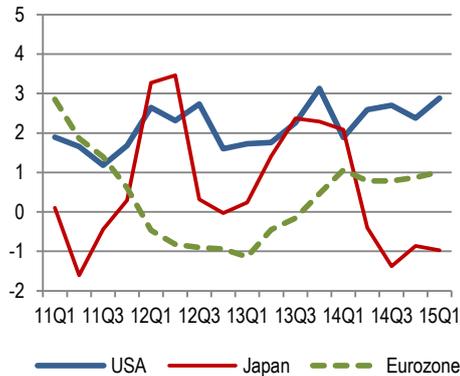


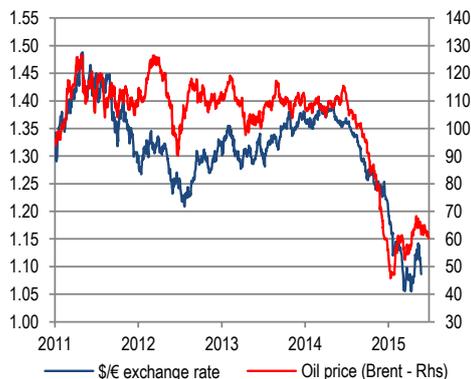
1. GDP – USA, Eurozone and Japan (y-o-y % change)



Source: Eurostat

Economic recovery is continuing, but at a slower pace than in Q1. Labour market is showing the first signs of recovery, but only from the demand side while the supply side is still lagging behind. Deflation is receding and inflation is expected to turn positive in autumn. The outlook is surrounded by the uncertainty related to the Greece negotiation.

2. Oil price and exchange rate



Source: Thomson Reuters

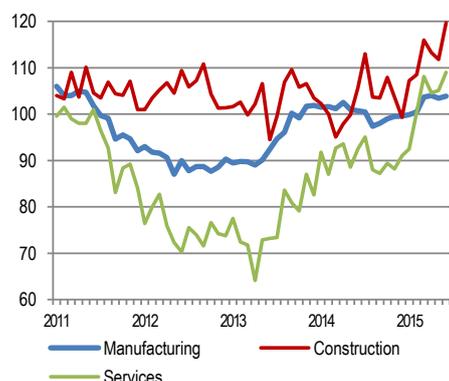
The international environment

The third release of the US GDP lowered the previous indication of a slowdown in Q1 (-0.2%, at annual rate, from -0.7% previously estimated); in Q2 GDP growth rate is expected to remain modest due to the action of cyclical conditions like the dollar appreciation and the fall in capital goods spending in the oil sector. Nonetheless, the trend remains positive. The Conference Board leading indicator marked a sharp rise in June. Consumer confidence showed a strengthening both with regard to the current state of business and near term future. Total nonfarm payroll employment increased further in May (280,000 units, after 221,000 in April).

In the Euro area, the Eurocoin coincident indicator showed the seventh consecutive rise in June, foreshadowing a GDP growth rate in Q2 as Q1. However, in June, the consumer confidence indicator remained stable: a negative view on the future general economic situation and savings was balanced by an improvement in the assessment of future employment. Business confidence decreased influenced by a more pessimistic view on expected production and overall order books. In April, industrial production and retail sales increased (+0.1% and +0.7% with respect to March) together with the construction sector (+0.3% after +0.6% in March). Unemployment rate was stable (11.1% in May). However, European business cycle might be affected by the latest developments of the Greek crisis.

According to the figures of the Central Plan Bureau, after the disappointing performance in the first quarter, trade volumes in goods recorded a modest increase in April (+0.3% compared to March, figure 1). In June, Brent prices fluctuated within a range of 60-65 dollars per barrel (-3.8% compared to May, figure 2). The euro/dollar exchange rate was quite stable, reaching a 1.12 dollars per euro (a slight depreciation of +0.6% with respect to May).

