

Heterogeneous growth between regions and downward risks continued to characterize the world economy outlook.

In the third quarter, the Eurozone economy experienced a deceleration due to German GDP contraction. The Economic Sentiment Indicator (ESI) decreased further, confirming business and consumer confidence worsening.

In Italy, the GDP decreased marginally in the third quarter due to a contraction in both gross fixed investments and private consumption. On the contrary, the net exports contributed positively to growth.

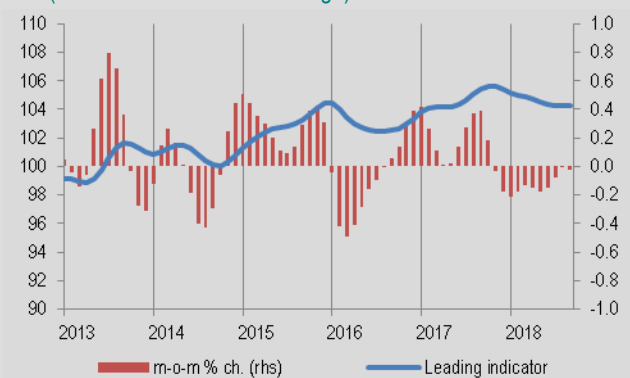
The employment stabilized on past months levels recording a re-composition, which favored full time employees. Unemployment rate increased and was complemented by a reduction in inactive persons.

Italian inflation continued to be lower than the Eurozone average but the gap is closing.

In November, both the consumer confidence and the composite indicators decreased. The leading indicator stabilized on past months minimum values confirming the business cycle weakness.

1. LEADING INDICATOR

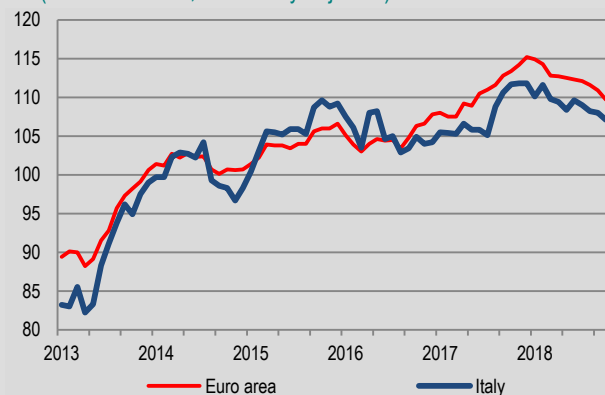
(base 2005=100 and % change)



Source: Istat

2. ECONOMIC SENTIMENT INDICATOR

(base 2010=100; seasonally adjusted)



Source: DG ECFIN

THE INTERNATIONAL ENVIRONMENT

Heterogeneous growth between regions and downward risks continued to characterize the World economy. In September, merchandise world trade in volume, according to Central Planning Bureau monthly data, decreased by 1.1% m/m, partly offsetting the increases experienced in July and August. Overall, in the first 2018 three quarters international trade was less dynamic than the previous year. The carry-over of trade in goods up to September was 3.4% in deceleration from the 4.5% of the 2017.

In the third quarter, the Eurozone economy recorded a sharp deceleration (0.2% q-o-q from 0.4% q-o-q in the second quarter) due to German GDP contraction (-0.2% q-o-q). The latter was determined by temporary factors as well as from the effects of trade tensions and euro effective exchange rate appreciation towards emerging countries. In the same period, US economy continued to be very dynamic and the preliminary estimate of a 0.9% q-o-q GDP growth rate was confirmed. The domestic demand was the main driver of growth while net exports contributed negatively.

THE ECONOMIC SITUATION IN ITALY

In Q3, following a phase of deceleration, Italian GDP showed a marginal decrease (-0.1% q-o-q, 0.2% in Q2). This result was determined by domestic demand negative contribution (-0.3 p.p.) that more than offset the positive contribution of net exports (0.1 p.p.).

Gross fixed investments decreased by -1,1% q-o-q after the 2.8% recorded in the previous quarter. This result was due to the sharp fall in the machinery and equipment component (-2,8% q-o-q) while investments in the construction sector increased. In Q3, private consumption decreased by -0,1 q-o-q but in October, retail trade data in volume showed an improvement (0,2% m-o-m) driven by the robust growth of the e-commerce.

The net exports positive contribution to GDP growth was determined by an increase in exports of goods and services (1,1% q-o-q) and a more moderate dynamic of imports (0,8%). Italian exports positive performance has extended in October when the extra- EU exports increased by a strong 5,3% m-o-m recovering from the -2,8% of the previous month. The exports growth was diffused to all sectors but that of durable consumption (-1,4% m-o-m).

In October, the employment stabilized presenting a re-composition which favored full time employees. Unemployment rate increased (10.6%) complemented by a reduction in inactive persons.

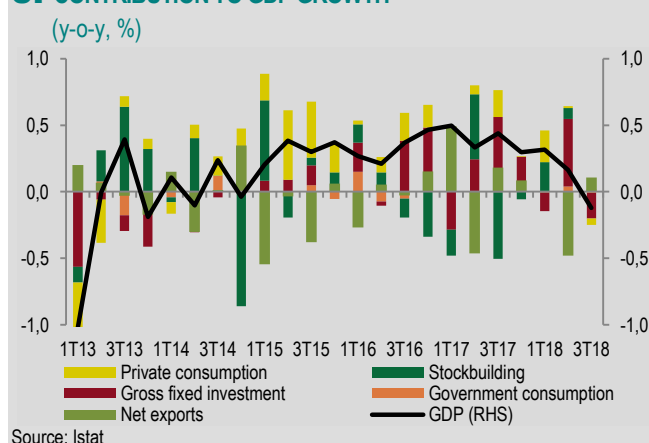
In November, inflation showed a moderate upward trend. The consumer price index (NIC) increased by 1.7% y-o-y with a substantial recovery with respect to the minimum value (0,5% in February and April). Core inflation (NIC excluding energy and unprocessed food) showed an acceleration (0.9% y-o-y the highest rate since August 2017), as effect of the upward trend in prices of services and the persistence of a moderate deflation of non-energy industrial goods. The prices dynamics continue to fall below the euro area average although the gap is closing.

THE OUTLOOK

In November, both the consumer confidence and the composite business confidence indexes showed a slight decline. The fall in consumer confidence was diffused to all the components but personal situation while the business confidence showed a marginal improvement only in the services sector. The constructions experienced a sharp deterioration.

The leading indicator stabilized on past months minimum values confirming the weakness of the Italian current cyclical position.

3. CONTRIBUTION TO GDP GROWTH



4. DIFFUSION INDEXES: MANUFACTURING AND SERVICES SECTORS

