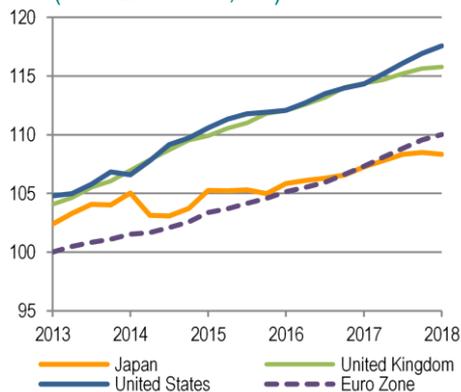


1. GDP Eurozone, United States, Japan, United Kingdom (base 2010=100, SA)



Source: Oecd

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



Source: Dg Ecfm

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



Source: Istat

The depreciation of the euro continues as oil price rises. In the first quarter of 2018 Italian economy recorded a slight deceleration, affected by the negative contribution of net foreign demand and investments. Manufacturing sector was slowed down while services were more dynamic. Employment was grown up and productivity improved. Inflation is increasing with but with a pace lower than that in the euro area. The downturn in the leading indicator continues, suggesting a deceleration in economic activity for the coming months.

The international environment

In the first quarter, US GDP slightly decelerated (+0.5% compared to +0.7% in Q4 2017, Figure 1). The GDP growth was driven by the positive contribution of the demand components and by change in inventories. In the same period the disposable income increased fostered by raising salaries.

In May, non-farm payroll increased by 233 thousands accelerating compared to the previous month and unemployment rate fell to 3.8%. The evolution of the US economy is expected to continue at a positive pace in the first half of 2018: in April the Conference Board leading indicator increased further and, in May the consumer confidence improved driven by the expectations about the current situation.

The euro area economy is slowing down slightly. In the first quarter, the preliminary estimate indicates a lower GDP growth compared to the previous quarter (+0.4% and +0.7% respectively). In April, the unemployment rate was 8.5% down from 8.6% in the previous month.

The leading and coincident indicators of business cycle provide mixed signals. In May, the Economic Sentiment Indicator (ESI) was broadly unchanged (Figure 2). The businesses confidence climate improved markedly in retail trade and in constructions; the consumer confidence was stable.

In May, the Euro-Coin leading indicator slowed down, marking the third decline in a row. It was affected by the decline in business confidence and the weakening of the industrial cycle.

In May, the euro-dollar exchange rate showed a further depreciation (-3.8%). The Brent price increased in the same month (+7.6%), reaching to \$77.1 per barrel.

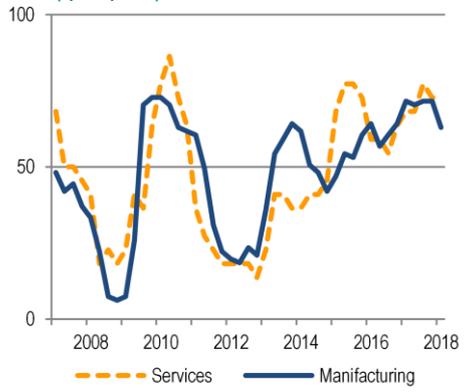
In Q1, the CPB data indicate a downward trend of world trade (-1.2%) driven by a slight improvement of volume trade for advanced countries (+0.3%), and a notable deceleration for emerging economies (-3.0%).

The economic situation in Italy

Businesses

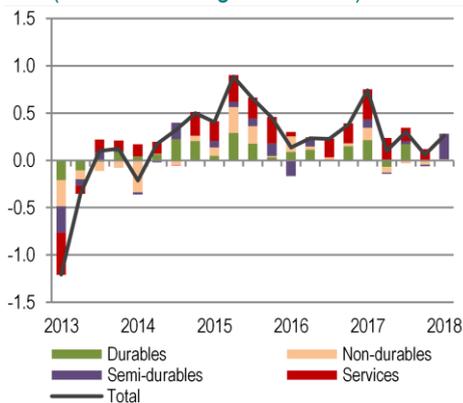
In Q1 Italian GDP increased by 0.3%, slightly decelerating compared to the previous quarter (+0.4% in Q4). Deceleration phase is common with the main European countries (+0.3% and +0.2% in Germany and France, respectively), while Spain continued to increase (+0.7% in Q1). Italian growth has been fostered by change in inventories (+0.7 percentage points) and by domestic consumption expenditures (+0.3 percentage points).

