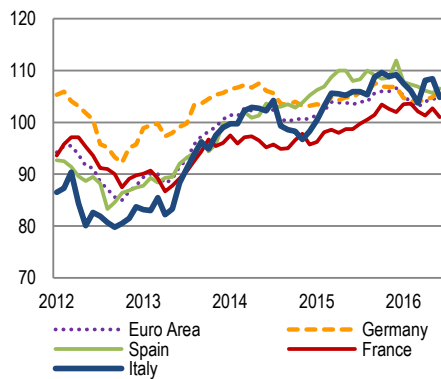
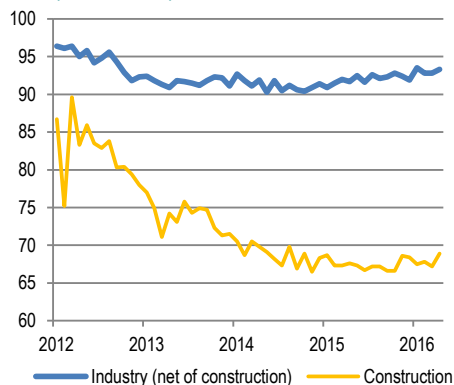


### 1. Economic Sentiment Indicator (2010=100)



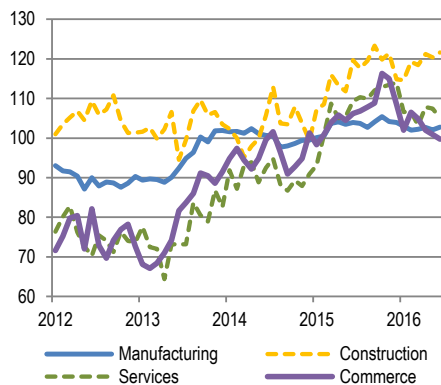
Source: DG ECFIN

### 2. Production indexes (2010=100)



Source: Istat

### 3. Business confidence indicators (2010=100)



Source: Istat

Italian economy continues to grow at a moderate pace due to the improvement in manufacturing production and the beginning of recovery in construction activity. Corporate profitability and employment are positive. Mixed signals come from consumptions, households confidence and market services climate. Consequently composite leading indicator for Italian economy registered a further decrease suggesting a slowdown in the growth rates of economic activity in the short term period.

### The international environment

Despite the upward revision of the third release (+0.3% q-o-q with respect to the previous +0.2%), the deceleration in real GDP in the first quarter of 2016 primarily reflected a deceleration in personal consumption expenditure and a larger decrease in non-residential fixed investment. However, the labour market and the evolution of consumption maintained a positive trend: in June, new applications for unemployment benefits remained at very low levels, while in May consumer real expenditure experienced a further increase (+0.3%). The positive trend is expected to continue in the coming months since the climate of consumer confidence improved in June while the Conference Board leading indicator, albeit slightly lower in May, remains at high levels.

In the Euro Area, GDP registered an increase in Q1 (+0.6% q-o-q). In April the industrial production increased by 1.1%, while production in construction slightly declined by 0.2%. Labour market situation showed in May a slight improvement: the unemployment rate was equal to 10.1% (in April it was 10.2%), the lowest rate from August 2011. Leading indicators for business cycle seems to give stationary signals for growth prospects in the area (surveys were conducted before the UK referendum). In June Economic Sentiment indicator remained unchanged (Figure 1) while the Eurocoin index increased compared to the previous month, registering the first rise from the beginning of the year. Also inflation, according to the flash estimate of consumer prices, in June was positive again (+0.1%).

The slowdown in emerging economies continues to affect the flow of world trade. According to Central Plan Bureau data in April, the world trade volume registered an improvement (+0.6%) as a synthesis of robust growth in exports (+1.5%) and a slight fall in imports (-0.4%); in particular, imports from emerging countries have marked the most significant decrease (-2.4%).

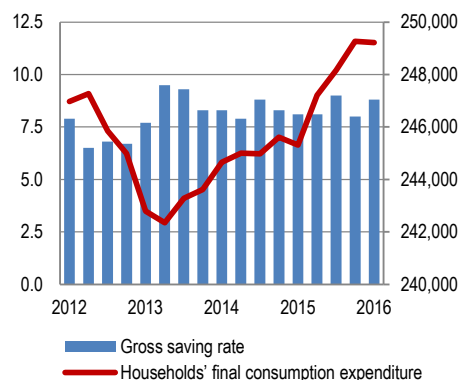
In Q2 the Euro-US exchange rate recorded a slight appreciation (+2.5% q-o-q), even if the Brexit effect and the uncertainty in the financial markets curbed appreciation trend in the last days of June (the exchange rate increased from 1.14 to 1.10 of June 23, 27 June). In Q2 The Brent price increased in June at \$50.0 per barrel (about +34% q-o-q).

