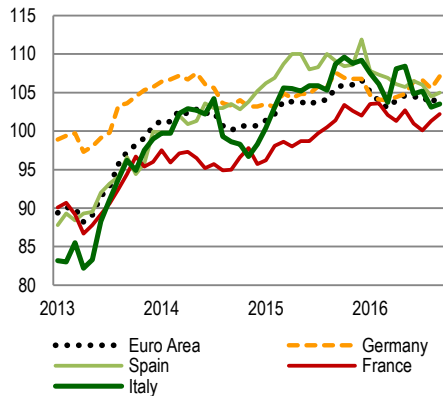
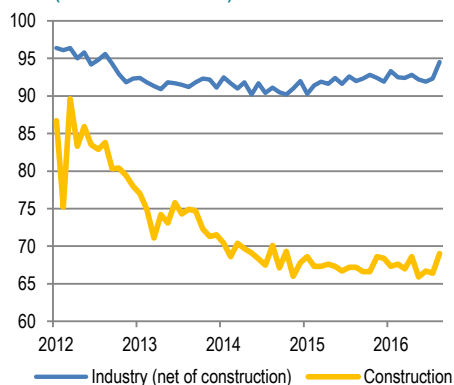


1. Economic Sentiment Indicator (base 2010=100, SA)



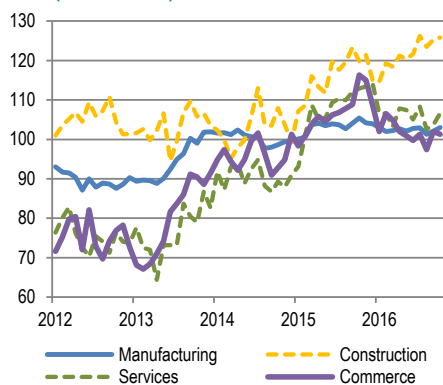
Source: Dg Ecfm

2. Production indexes (base 2010=100)



Source: Istat

3. Business confidence indicators (2010=100)



Source: Istat

US economy continues to grow in the presence of a recovery in economic activity in the euro area. Uncertainty surrounds Italian economy, with slowdown in consumption and a significant increase in the purchasing power of households and of improving trend for employment. The leading indicator does not show prospects for acceleration of economic activity in the last months of the year.

The international environment

The growth of the US continues at a rapid pace: GDP annualized growth rate for the third quarter of 2016 was +2.9%. Net exports, along with spending on household consumption and inventories contributed positively to GDP growth, while contraction continued in residential investment (-6.2%).

The expansion phase is expected to consolidate in the coming months: the leading indicator for September has increased slightly (+0.2%). In the same month, non-farm payroll employment registered a growth rate of 156,000 units, down from the previous month while the unemployment rate remained stable at 5%. However in October, the consumer confidence of the Conference Board marked a decline.

The preliminary estimate of GDP for the euro area in the third quarter of 2016, increased by 0.3% q-o-q as for the previous quarter. Manufacturing activity showed signs of recovery, with industrial production increased in August (+1.6% m-o-m) after the contraction recorded in July (-0.7%). In September, the unemployment rate remained stable compared to the previous month (10%).

Leading indicators show signs of strengthening of the recovery. In October, the Economic Sentiment Indicator rose for the second consecutive month as a result of an improvement in confidence in manufacturing, services and construction sector (Figure 1). In October the Eurocoin indicator recorded an improvement as well, reinforcing the positive trend that began in June.

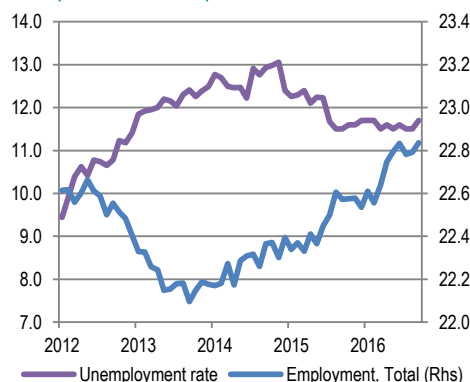
In October, Euro-US exchange rate marked a sharp depreciation reaching an average of 1.10 (compared to 1.12 in the previous month). In the same month the price of Brent continued to increase, reaching an average of \$51.6 per barrel. For August the Central Plan Bureau data showed a sharp acceleration in world trade (+1.5%) after the slowdown from previous months.

