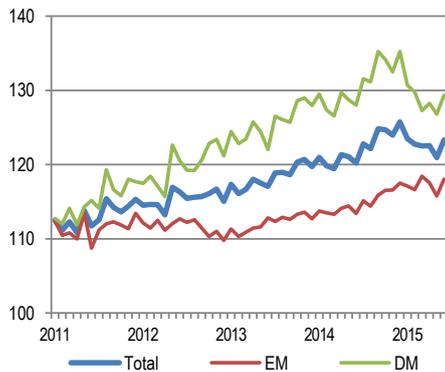
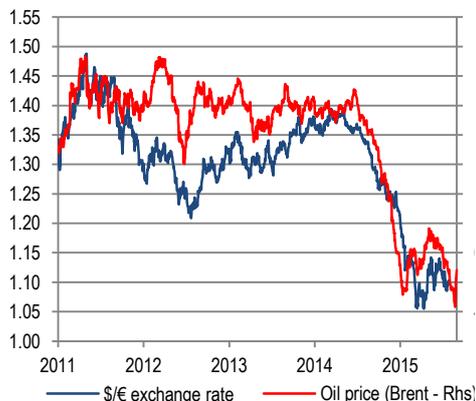


1. International trade (volume, 2010=100)



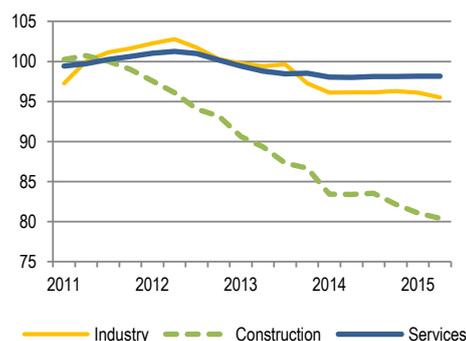
Source: Central Plan Bureau

2. Oil price and exchange rate



Source: Bce, Thomson Reuters

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



Source: Istat

GDP growth in Q2 was determined by a favourable evolution in manufacturing and service. Consumption was positive, while investment receded. Labour market improved, while inflation was stable at very low level. GDP is expected to evolve at the same pace in Q3, but the slowdown in international trade will impact on Italian export.

The international environment

Downward trend in equity markets continued in August, due to the slowdown in the Chinese economy; however, the positive US GDP growth in Q2 led to an easing of tensions on the financial and currency markets, which nonetheless continue to be highly volatile.

In the US, Q2 GDP growth was revised upward (from 2.3% to 3.7% on annual base); the rebound over Q1 was driven by a turnaround in exports and public spending, as well as an acceleration in consumer spending and nonresidential fixed investment. The Conference Board consumer confidence indicator rebounded in August after the drop in July: the improvements in the labor market (non-farm employment increased in July by 215,000 units, stabilizing the unemployment rate to 5.3%) allayed fears of a slowdown.

In the euro area the flash estimate of GDP showed a slight deceleration in Q2 (+0.3% q-o-q, after +0.4% in Q1). Monthly indicators continue to show mixed signals. In August, the Economic Sentiment Indicator (ESI) registered a marginal increase: a worsening of the indicator in industry was offset by an improvement in other sectors (construction, services and retail trade), along with a slight strengthening of consumer expectations. In July, retail sales increased by 0.4% m-o-m, while the unemployment rate fell (10.9% in July, from 11.1%).

Despite a rebound in June, world trade trend continues to be affected by previous disappointing performance (Figure 1). According to the Central Plan Bureau, world trade volumes of goods rebounded in June (+2% m-o-m, after -1.3% in May); the carry-over is now positive (+0.6%), but annual growth rate could be well below the consensus forecast prevailing at the beginning of 2015.

The uncertainties on the China's outlook affected the oil price, already declined due to the weakness of international demand and to the excess supply: in August Brent price approached the 40\$/barrel threshold, before rising back toward 50\$/barrel by the end of the month. On average in August Brent price fell by more than 15% compared to July (Figure 2).

