

QIR-GRETA Monthly Macroeconomic Commentary

United States

The U.S. economy bounced back in the second quarter of 2007, growing at the fastest pace in more than a year. According to the final estimates released by the Bureau of Economic Analysis, real **GDP** increased at an annual rate of **+3.8% Q/Q** (+1.9% Y/Y), less than the preliminary estimate of +4.0% Q/Q (+1.9% Q/Q). The downward revision to growth was largely due to an upward revision in imports. GDP rose just 0.6% Q/Q (+1.5% Y/Y) in the first quarter.

GDP growth in the second quarter was led by exports, increased government spending, business investment in structures and a rebuilding of inventories after significant reductions in the past two quarters. These offset a sharp slowdown in consumer spending and a decline in investments in homes.

In more detail, government spending contributed 0.79 percentage points to the GDP growth in the second quarter, after subtracting 0.09 percent in the first quarter and partly offsetting the lower contribution from personal consumption expenditures:

- **Government consumption expenditures and gross investment** increased by +4.1% Q/Q (+1.9% Y/Y) in the second quarter, in contrast to a decrease of -0.5% Q/Q (+1.2% Y/Y) in the first quarter. The increase recorded in the second quarter includes a +8.5% Q/Q (+2.8% Y/Y) rise in defence spending.

It is worthwhile stressing the decrease of domestic consumption in the contribution to the overall GDP growth, from 2.56 percent recorded in the first quarter to 1.00 percent in the second quarter:

- **Real personal consumption expenditures** increased by **+1.4% Q/Q** (+2.9% Y/Y) in the second quarter, following an increase of +3.7% Q/Q (3.2% Y/Y) in the first quarter.

Fixed investment increased by **+3.2% Q/Q** (-3.3% Y/Y) in the second quarter, compared to a decrease of -4.4% Q/Q (-4.5% Y/Y) in the first quarter:

- **Real non-residential fixed investment** increased by **+11.0% Q/Q** (+4.1% Y/Y) in the second quarter, compared with an increase of +2.1% Q/Q (+2.5% Y/Y) in the first quarter. Business investment contributed 1.12 percentage points to GDP growth.
- **Real residential fixed investment** decreased by **-11.8% Q/Q** (-16.5% Y/Y), compared with a decrease of -16.3% Q/Q (-16.5% Y/Y) in the previous quarter: it is the smallest decline since the first quarter of 2006. Investment in residences subtracted -0.62 percentage points from second quarter growth, compared with -0.93 percentage points from first quarter growth.

The real change in **private inventories** added 0.22 percentage points to the second quarter GDP growth, after subtracting 0.65% in the first quarter.

The trade deficit added 1.32 percentage points to the GDP growth in the second quarter, in contrast to a negative contribution of -0.51% in the first quarter. A weaker dollar against the euro and several other key currencies boosted exports and cut non-oil imports:

- **Real exports of goods and services** increased by **+7.5% Q/Q** (+7.1% Y/Y) in the second quarter, compared with an increase of +1.1% Q/Q (+6.6% Y/Y) in the first quarter.
- **Real imports of goods and services** decreased by **-2.7% Q/Q** (+2.0% Y/Y) in the second quarter, in contrast to an increase of +3.9% Q/Q (+2.9% Y/Y) in the first quarter: it is the biggest decline since early 2003.

With regard to labour market developments, the nation's **unemployment rate** rose slightly to **4.7%** in September from 4.6% in August.

On the inflation front, according to the report issued by the Labor Department, U.S. consumer prices (**CPI**) fell by **+0.1% M/M**. The CPI has risen **+2.0%** over the past year, the lowest in seventeen months and close to the Federal Reserve's target zone. Excluding volatile food and energy prices, the core consumer price index (**core CPI**) rose **+0.2% M/M** (**+2.2% Y/Y**) for the third straight month, bolstered by higher prices for medical care and shelter.