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



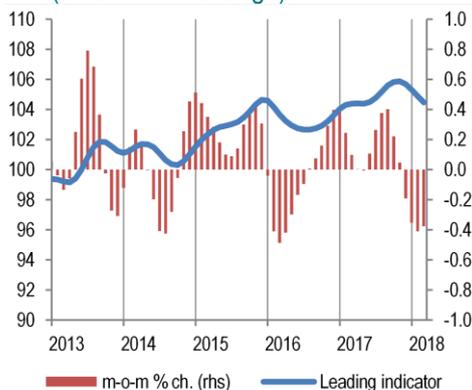
Source: Istat

5. Households' consumption expenditure (m-o-m % change and index)



Source: Istat

6. Leading indicator (index and % change)



Source: Istat

Both foreign demand and gross fixed investments contributions were negative (-0.4 and -0.2 percentage points respectively) slowing down compared to the previous quarters. In the first quarter of 2018, manufacturing value added decreased (-0.1% q-o-q, Figure 3). The expectations for the next months does not show an improvement: in the first quarter, industrial new orders showed a slowdown (-2.0% compared to the previous quarter).

In April, exports toward non-EU countries recorded a contraction (-0.9% compared to the previous month) less marked than in the previous months (-3.1% over the last three months February-April). In the same quarter, total imports excluding energy showed a negative change (-0.7%).

In the first quarter, constructions value added remained broadly unchanged, interrupting the positive trend of the two previous quarters.

Services value added improved at the same pace as the previous quarter (+0.3%) despite the sharp decline in financial and insurance activities (-2.2%). The contraction phase of information and communication services also continued (-0.6%) while the other sectors recorded positive changes.

The diffusion index, which measures the percentage of increasing sectors out of total, showed a constant increasing along the 2017. However in the first quarter of 2018 manufacturing showed a deceleration among sectors (Figure 4).

Households and labour market

In the first quarter, final consumption expenditures accelerated (+0.3% compared to the previous quarter), as a synthesis of a growth in household expenditures (+0.4%) and a stationarity in Public government expenditures (Figure 5). Semi-durable goods recorded a sharp growth (+2.9%) while those of other components remained stable. The main indicators of labour market improved and productivity increased. Employment picked up in April (+0.3% m-o-m) while the unemployment rate stood at 11.2%. The improvement in the labor market has affected mainly the age 15-24. According to quarterly national accounts data, in Q1 labour productivity continued to improve in terms of worked hours (+0.5 percentage points). The intensity of growth is still lower than the main European countries.

Prices

Italian inflation is moderate compared to the euro area. The consumer price index (NIC) sharply accelerated in May (1.1% y-o-y) being 0.6 percentage points higher than the previous month. The upward trend is driven by the most volatile items, particularly energy products powered by a rise in oil price. Excluding energy and food, also the core inflation improved (+0.8% m-o-m).

The upstream of the final distribution stage was subject to a downward pressure from the consumer goods prices. Short-term expectations of manufacturing companies exhibit some caution while consumers' expectations indicate a somewhat less dynamic inflation in the long run.

The Outlook

In May, the consumer confidence marked a decline, affected by a worsening of judgments and expectations on the economic situation. In the same month the composite business confidence index was on the same level of the previous month. The leading indicator shows a further reduction, suggesting a deceleration in economic activity for the coming months (Figure 6).