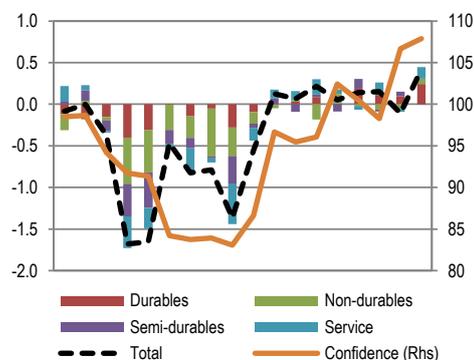
The euro appreciated further against US dollar during stock markets turmoil, reaching 1.15\$ per euro, then reversing after last release of US national accounts (+1.3% on average in August).

The economic situation in Italy

Businesses

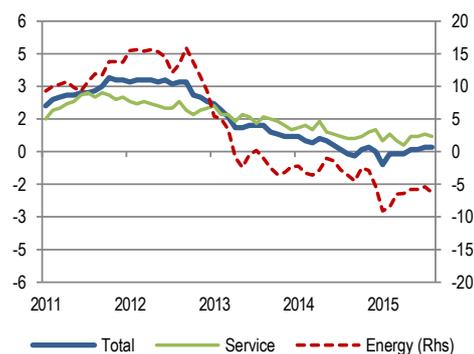
In the second quarter of 2015, the Italian GDP increased by +0.3%. The recovery of the production activity was driven both by the services and manufacturing sectors where value added grew by +0.3% and +0.2% respectively as opposed to the contraction in the construction sector (-0.7%, Figure 3). On the demand side, domestic consumption increased by 0.4% but gross fixed capital formation slowed down by -0.3% driven by a contraction in construction and transports (-0.8% and -2.7% respectively) only slightly counterbalanced by expansion in machinery and equipment (+0.6%).

4. Households' expenditure and confidence (contributions and index, 2010=100)



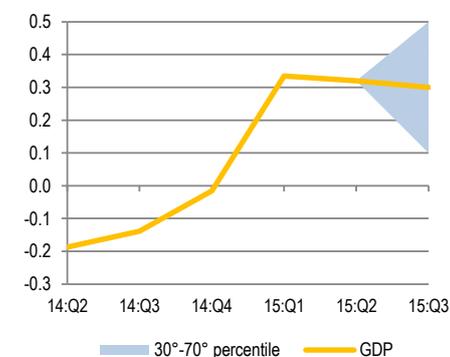
Source: Istat

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



Source: Istat

6. GDP and forecast for Q3 2015



Source: Istat

In Q2, the balance of trade was characterized by a higher increase of imports (+2.2%) compared to the exports (+1.2%) because of a slowdown of the extra-UE sales associated to an upsurge of extra-UE purchases. In August, business confidence decreased slightly in manufacturing driven by the dynamics of the intermediate goods sector, but improved in the services sector. Quarterly turnover indicators confirm a positive trend in services mostly driven by wholesale and trade.

Households and labour market

In Q2 2015 consumption expenditure accelerated markedly. Households' expenditure expanded by 0.4% q-o-q (0.6% y-o-y) contributing by 3 decimal point to the GDP growth. In particular, durable goods expenditure increased by 3.3% contributing for more than 50% to the overall consumption expenditure growth (Figure 4). The surge in durable goods expenditure reflect the increase in consumer confidence during the latest months.

The publication of Labor Force Survey data in the second quarter of 2015 induced a revision in employment. In Q2 employment increased by 0.5% (q-o-q) and the improvement continued in July (+0.2% m-o-m) Employment increased in all sectors and geographical areas. Overall, from January to July, the increase in employment exceeded 100,000 units. In parallel, in July the unemployment rate, which stabilized in the first two quarters of the year (respectively at 12.3% and 12.4%), significantly fell to 12.0%, with the drop not only related to employment dynamics, but also to the rise of inactive persons (+0.7% compared to June).

Employment perspectives for the coming months remain moderately favorable: in August employers' expectations on employment were positive in service and construction and remained stable in manufacturing.

