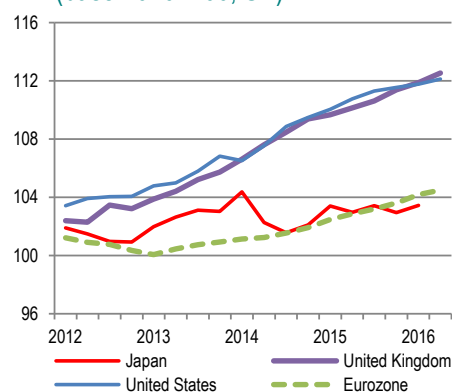
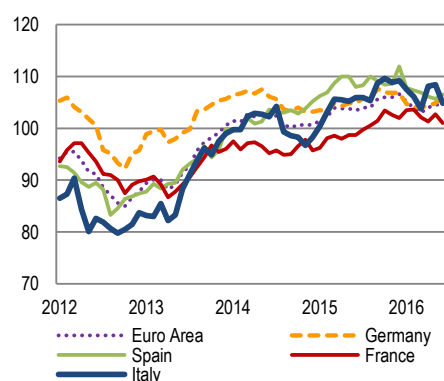


1. GDP Eurozone, United States, Japan, United Kingdom (base 2010=100, SA)



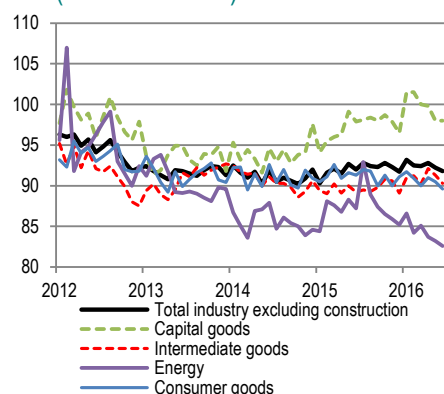
Source: Oecd

2. Economic Sentiment Indicator (base 2010=100, SA)



Source: Dg Ecfm

3. Production indexes (base 2010=100)



Source: Istat

In a context characterized by the decline in international trade and US growth, in the second quarter the Euro area recorded a slowdown in production rates. Italian manufacturing firms reported a decrease in activity levels while employment continued to expand and deflationary trends eased. The composite leading indicator for the Italian economy showed a further decline, albeit to a lesser intensity than the declines of recent months.

The international environment

The advance estimate of US GDP for the second quarter in 2016 highlighted the continuation of the growth phase (+1.2% from +0.8% in Q1, annualized) although at a slower pace than expected (Figure 1). The main contribution to growth came from personal consumption expenditures with exports recording positive growth rates as well; inventories and fixed investment instead provided a strong negative contribution. In June, the Conference Board leading indicator rose (+0.3%), suggesting an evolution still positive for the coming months.

The preliminary estimate of Euro area GDP for the second quarter indicated a slowdown in growth (+0.3% q-o-q from +0.6% registered in Q1). The loss of intensity should reflect the attenuation of the improvements coming from domestic demand (in Q1 disposable income and per capita household consumption marked a significant increase from the previous quarter, respectively + 0.9% and + 0.8%). In June also the steady improvement of the unemployment rate marked a pause (10.1%, the same level of the previous month). Moderate signals with regard to growth prospects come from the leading indicators of the business cycle. In July, the Eurocoin index registered the second consecutive increase, while the climate economic sentiment indicator (ESI) remained broadly unchanged in the Euro area (Figure 2). However, the expansionary measures implemented last June by the ECB are expected to support the supply of credit thus improving the prospects for investment.

Currently the devaluation of the pound against the dollar is the most obvious effect of the outcome of the last June referendum in the United Kingdom. In July also continued depreciation of the Euro-US exchange rate (-1.4% m-o-m) already started at the end of the previous month. The Brent price, after the recovery of the previous month, suffered a further decline in July, amounting at \$47.3 per barrel on average.

According to Central Plan Bureau data in May, the world trade volume had a further decline (-0.4%) after the decrease in April (-0.3%): exports reduced for advanced countries (-2.1%) driven by the contraction in the Euro area. Among the emerging economies, imports in volume for Asian countries reported a sharp rise.

The economic situation in Italy

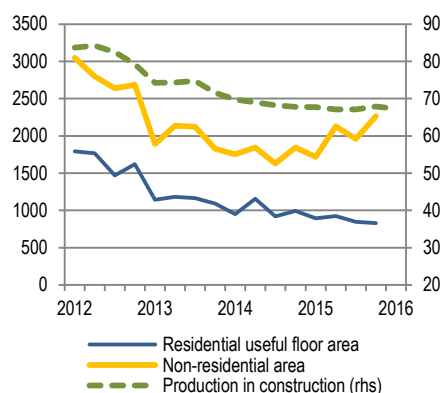
Businesses

In the second quarter the index of industrial production (net construction, Figure 3), decreased compared to Q1 (-0.4%) registering in June a second negative growth rate (-0.4% m-o-m after -0.6% in May). The phase of weakness in the manufacturing sector was also confirmed by turnover and orders: in May the first decreased by 1.1% and the latter by 2.8%. Compared to turnover, the decline in orders was more pronounced in the average of the last three months. (respectively 0.3% and -3.1%).