Japan

According to the second preliminary estimates released by the Cabinet Office, the Japanese **real GDP** shrank **-0.3% Q/Q** (+1.6% Y/Y) in the second quarter of 2007. Compared with the first preliminary estimates, real GDP growth has been revised down from an increase of +0.1% Q/Q (+2.3% Y/Y). In the first quarter of 2007 real GDP increased by +0.7% Q/Q (+2.6% Y/Y).

The Japanese economy is recovering, although some weaknesses are seen recently. GDP growth benefited from a surge of exports as well as from the renewed strength of consumer spending, which more than offset the slowdown of business capital investment that had driven economic expansion in the past quarters:

- **Real private consumption expenditures** came out to be the largest factor of the economic growth also during the second quarter, namely it increased by **+0.3% Q/Q** (+1.3% Y/Y), compared with an increase of +0.8% Q/Q (+1.4% Y/Y) in the previous quarter.

Business investment is generally increasing while weak movements are seen recently:

- **Real private non-residential investment** declined by **-1.2% Q/Q** (+1.3% Y/Y) from the preceding quarter, following a decrease of -0.2% Q/Q in the January-March quarter, raising some concern about the continued robustness of the economic recovery.

The surplus in the trade and services balance has been flat. Exports to Asia and to the EU have increased as a whole, more than offsetting the decline in exports to the US:

- **Real exports of goods and services** rose by **+0.8% Q/Q** (+7.3% Y/Y) in the April-June quarter, following an increase of +3.4% Q/Q (+7.4% Y/Y) in the previous quarter.

Imports have been gradually decreasing. Imports from Asia have been gradually decreasing as a whole, imports from the US have been flat while imports from the EU have gradually increased:

- **Real imports of goods and services** increased by **+0.6% Q/Q** (+1.0% Y/Y), in contrast to a decrease of +0.9% Q/Q (+1.7% Y/Y) in the January-March quarter.

The employment situation is improving steadily, though some severe aspects remain. The number of unemployed persons in August 2007 was 2.49 million, a decrease of 230 thousand from the previous year. Nevertheless the seasonally adjusted total **unemployment rate** rose slightly from 3.6% in July to **3.8%** in August.

Core CPI, which exclude fresh food and energy prices, dropped **-0.1 percent M/M** (+0.0% Y/Y) in August 2007, the same pace as the preceding four months. Japan's consumer prices fell for a seventh month in August, as retailers absorbed higher costs to attract customers.

Euro area

Euro area 13 economy grew at the slowest rate in more than two years in the second quarter of 2007, hurt by weakness in manufacturing and construction. Indeed, according to the first estimates published by Eurostat, **GDP** grew by **+0.3% Q/Q** (+2.5% Y/Y) in the Euro area during the second quarter of 2007, compared with the previous quarter. In the first quarter of 2007, growth rate was +0.7% Q/Q (+3.1% Y/Y).

The first estimates for the figures were below economists' expectations, due to lower output across the main Member countries. Growth in Germany, Europe's biggest economy, slowed to +0.3% Q/Q (+2.5% Y/Y) in the second quarter from +0.5% Q/Q (+3.6% Y/Y) in the previous quarter. Growth was impacted by a slowdown in construction after a first-quarter rise during the mildest winter on record. France's economy, the second-largest in the Euro area, unexpectedly slowed in the second quarter, as corporate investment failed to grow after rising 1.4% in the previous three months. Expansion in Italy and Spain also was slower than expected.

Economic growth across the Euro area slowed in the second quarter, as a fall in new investments offset growth in household consumption:

- **Household final consumption expenditure** posted a **+0.5% Q/Q** (+1.5% Y/Y) increase in the second quarter of 2007, after +0.0% Q/Q (+1.4% Y/Y) in the previous quarter. Household consumption made a positive contribution of 0.3 percentage points to the quarterly GDP figure.
- **Gross fixed capital formation** decreased by **-0.2% Q/Q** (+4.3% Y/Y), in contrast to an increase of +2.0% Q/Q (+7.4% Y/Y) in the first quarter of 2007. Investments added 0.00 percentage points to the GDP increase.