Prices

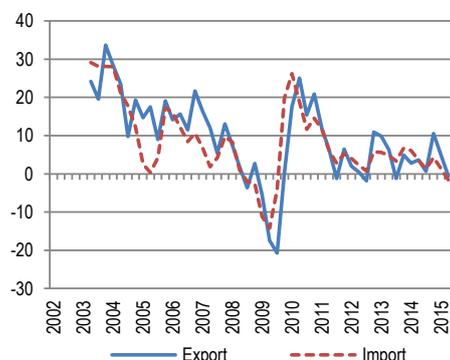
In August, consumer price inflation remained stable on the value of the latest two months. According to flash estimates, the annual rate of change for CPI was +0.2%. (Figure 6). Price dynamics continues to be affected by the deflationary phase in energy goods, whose negative contribution increased due to the recent developments in international markets (-6.3% annual fall in August). At the same time, the lack of tensions from domestic costs helps keeping the dynamics of the underlying components subdued. Excluding energy, food and tobacco, inflation remained at +0.7% as in July. The Italian inflation does not differ too much from the euro area average. However, in August price pressures were slightly more accentuated in Italy than in the rest of the area due to a larger decline of energy prices for the area as a whole (-7.1%), as usual more responsive to movements in international prices. The gap in the core inflation, instead, remained extremely low (+0.1 percentage points), mainly due to the lower Italian inflation in the services respect the euro area average.

In the coming months inflation is expected to be in line with the latest values, but being influenced by the evolution of the international context, while the pressure from internal factors should not changes.

The outlook

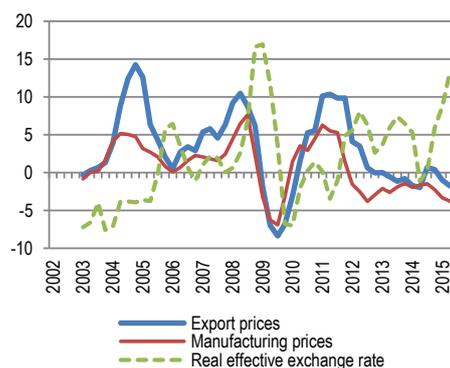
Economic expansion is expected to continue at a mild pace in H2 2015. According to the ISTAT short term forecasting model, GDP is expected to increase by +0.3% in the third quarter with a confidence interval of +0.1% and 0.5% (Figure 6). Exports are projected to decline because of the slowdown of emerging economies. Domestic demand is expected to be the main driver of GDP growth. In 2015, the Italian economy is thus forecasted to grow by 0.7%.

7. China: import and export volumes (3 quarters moving average)



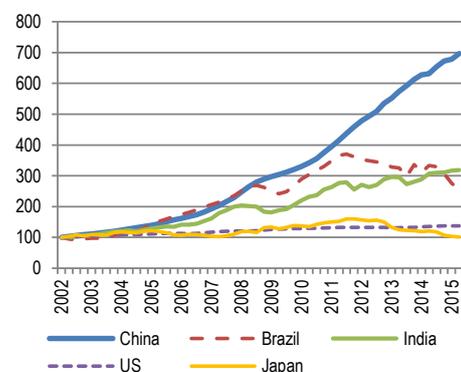
Source: Oxford economics

8. China: prices and exchange rate (y-o-y % change)



Source: Oxford economics

9. Hourly wages (2002=100)



Source: Oxford economics

Monthly focus

The slowdown in Emerging markets economies

The slowdown of Chinese economy and other Emerging Markets economies (EM) has recently induced a marked correction in financial markets. Nonetheless, the slowdown is not a recent phenomenon, but is going on since the beginning of 2015. In particular, international trade is receding since the end of 2014.

Part of the reduction in international trade is the consequence of the loss of competitiveness of Chinese export, with respect to the others Asian competitors, as a consequence of the yuan appreciation and the increase in the labour cost. On the one hand, PBC has stabilized the yuan/\$ exchange rate, while competitors' currencies depreciated, on the other hand the unit labour cost (ULC) in China has doubled since 2007. Despite being only 13% of the US and EU, Chinese ULC is now significantly higher than in India, Vietnam or Bangladesh. As a consequence multinationals have moved labour-intensive productions in these countries. Nonetheless, the increase in salary is a way to rebalance the development model of China, moving from investment and export led growth toward a more balanced structure, in particular increasing the share of consumption on GDP.

The attenuation of production dynamics in China is having consequences on commodities demand and, hence, their prices with direct consequences on commodities exporting countries (in particular Russia and Brazil).

Last but not least, the EM slowdown is affecting growth in advanced economies as well. For Italy in particular, even if China is absorbing only 2.6% of the overall Italian export (12.6% for Germany, 10.6% for France and 7.5% for the US), there can be an indirect effect due to the reduction of Chinese demand toward goods produced by Italian major trading partners.

This scenario anticipates a reduction of the contribution of net export to GDP growth in the coming quarters.