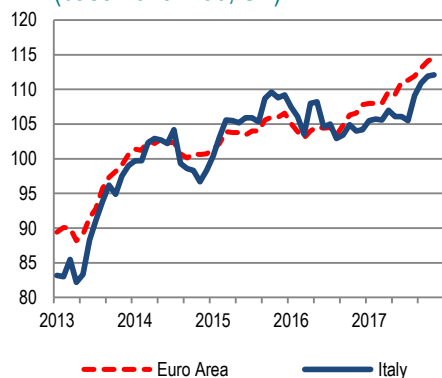
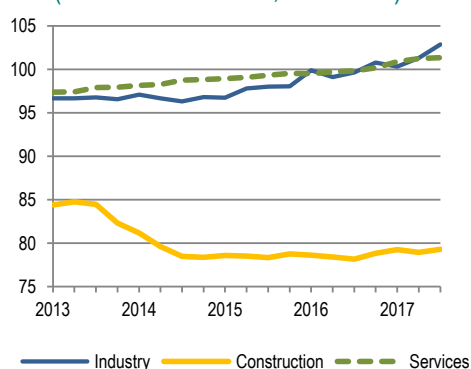


1. Economic Sentiment Indicator (base 2010=100, SA)



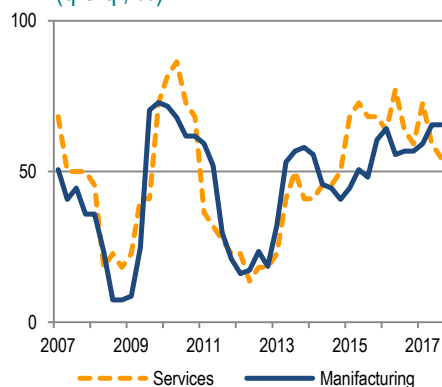
Source: Dg Ecfm

2. Value added by sector (chain linked volume, 2010=100)



Source: Istat

3. Diffusion indexes : manufacturing and services sectors (q-o-q, %)



Source: Istat

In a favorable international environment, Italian economy continues to strengthen supported by the capital accumulation process. The production activity remains positive in presence of a slowdown in services growth. The labor market is stable while the downturn in labor productivity reflects the high level of employment that characterizes the economic recovery phase. The leading indicator continues to show an upward pace, strengthening the short-term outlook.

The international outlook

International economic growth continues to strengthen. In the third quarter, the US GDP increased by +0.8% (q-o-q). Growth is driven by demand components that, with the exception of residential investments, provided a positive contribution. The increase in disposable income in October (+0.3%) continues to support the positive trend in private consumption. In the same month, non-farm payroll employment registered a marked increase (+261 thousand units) after the deceleration in the previous month. The unemployment rate therefore decreased at 4.1% (compared to 4.2% recorded in the previous month). In the coming months the evolution of the US economy will remain positive: in October the Conference Board leading indicator recorded a further increase (+1.2%) and in November the consumer confidence has further improved.

In the euro area the expansion phase continues, albeit with a slight deceleration in Q3 (+0.6% q-o-q compared to +0.7% in Q2). In October, the unemployment rate was 8.8% improving compared to the previous month. Positive signals come from the leading and business cycle indicators. In November, the Economic Sentiment Indicator confirmed its expansion (Figure 1). Business confidence indicators improved in the manufacturing sector and to a greater extent in construction. Consumer confidence also confirmed a positive trend for the fourth consecutive month remaining at higher levels since the beginning of the year. In November, the Euro-Coin leading indicator continued to improve supported by better businesses confidence and the consolidation of the economic cycle. In the same month, Euro-US exchange rate slowed down (-0.2%), interrupting the appreciation started in the first months of the year.

Brent prices kept rising (+8.7%), reaching on average \$62.6 per barrel (from 57.6 in October) as effect of OPEC and Russia recent declarations to extend the agreement on production throughout next year with the aim of reducing the strong excess of supply on the markets. Central Plan Bureau data show signs of slowdown in international trade in September as result of a raise in trade for emerging economies (+0.8%) and deceleration of advanced economies (-0.6%). In the first nine months of the year world trade showed a remarkable increase compared to the same period of the previous year (+3.8%).

