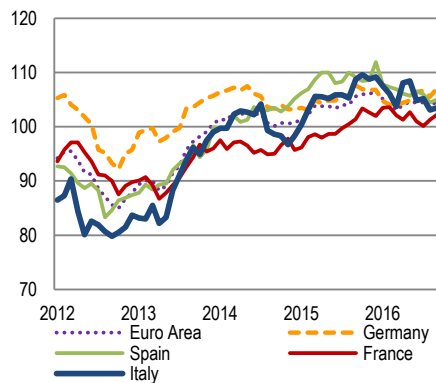
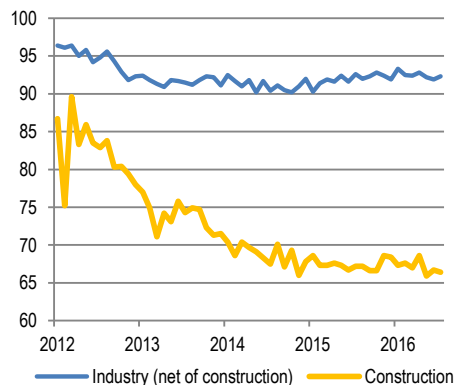


1. Economic Sentiment Indicator (base 2010=100, SA)



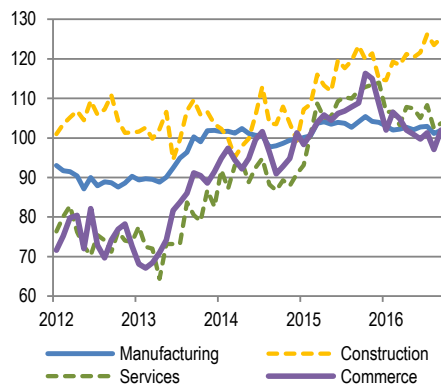
Source: Dg Ecfm

2. Production indexes (base 2010=100)



Source: Istat

3. Business confidence indicators (2010=100)



Source: Istat

The international outlook continues to be characterized by the slowdown of world trade and by the weakness of economic activity in the euro area. In Italy, the manufacturing sector is recovering slightly and household savings accelerated. Consumer price increased again after 7 months. The leading indicator of the Italian economy suggests a slowdown of economic activity, supporting the extension of moderate growth over next months.

The international environment

The estimate of US GDP for the second quarter of 2016 was revised upwards (from 1.1% to 1.4% annualized). The revision affected mainly non-residential investment (from -0.9% to +1%). The economic outlook released in August has been confirmed: GDP growth was primarily driven by exports and household's expenditure, while total investments and inventories provided a negative contribution. The US economy is expected to grow at a moderate pace: in August, the Conference Board leading indicator turned down slightly, but its trend remained positive. In the same month, non-farm payroll employment increased by +151 thousand units while the unemployment rate remained stable at 4.9%. In September the Conference Board consumer confidence recorded a further increase driven by the expectations about employment perspectives. Fed's position remained cautious on a possible rise in interest rates later this year.

In the euro area the slowdown of the economic activity is expected to affect economic growth in the near future. The industrial production fell down in the second quarter (-0.3%) up to the beginning of the third quarter (-1.1% in July, m-o-m). However, in the labour market there are some positive signals: in August, the rate of unemployment remained stable compared to the previous month (10.1%). The leading indicators of the business cycle provided evidence of slight recovery for area's growth prospects. In September, the economic sentiment indicator increased (Figure 1) driven by the confidence in industry, services and in the constructions sector. Consumer confidence has also pointed to greater optimism in particular on the future economic situation. The ECB continued to maintain an expansionary monetary policy.

In September, the Euro-US exchange rate was on average 1.12. In the same month the Brent price increased over the last two months to an average value of \$ 47.5 per barrel and recording, in Q3, a positive change (+2.3% q-o-q). The agreement between OPEC countries, Iran and Saudi Arabia for the reduction of crude oil production positively affected the prospects for 2017. In July the Central Plan Bureau data decelerated further for trade in volume (-1.1% m-o-m).

The economic situation in Italy

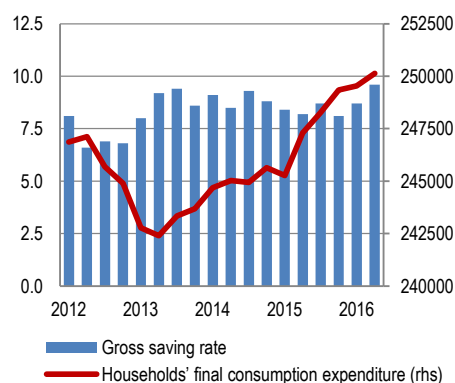
Businesses

According to the revision of National Accounts, in the second quarter of 2016 GDP estimates, seasonally and calendar adjusted, were unchanged compared to the first quarter. The quarterly change of gross fixed investment was revised up to +0.2%, compared to -0.3% of the previous release.