3. Business confidence (2010=100)



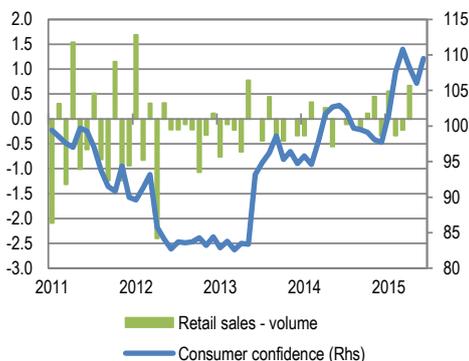
Source: Istat

The economic situation in Italy

Businesses

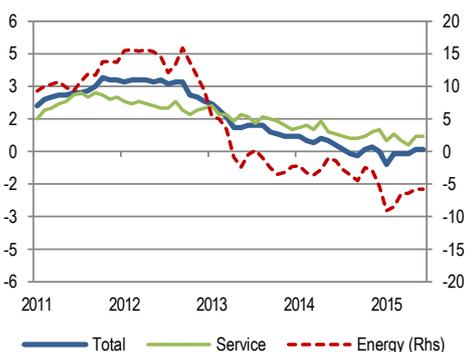
In April, the production activity in the industrial sector (excluding construction) recorded a slight decline (-0.3% m-o-m), affected by the fall in production of non-durable consumption goods (-1.7%) and partially offset by the recovery of durables (+2.2%). Activity rates instead remained unchanged for the intermediate and instrumental goods. The prospects for production levels in the coming months, drawn from business surveys, signal further increases (Figure 3), especially for capital equipment while a stationarity is expected in the remaining sectors. Industrial turnover in value also showed a decline (-0.6%, after two consecutive increases), reflecting the negative performance on external destination markets, particularly those outside EU. Sales to extra EU markets rebound slightly in May. In Q2, according to business surveys, the main obstacles to export lowered further.

4. Retail sales and confidence (m-o-m % change and level)



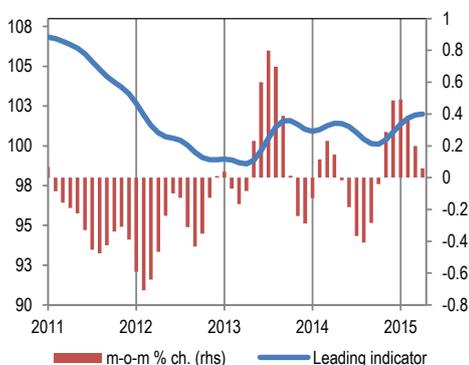
Source: Istat

5. Prices (y-o-y % change)



Source: Istat

6. Leading indicator (2005=100)



Source: Istat

The construction industry continued to stagnate in April. Some positive indications emerged on the demand side, concerning the favourable dynamics of investments (+0.5% in Q1). House prices, on the contrary, continued to reduce in Q1 (-0.7% q-o-q). In June, confidence climate showed a hike, driven by the rise of employment prospects. In the business services sector, the confidence climate increased as a result of the improvement of the expectations on the short-term prospects of the economy as a whole. The rise mainly affected the transport and storage services and information and communication services. Expectations on orders remained unchanged, thus projecting a stagnation of the overall sector in the coming months.

Households and labour market

After six consecutive positive signs, household consumption took a break in the first quarter of 2015. While real disposable income increased by 0.6% the expenditure slightly contracted by 0.1%. As a consequence the saving rate jumped by 0.8 percentage point to 9.2%, still below the pre-crisis (2000-2007) average level of 12%.

Recent monthly data anticipate a second quarter dynamics for consumption stronger than in the previous quarter (Figure 4). Real retail sales increased by 0.7% in April. Consumer confidence increased in June after two consecutive contractions. All the four sub-components increased but economic climate, future climate and unemployment expectation raised sharply.

Employment has returned to decline (-0.3%) in May compared to April, after a strong increase (+0.6% in April compared to March). Since the beginning of the year, the overall level of employment remained virtually unchanged. The unemployment rate was stable at 12.4% in May compared to April.

Prices

In June, inflation remained stable. According to the flash estimate, the annual rate of change in the CPI (NIC) was 0.1% as in May (Figure 5). Growth rate for harmonized index was slightly higher (+0.2%) and equal to euro area inflation rate. The stability affects almost all the main items. Non-energy industrial prices indicate an upward trend since the end of 2014.

