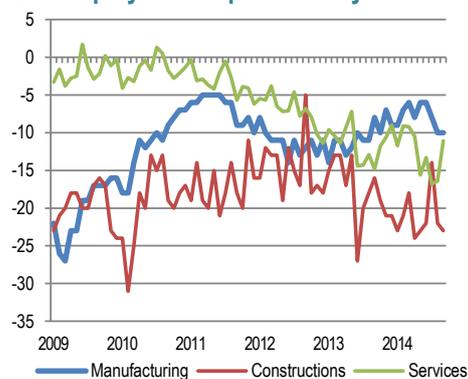
In July, all economic sectors in Italy showed a deterioration in economic activity (Figure 2). This is in contrast with the performance in the euro areawhere economies have exhibited less negative results for manufacturing output growth with a stagnation in France and Spain, and a relevant increase in Germany (+1.9%). The loss of momentum in investment spending and the moderate expansion in private consumption constrained by the negative conditions of the labour market are key features of the current phase of the Italian business cycle. The slowdown in international trade, especially in the EU, has reduced export growth (-1.6% m-m). The share of expanding sectors has remained stationary over the last months, but it is still below 50%. However a decline in orders is expected in the third quarter, depressing expectations on production levels.

#### 4. Leading indicator



Source: Istat

#### 5. Employment expectation by sector



Source: Istat

#### 6. Prices (y-o-y % change)



Source: Istat

### Business and Consumers confidence

In September, business confidence reported a contraction in all economic sectors (Figure 3). The reduction has been moderate in industry and construction and more significant in services. These results reinforces the negative signals of August, putting the index around the levels reached at the end of 2013.

The main contribution to the decline in the construction sector resulted by the expectation on orders.

In September, consumer confidence maintained the same level of the previous month. Expectations on present and future economic situation were both flat around the long term average.

These dynamics imply that our Composite Leading Indicator (Figure 4), elaborated as a synthesis of several short-term indicators, remains negative, suggesting a further decline in GDP in the third quarter.

### Labour market

The labour market remains weak. Seasonal adjusted data for total employment suggest the end of the decline in employment fall started in 2012 Q2. The stagnation in 2014 Q2 reflects differences among sectors. The employment reduction in construction (-1.3%) and services (-0.2%) has been balanced by the increase in jobs for industry (0.7%) and agriculture (1.8%).

The persistent difficulties in the labour market are confirmed by the job vacancy and unemployment data. The former stayed around its minimum in 2014 Q2, while the latter decreased to a still high 12.3% in August (from 12.6% in July), but business expectations on future job creation remain weak (Figure 5).

### Prices

The current disinflation spell presents different features when compared with a recent previous episode (from mid-2008 to mid-2009).

In July 2009, consumer inflation was nil and energy prices recorded a significant fall on an annual basis (-14.6%), with a negative contribution to the overall index by about one percentage point.

In September 2014, with CPI just below zero, the fall of the energy was limited to 4.5%, with a deflationary contribution of 0.4 percentage points.

The main driver of recent price trends is the relevant reduction in core inflation, a result of persisting weak consumption demand and tight labor market conditions. Since the beginning of current year, the growth in core inflation (excluding energy and unprocessed food) has halved from 1% in January to 0.5% in September.

In September, the annual increase in headline CPI was 0.6%, half the change registered in the first quarter and 1 percentage point lower than in July 2009 (Figure 6). Overall, inflation fell by 3.3 percentage points since the beginning of the disinflation process, 0.8 percentage points of which in current year.

Given the outlook for the Italian economy the level of monthly inflation is expected to be around zero for the next months.