### The economic situation in Italy

#### Businesses

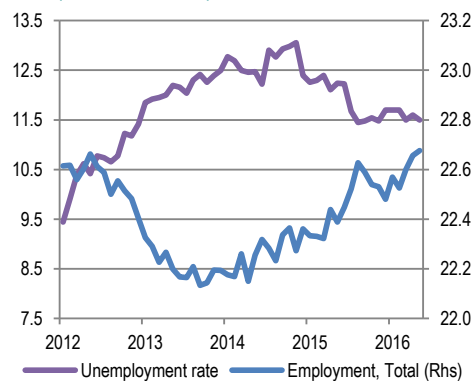
In April manufacturing activity in industry excluding construction recorded an economic growth (+0.5%, m-o-m, Figure 2). The overall increase in the index was driven by the positive performance of intermediate goods and consumer goods (+2.2 and +1.1% respectively compared to March); by contrast, there were slightly negative results for capital goods (-0.1%) and a more marked decline for energy (-1.5%).

#### 4. Gross saving rate and households' final consumption expenditure (million of euro and %)



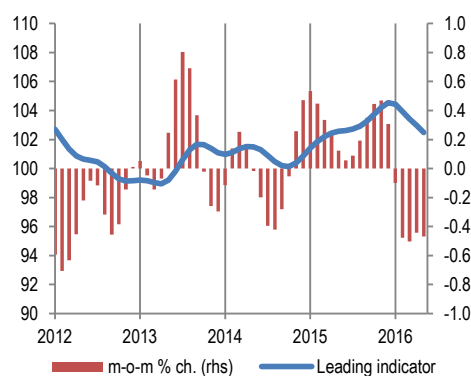
Source: Istat

#### 5. Employment and unemployment (million and %)



Source: Istat

#### 6. Leading indicator (index and % change)



Source: Istat

In April, also the industrial turnover registered an increase (+2.1% compared to the previous month), determined by the significant improvement in domestic demand (+3.1%), in the presence of a continued weak phase of the sales on foreign markets (+0.2%). By contrast, growth in new orders index (+1% compared to March) reflected the sharp increase in the foreign market (+8.1%), which more than offset the decline of the domestic one (-3.9%).

Conflicting signals come from trade with foreign countries. In April both exports and imports marked a cyclical increase (+2.7 and +3.9% respectively). The economic growth of trade flows was supported by both main markets, with a greater increase for extra-EU foreign trade. However In May 2016, in seasonally-adjusted terms, exports with non-EU countries decreased by 3.0% and imports decreased by 1.1% compared with April 2016. In the second quarter firms reported a reduction in the main export obstacle factors and expectations on export turnover showed an improvement after the downward revision of the first quarter.

The improvement in confidence index in construction sector in recent months (Figure 3) was only a partial evidence of production activity: after reduction of investments in the first quarter (-0.5%), the production index in April marked a significant improvement (+2.5% compared to the previous month). In Q1 housing prices settled on the levels of the previous year (-0.4% the quarterly change) strengthening the hypothesis of the end of decline phase. In line with the recommendations that emerged from the analysis of the diffusion of the recovery in the services sector, which showed a phase of weakness in the sector, in June the climate of business confidence in market services and retail trade declined further.

#### Households and labour market

In the first quarter of 2016 gross disposable income of consumer households increased by 0.8% with respect to the previous quarter while final consumption expenditure remained unchanged, after three consecutive quarters of increase. Gross saving rate increased again reaching 8.8% of gross disposable income (Figure 4). Because of a reduction in the implicit consumption deflator (-0.3%), the purchasing power of households increased by 1.1%. According to labor force data in May improvements in employment continued (+0.1 compared to April, +21,000 workers, Figure 5). The increase in employees was due exclusively to the female component (24,000 units more, +0.3%). The unemployment rate declined (11.5%, one tenth less than in the April value). In June, the entrepreneurs expectations on employment trends for the next three months appeared to have different trends depending on the sectors: a deterioration in services and construction, stable in manufacturing and an increase in trade.

#### Prices

Consumer price inflation remained negative in June. According to preliminary estimate, the index for the whole nation was -0.4% y-o-y, following the -0.3% in May. Excluding energy and food, core inflation remained positive (+0.4%) even though the overall picture showed a substantial deceleration. The downward trend in consumer price inflation was affected by the reduction of prices in the upstream of the final distribution stage, influenced by indirect effects of the fall in oil prices, combined with a relative recovery in the euro exchange rate in the spring months. The consumers and business expectations remain weak in the short run.

#### The Outlook

The most recent indicators of Italian business cycle show a slowdown in the economic activities. In the absence of any precise quantification of the possible economic effects of Brexit, the composite leading indicator for Italian economy registered a further deceleration, suggesting the slowdown in the pace of growth in economic activity in the short term (Figure 6).