The economic situation in Italy

Businesses

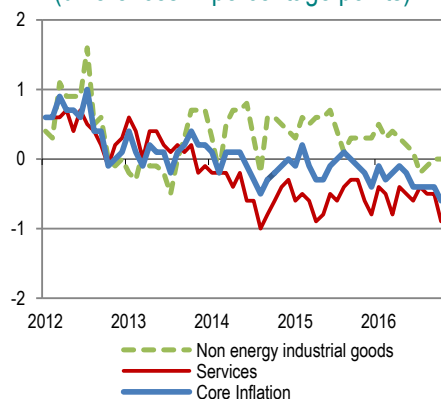
In August, industrial production index marked a substantial increase from the previous month (+1.7%, Figure 2) resulting in an increase equal to +0.4% on average in the period June-August 2016 compared to the previous quarter. In the same month, turnover and industrial new orders (excluding construction) showed a markedly positive growth rate as well (respectively +4.1% and +10.2%). The increase in turnover has affected all economic sectors, especially capital goods (+7.3%) and durable consumer goods (+4.6%). Moreover, turnover registered a positive dynamic both on the domestic (+4.1%) and non-domestic markets (+4.3%). In the first eight months of the year, however, both domestic and non-domestic turnover registered a decrease of more than one percentage point.

4. Employment and unemployment (million and %)



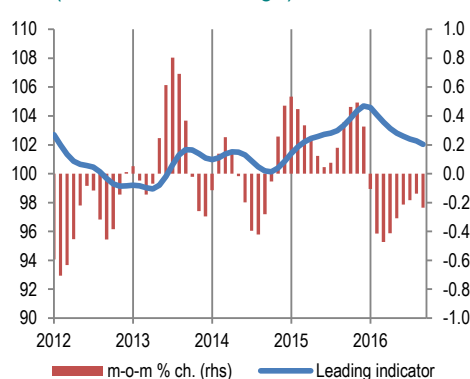
Source: Istat

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

During the same period, the total new orders were down due to a fall in domestic component only partially offset by the increase in non-domestic one.

Exports and imports in value recorded an economic growth (respectively +2.6% and +4.4%); in such way in August the level of trade with foreign countries reached the maximum values for over a year. On average from January to August, the dynamics of exports in value was stable (-0.1% compared to the same period of 2015), while imports registered a decrease of 2.5%. For exports, in September the non-EU trade recorded the fourth consecutive economic growth, albeit limited (+0.5%), while imports registered a decrease (-4.1%).

Positive signals came from the construction sector in August, the production index recorded an increase (+3.4% compared to the previous month). On average for the first eight months of the year, however, the working day adjusted index was unchanged compared to the same period last year. In October, the confidence of construction sector continued to improve (Figure 3). In the second quarter of 2016, in the presence of a still weak trend in house prices (-1.4% change y-o-y), the sales of residential properties registered a significant growth (+22.9% y-o-y).

Households and labour market

In recent months, consumption showed signs of a slowdown. In August, the volumes of retail trade decreased (-0.2% m-o-m), confirming the negative trend registered in the previous month (-0.3% m-o-m). The decrease resulted mainly from the food goods (-1%), while non-food goods recorded a slight increase (+0.2%). In October, for the third consecutive month, consumer confidence declined by reinforcing the downward trend that began in January. Labor market remained in line with the levels recorded in the second quarter (Figure 4). In September employment slightly increased (+0.2% compared to August); however, on a quarterly basis, employment remained stable, after the substantial increase in the first six months of the year (223,000 employees more than in the period from January to June). In September, the unemployment rate rose to 11.7%, corresponding to an increase of people seeking a job (+2% m-o-m) and a decrease of the inactive (-0.9%).

Prices

After the modest increase marked in September, inflation returned to negative values. In October, the annual change in consumer prices for whole nation was equal to -0.1%. The dynamics of Italian prices continued to diverge with respect to recent developments in inflation in the euro area, where the trend rate for the harmonized index in October rose to +0.5%. In particular, the domestic prices of services were barely higher than a year earlier (+0.2% based on the harmonized index) compared to an annual growth of 1.1% on average in the euro area (Figure 5). Producer prices of industrial products sold on the domestic market were down in September and in particular for non-food items for consumption. For the next few months there are no significant changes to the current dynamics.

The Outlook

After the increase recorded in September, the composite indicator of business confidence rose further in October. However the leading indicator¹ (Figure 6) does not show prospects for acceleration of economic activity in the last months of the year.

¹Altissimo, Marchetti, Oneto (2000) "The Italian Business Cycle: Coincident and Leading Indicators and some Stylized Facts", Temi di Discussione No. 377, Banca d'Italia