4. Index of Production in Construction and Building Permits

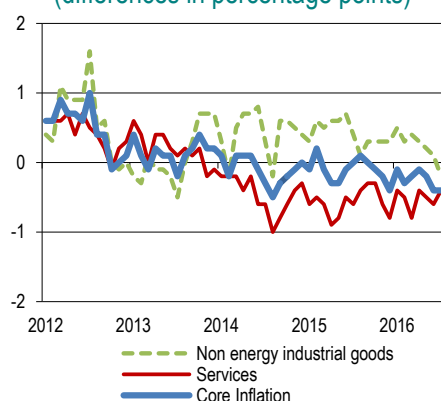
(2010=100, thousands sq2)



Source: Istat

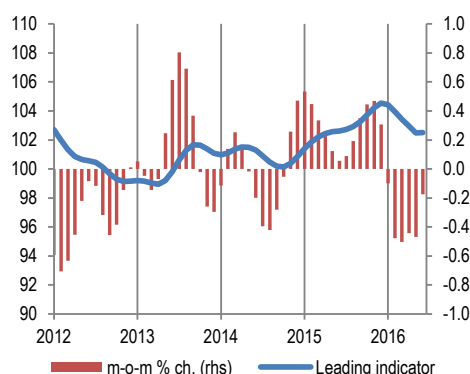
5. Core inflation and main components: Italy vs Euro Area

(differences in percentage points)



Source: Eurostat, Istat

6. Leading indicator (index and % change)



Source: Istat

For both indexes the domestic component recorded the most significant decline. In May, exports were slightly down (-0.2% m-o-m) with the lowest growth rates for capital goods (-3.3%) and durable consumer goods (-2.7%). The imports recorded a decline (-1.2%), compared to April, especially for capital goods (-5.2%) and consumer goods (-2.1% non-durable and -5.7% durable). The latest trade figures extra EU trade in June, however, indicated a slight increase in exports (+0.3% compared to May) and a continuation of the fall in imports (-0.5%). After the recovery in April, the index of production in construction registered a significant decrease (in May -3.6% m-o-m). Mixed signals are coming from data on building permits which usually anticipate production. In the second half of 2015, new residential buildings (Figure 4) showed a significant decrease compared to the same period of 2014 (-14.5% for the number of dwellings and -12.3% the useful floor area) and a marked increase in the new non-residential buildings (+21.7%). In the first quarter of 2016 the positive performance of both nationwide real estate unit sales agreements and mortgage-secured loans stipulated continued (respectively +17.9% and +29.2% compared to the first quarter of 2015). In July, the confidence climate for the construction sector registered a marked improvement as for the one of the market service businesses.

Households and labour market

In May, the volume of retail trade recorded a slight increase compared to the previous month (+0.2%, after +0.1% in April). The increase was more pronounced for sales of non-food goods (+0.3%) compared to food products (+0.1%). The latest data on judgments of business and households were positive. In July, the retail trade confidence began to rise again, with a significant improvement in the opinions on current sales and a slight worsening of the expectations on future sales. Even the consumer confidence rose as a synthesis of positive signs from personal climate index and negative judgments deriving from the economic climate. The monthly data of the labor force survey, in June showed a further increase in the number of employees compared to May (+0.3%, the fourth consecutive monthly increase). According to this trend the employment showed in Q2 a greatly acceleration compared to Q1 (+0.6% overall, compared to +0.1%). The positive trend affected both women and men. Furthermore there was a marked increase in employees (+2.6% over the first quarter) and in self-employed component (+1.1%). In June, the unemployment rate amounted to 11.6%, remaining at the levels observed at the beginning of the year (11.7% in January).

Prices

In July deflationary phase eased. According to preliminary estimate, the index for the whole nation remained negative (-0.1% y-o-y), but the intensity was more contained compared to the previous five months (-0.4% the change in June). Inflation trend continues to be affected by the fall in energy prices (-7.0% y-o-y). Overall Italian prices trend remained lower respect to Euro area inflation as a result of the weaker economic outlook (Figure 5). In particular, inflation in services is consistently lower than the average of the area by the end of 2013. The consumers and business expectations remain moderate in the short run.

The Outlook

The economic sentiment indicator (lesi) marked an increase in July, driven mainly by improvement for construction and services climates. The composite leading indicator for Italian economy (Figure 6) however, highlighted a further decline, albeit with a minor intensity with respect to the recent months ones.