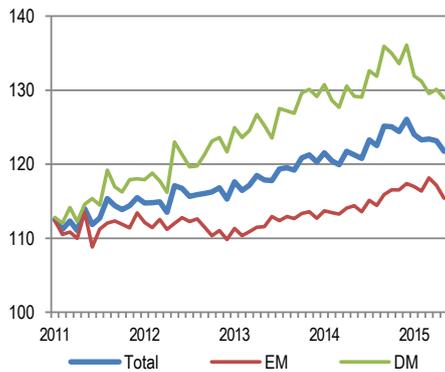


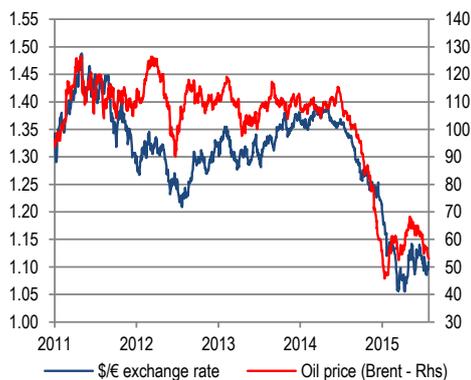
1. International trade - volume

(2010=100)



Source: CPB

2. Oil price and exchange rate



Source: Thomson Reuters

3. Production indexes

(2010=100)



Source: Istat

The Italian economic outlook is evolving moderately influenced by the slowdown in the world trade. Positive signals from the manufacturing sector are balanced by the construction sector and the lack of growth in employment. Prices are on a mild upward trend. Negative productivity and capital contribution could compromise the recovery.

The international environment

The world economy appears to slowdown, due to the problems faced by developing countries. The strong correction of the Chinese stock market hold back further expansion of the largest Asian economy, with consequences on the growth of the neighboring countries and the volumes of world trade.

The recovery path continues in the United States. The advance estimate of GDP shows a rebound in Q2 (+2.3% at annual rate) while also Q1 figure has been revised upwards (from -0.2 to +0.6% at annual rate). Despite some recent negative data (consumer confidence, industrial production), economic fundamentals remain solid and employment continues to grow.

In the euro area, the GDP growth is expected to continue in the coming months. In July the economic sentiment indicator (ESI) marked a new increase: an improvement in expectations in industry, retail trade and services was offset by a deterioration in consumer sentiment due to a more pessimistic view on the evolution of the economic situation and employment.

Monthly indicators showed mixed signals. In May, industrial production decreased by 0.4% compared to April and retail sales decreased by 0.6% in June after two consecutive increases. The unemployment rate was stable at 11.1%.

After the disappointing performance in the first quarter of 2015, also April and May world trade lost momentum (Figure 1). According to CPB, in May world trade volume in goods showed a significant decrease (-1.2% from the previous month), while April figure was revised down (from +0.3% to -0.2%); so far the carry over for the entire 2015 is negative (-0.3%).

Weak demand, the prospects for a return on the market of the Iranian crude oil and the failure to reduce the production of US oil are leading the decreases in oil prices: in July the Brent price was back below the \$60/barrel threshold, approaching to 50\$ later this month (-7% compared to June) (Figure 2).

Even the euro has marked a depreciation against US dollar (around -2% compared to June), reaching \$1.10 per euro on a monthly average.

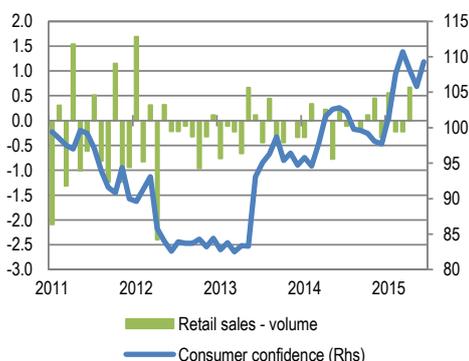
The economic situation in Italy

Businesses

In Q2 the industrial sector (net of construction) recorded a further positive boost (+0.4% as in Q1). The result was only partially offset by the decrease in June (-1.1% m-o-m). The growth in the second quarter was mainly related to the development in capital goods (+1.9% in Q2).

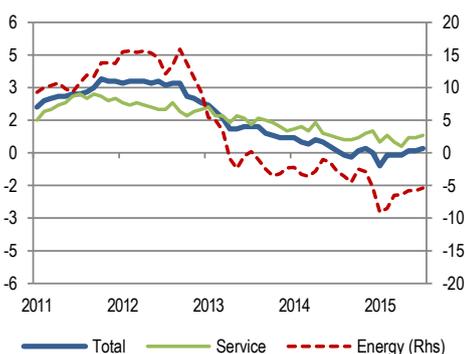
In May, the value of exports was up (+1.5% m-o-m), mainly due to the contribution of sales to EU markets (+2.5%). Compared to April, exports of consumer goods (+2.2%) and energy (+28.4%) increased, but the sales of capital goods (-0.3%) reduced. In June purchases from extra EU countries increased (+5.4%) in particular in capital goods (+13.5%). Positive signals also came from the domestic market. After declining in April, industry turnover recorded in May an increase by 1.2% on a monthly basis. Both domestic (+1.1%) and foreign sales (+1.3%) contributed positively.