The real change in **private inventories** subtracted **-0.1** percentage points to the second quarter GDP growth, after adding 0.2 percentage point in the first quarter of 2007.

The **trade balance** contributed 0.2 percentage points to the GDP growth in the second quarter, in contrast to a negative contribution of -0.1% in the previous quarter:

- **Exports of goods and services** rose by **+1.1% Q/Q** (+6.2% Y/Y) in the second quarter, compared to an increase of +0.8% Q/Q (+6.7% Y/Y) in the first quarter of 2007.
- **Imports of goods and services** increased by **+0.6% Q/Q** (+5.1% Y/Y) in the first quarter of 2007, following an increase of +0.9% Q/Q (+5.9% Y/Y) in the previous quarter.

With regard to labour market developments, Euro area employment growth has been consistently strong. According to the data released by Eurostat, the Euro area **unemployment rate** stood at 6.9% in August 2007, unchanged compared to July. It was 7.8% in August 2006. This suggests that the trend improvements in the Euro area labour market that started in early 2005 continued in the second quarter of 2007.

According to the estimates released by Eurostat, total hourly **labour costs** rose at an annual rate of **+2.5% Y/Y** in nominal terms up to the second quarter of 2007, compared with +2.3% Y/Y for the previous quarter.

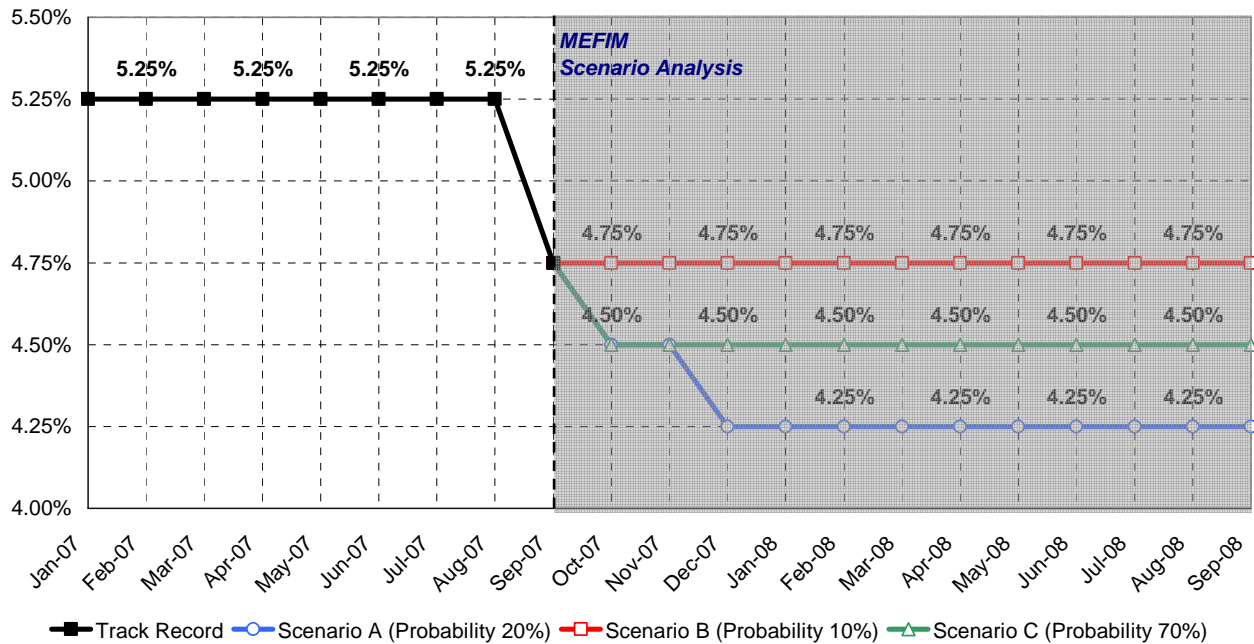
The latest available data on industrial activity are diverging; indeed, while the seasonally adjusted **industrial production** increased by **+0.6% M/M** (+3.7% Y/Y) in July 2007, the Euro area **industrial new orders** index decreased by **-4.0% M/M** (+13.8% Y/Y) in July.