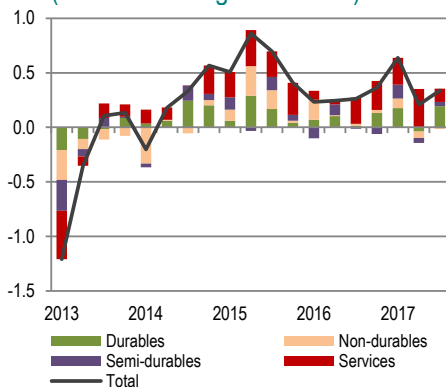
The economic situation in Italy

Businesses

In Q3 Italian GDP increased by +0.4% consolidating the expansion of the previous quarters. GDP growth was driven by domestic demand which contributed by 0.7 percentage points. The recovery of the capital accumulation process has provided the greatest support (+0.5 pp. is the contribution to investments growth) compared to household consumption contribution (+0.2 pp.).

4. Households' consumption expenditure

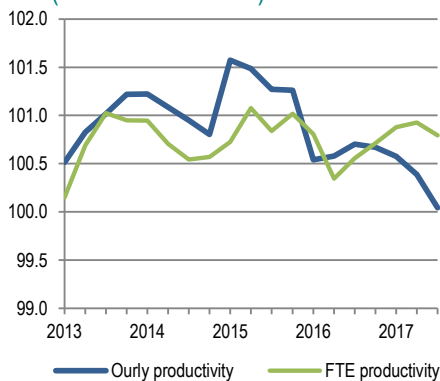
(m-o-m % change and index)



Source: Istat

5. Labour productivity

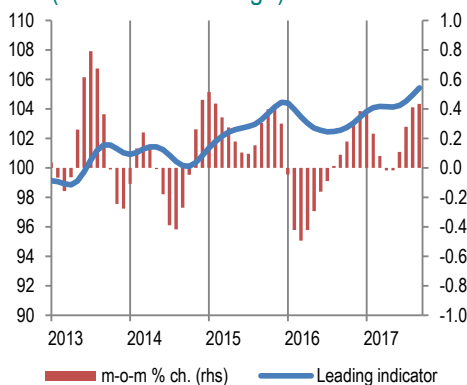
(Indexes 2012=100)



Source: Istat

6. Leading indicator

(index and % change)



Source: Istat

Change in inventories provided a negative contribution (-0.5 pp.) while contribution from net foreign demand rebounded (+0.2 pp.) following the increase in imports of goods and services (+1.2%) and exports (+1.6%), significantly accelerating after the slowdown in Q2.

In the third quarter, the manufacturing value added increased markedly (+1.6% q-o-q, Figure 2). In the services sector, the deceleration phase is confirmed (+0.1% compared to +0.3% reported in Q2) as a synthesis of a decrease in value added almost all sectors with the exception of trade, transport, accommodation and real estate activities (+0.3% q-o-q for both the sectors). The growth phase of manufacturing and services continues to affect most of the sectors. In Q3, the diffusion index, the percentage of increasing sectors out of total, remained above 50%: in manufacturing sector the index recorded a stable value (65% of industrial groups showed an expansion) while in services sector the index showed a slight decrease compared to the previous quarter (Figure 3).

Households and labour market

In Q3, the raise of final consumption expenditures was driven by the increase in household consumption (+0.3%) and, to a lesser extent, by public government expenditures (+0.1%). Among the components of the former, durable goods recorded a positive trend (+2.3% q-o-q) after the decline in the second quarter, while consumption in services slowed down (+0.2% compared to +0.7% in Q2, Figure 4). In October, labor market remained unchanged compared to the previous month with the employment rate, the unemployment rate and the inactivity being at the same level as in September. The positive current phase of the labor market is accompanied by the strong increase in hours worked (+0.7% q-o-q). Consequently, labour productivity (Figure 5) is reduced both in terms of hours worked and full time equivalent units (respectively -0.4 and -0.1 percentage points in Q3 compared to Q2). Expectations about employment are still positive in the manufacturing and services sectors while decrease in the construction.

Prices

In November, inflation signed a slowdown for the third month in a row. Despite the upward pressures of energy due to recent oil price increases, the consumer price index (NIC) registered a growth rate (+0.9%), lower by one percentage point compared to the peak of last April (+1.9%). Core inflation marked a further deceleration (+0.4%). Among the main components, the slowdown in services prices continued, while non-energy industrial goods were stable in line with the trend of the last year. Short-term expectations of manufacturing companies exhibit some element of caution while consumers expectations show somewhat a more dynamic inflation in the longer period.

The Outlook

In November, the consumer confidence index registered a decrease due to worst expectations on the economic and future situation. The composite business confidence remains at high levels with a slight decrease compared to October, mainly due to the worsening of retail trade businesses. Assessments on order books in manufacturing improved. The confidence index in construction and in market services increased, as well. The diffusion of expansion phase among productive sectors, the positive expectations both on the evolution of labor market and on orders, are reflected in the leading indicator that continues to exhibit an upward pace for the short-term period (Figure 6).