4. Retail sales and confidence (m-o-m % change and level)



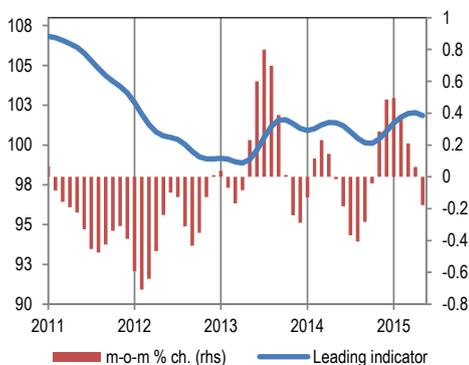
Source: Istat

5. Prices (y-o-y % change)



Source: Istat

6. Leading indicator (2005=100)



Source: Istat

Signals from business surveys in July indicate stability of the short term judgments of entrepreneurs. The negative trend in the construction sector also continued in May: the production index marked a cyclical downturn of 0.6%. However, data on building permits in the last quarter of 2014 indicate a possible turnaround but in July, the confidence in construction sector slowed down compared to June. In May, retail sales in volume remained almost stable (-0.1%), after rising significantly in April (+0.7%).

Households and labour market

After the recovery in June, consumer confidence declined again in July to 106.5 from 109.3. All the four main components declined, but the decline in the economic component was the most relevant. Only the questions related to savings showed a positive development in the diffusion index. The substantial stability of these indexes during the latest months suggests further increase in future income could be used to increase consumption.

Labor Force Survey data showed a slight decline in employment in June (-0.1%). Since the beginning of the year, the overall level of employment remained virtually unchanged. The increase in the vacancy ratio observed in Q1 has not been confirmed in terms of employment growth yet. The unemployment rate rose by two decimal points to 12.7%. Fluctuations in the unemployment rate when employment remains stable, may reflect changes in job search intensity by agents. Expectations by employers on employment in the next three months turned negative in July in the main sectors of the economy, excluding the retail trade sector.

Prices

Consumer price inflation confirms the positive trend, but at a subdued rate. July flash estimate of the CPI showed the annual rate of change at 0.2% as in June (Figure 5). Inflation dynamics reflects the lower deflationary pressures in energy and the weakness of economic environment, while some upward pressures are coming from services. Excluding energy, food and tobacco, inflation remaining at historically low level (+0.7%).

Although the risk of a long lasting deflationary period seems avoided, the price system remains characterized by a general moderation. At the early stages of the production chain, the price trend is still moderate or negative.

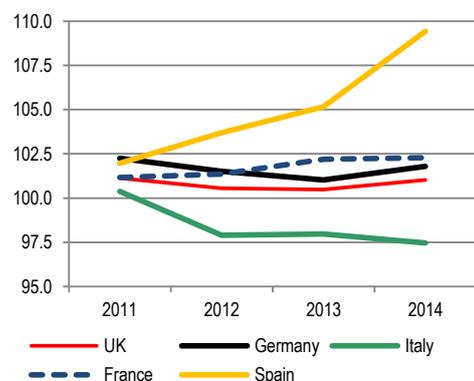
Inflation expectations anticipate a subdued developments in the short term. Households' expectations in July recorded a decrease in the share of consumers expecting rising prices, with prevailing expectations of stability. Among firms producing consumer goods, the share planning to increase the price grew again.

In absence of any significant change in international scenario, inflation is expected to remain close to the present rate up until next autumn; in the last months of the year the rise will be relatively more evident due to the statistical comparison with the falls in raw materials prices in late 2014.

The outlook

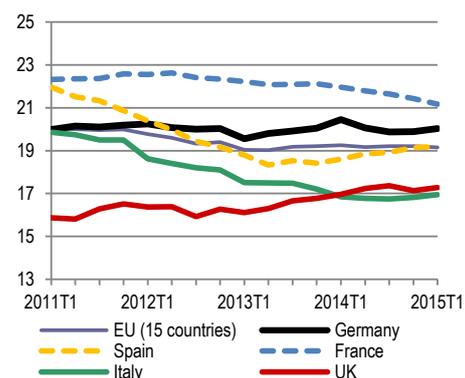
Italian economic outlook appears moderate. The latest data on business confidence showed no signs of real strength in any particular sector. The composite leading indicator for the Italian economy marked a modest decrease in May, confirming the trend in recent months (Figure 6).

7. GDP per capita (2010=100)



Source: Istat

8. Investment in percentage of GDP



Source: Eurostat

Monthly focus

Capital deepening decreases together with productivity

Since mid-'90s Italy's GDP has developed at a slower pace compared to the main European countries (Figure 7). This difference was particularly marked during the 2012-2014 period, and was related to the decrease in productivity.

Over the 2009-2014 period, labour productivity, measured by the chain linked valued added at basic prices per worked hour, increased (+0.6%) due to the reduction of hours worked (-1.0%) greater than the decrease in value added (-0.4%). In 2014, labour input turned positive (+0.2%) and labour productivity fell by 0.7%, as value added decreased by 0.5%.

The growth in labour productivity in 2009-2014 was driven mainly by the total factor productivity, which contributed by 0.4 percentage point, while capital deepening contributed only by 0.1 percentage point. In 2014, for the first time since 2006 the contribution of capital deepening was negative (-0.5 percentage point).

The capital deepening reduction reflected the drop of investments during the crisis. In 2009-2014, the share of Italian investment fell by 3 percentage points (Figure 8) while in Germany the share rose by 1 percentage point and in France it reduced just by 0.5 percentage point.

The composition of Italian investment is concentrated in the machinery and equipment and construction components rather than in ICT and intangible assets.

The reduction in the contribution of capital, and in particular of tangible non-ICT assets, to the dynamics of productivity poses some issues on the strength of the recovery to come. To increase productivity and, as a consequence, competitiveness, it is necessary to boost investments and in particular in intangible and hi-tech assets.