With regard to price developments, according to Eurostat's flash estimate, **HICP** inflation is expected to be **+2.1%** in September 2007. It was +1.7% in August.

MEFIM Macroeconomic Scenario Analysis

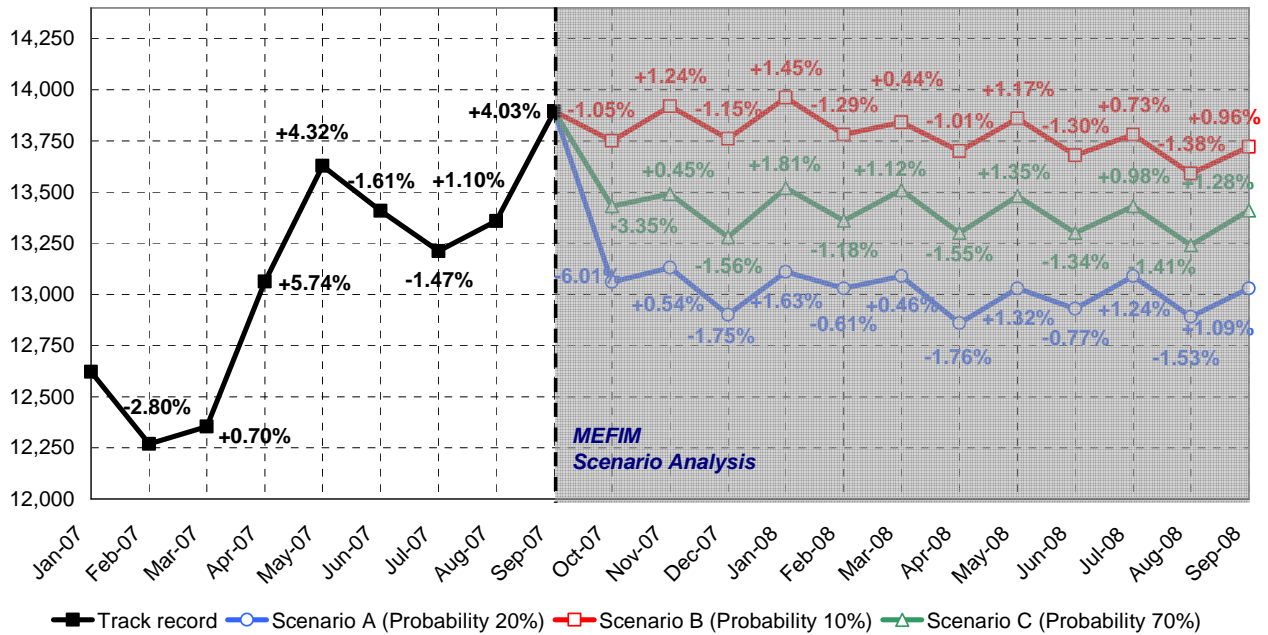
United States		
Scenario A (Probability: 20%)	Scenario B (Probability: 10%)	Scenario C (Probability: 70%)
<i>Assumptions:</i>	<i>Assumptions:</i>	<i>Assumptions:</i>
<ul style="list-style-type: none"> Recovery in fixed investment Prolonged difficulties in the housing sector determine negative spillover into the broader economy and into the labour market Credit instability due to the deepening of the subprime crisis, which affects also the equity markets, resulting in a slowdown of the economic growth in the third quarter of 2007 Muted inflationary pressures due to the weakening of the economic cycle 	<ul style="list-style-type: none"> Consumer spending remains the mainstay of the economic upturn Recovery in fixed investment Uncertainties in the housing sector, though negative spillover into the broader economy are partly muted Liquidity injection help to contain the negative spillovers into the broader economy caused by the subprime crisis Inflationary threats fuelled by increasing energy prices 	<ul style="list-style-type: none"> Economic growth undermined by the US real estate crisis and the confidence crisis in financial markets Moderate upturn in fixed investment Weak rebound in consumer spending Recovery in the housing sector Subprime fallout, restricting access to credit, weakens the industrial production growth Persistent inflationary pressures in the foreseeable future
<i>FED's expected action:</i>	<i>FED's expected action:</i>	<i>FED's expected action:</i>
to cut twice the Federal funds interest rate by -25 b.p. in the October and December 2007 meetings	to leave unchanged the Federal funds interest rate at 4.75%	to cut the Federal fund interest rate by -25 b.p. in the October 2007 meeting