Overall, downward external pressures are decreasing, even if labour market and consumer demand difficulties restrain prices recovery. The inflationary dynamics reflects, on the one hand a rebound in import prices, due to the effects of euro depreciation; on the other hand, the price fall at the early stages of the production chain. For consumer goods, the annual change in import prices turned positive in February.

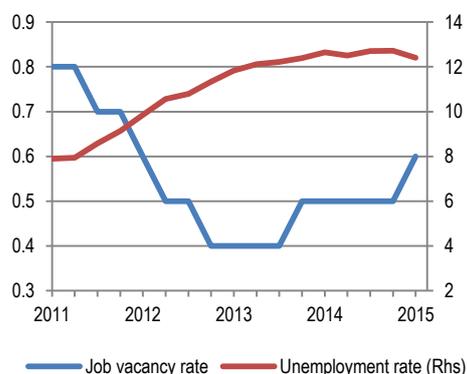
Inflation expectations still anticipate a price moderation in the coming months, reflecting uncertain prospects for economic outlook. The share of consumers expecting a rise in prices decreased, while among corporations there were no substantial changes.

Without any significant change in international markets of raw materials, inflation will be confirmed at similar rates during the summer. A rebound, slightly above zero, is expected to take place in autumn, due to the monthly falls recorded in the latter part of last year because oil prices drop.

The outlook

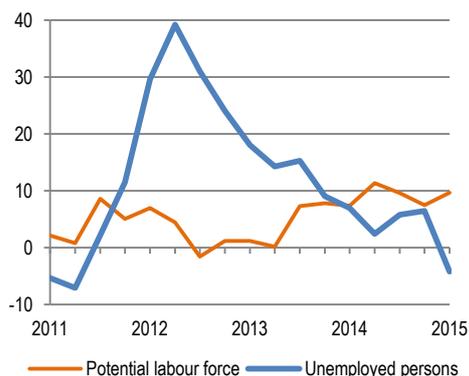
According to the latest economic indicators, the economic recovery is projected to continue in the coming months but at a lower intensity compared to the beginning of the year. The composite confidence index of supply-side sectors increased again in June. The composite leading indicator of the Italian economy (Figure 6), decelerated in April, continuing the trend started in February.

7. Job vacancy and unemployment rates



Source: Istat

8. Potential labour force and job seekers (y-o-y % change)



Source: Istat

Focus

Some good news in the labor market but recovery has still to come

The job vacancy rate in Italy was 0.6% in the first quarter of 2015, up from 0.5% recorded in the previous quarter, reflecting an increase in firm's job search activity (Figure 7). The vacancy ratio remained stable at 0.5% since the last quarter of 2014; the upturn has taken place in the service sector and in construction but not yet in industry. Moreover, in June, entrepreneurs' forecasts regarding future employment trends (covering the following three months) were optimistic for all sectors (also in industry).

Indications coming from the supply side of labor market are more difficult to interpret. The comparison of present trends with those of the first quarter of 2014, using not-seasonally adjusted data, showed a more favourable picture of the Italian labor market than that observed in the short term using seasonally adjusted data.

In Q1 there was a decline in the unemployment rate (six decimal points less than Q1 2014) and an increase of employment (+0.6%).

A reduction in people seeking work (-4.2%, 145,000 units less than Q1 2014) went along with a growth in the potential additional labor force (+9.7%, 324,000 individuals – Figure 8). There was also an increase of those who have stopped searching for work because they believe they could not find one, i.e. discouraged workers (+2.7%, 52,000 people). The phenomenon involved primarily males (+6.4% against +0.7 of women) and is a negative signal, since discouragement in job search has strongly risen in Italy at the height of crisis (2012-2013).

A positive trend is undergoing instead in the reduction of long-term-unemployment: the share of long term unemployed on total unemployment fall from 58.7% to 57.1% in a year. It decreased mainly among women, in the Centre and in the South of the country.