In July, the industrial production (excluding construction) showed a positive trend (+0.4%) that characterized all sectors (Figure 2).

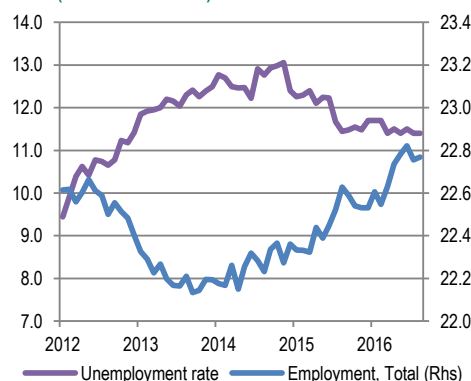


4. Gross saving rate and households' final consumption expenditure (million of euro and %)



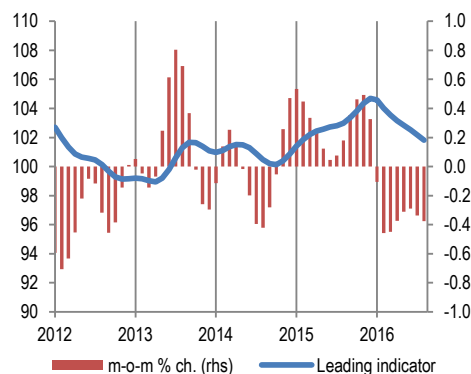
Source: Istat

5. Employment and unemployment (million and %)



Source: Istat

6. Leading indicator (index and % change)



Source: Istat

The dynamics of the manufacturing sector is confirmed by the industrial turnover index, measured at current prices: in July the index increased by 2.1% m-o-m, driven by the favorable performance of domestic market (+3.2%) and by the substantial stability of the foreign market. In the same month, the orders experienced a sharp decline (-10.8%) due to the exceptionally high figures recorded in the previous month (+14.3% compared to May). In September, the business confidence increased as a result of the improvement in the opinions about orders and a slight worsening of production expectations (Figure 3).

Foreign trade continued to slowdown. In July, imports recorded an increase (+0.5% m-o-m) supported by purchases from non-EU countries (+1.5%) despite a decrease of EU trade (-0.2%). Exports recorded a decline (-0.6%), driven by the reduction of sales on the EU markets (-1.1%). Nevertheless data on non-EU foreign trade for August increased, more for imports (+2.5%; +7.2% excluding energy) than for exports (+0.9%). In July, production in construction turned down to a negative rate (-0.4% m-o-m) besides the recovery experienced in the previous month (+1.2%). In September, the confidence of construction companies improved driven by assessments on orders and employment expectations.

Households and labour market

In the second quarter of 2016, final consumption expenditures grew at a moderate rate (up 0.2% from the previous quarter, Figure 4). Gross disposable income of consumer households increased (+1.3% q-o-q), more than final consumption; gross saving rate increased to 9.6%, a change of 0.9% over the previous quarter. The implicit consumption deflator registered a slight increase (0.1%), favoring an improvement in the purchasing power of households (+1.1%). In July, the volume of retail sales decreased by 0.3% (m-o-m), following the slight increase experienced both in May and June (+0.2%). In September, the consumer confidence marked a further decline driven by the worsening of the personal current climate. In August, monthly data for the labor force recorded a slight increase in employment (+0.1% compared to July, +13 thousands), after the contraction recorded in July (-0.3%, -66 thousands), mainly driven by female employment (+0.4%). In the same month, the unemployment rate stood at 11.4% (Figure 5).

Prices

In September, inflation increased slightly compared to the previous year. The index for the whole nation recorded a positive change (+0.1% y-o-y) rebounded 0.6 percentage points since the minimum in April (-0.5%). The increase mainly reflects the strong attenuation on annual basis of the energy prices and, to a lesser extent, to the recovery of transport service. In the upstream of the final distribution stage, inflationary pressures remain very weak or absent. In July import prices of consumer goods showed a new fall on annual basis (-1.2%). The business expectations remain weak in the short run. Among consumers, by contrast, a slight recovery of inflation is expected.

The Outlook

In September, the climate of consumer confidence marked the second consecutive decline, while expectations of businesses were improving. The composite leading indicator¹, updated to take into account the latest information, provided negative indications on the development of economic activity, having experienced in the last month the eighth consecutive decrease (Figure 6)

¹Altissimo, Marchetti, Oneto (2000) "The Italian Business Cycle: Coincident and Leading Indicators and some Stylized Facts", Temi di Discussione No. 377, Banca d'Italia