FED Funds Interest Rate
(Scenario analysis from January 2007 to September 2008)



Dow Jones

(Scenario Analysis from January 2007 to September 2008)

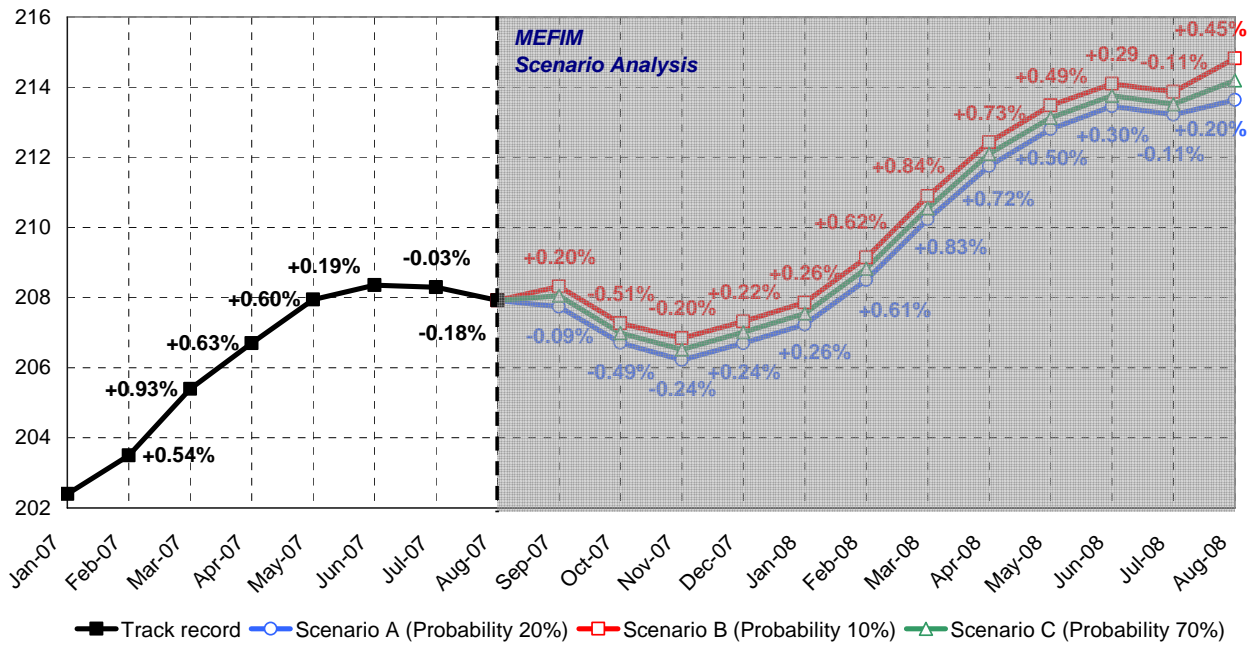


Dow Jones

(MEFIM Scenario Analysis from October 2007 to September 2008)

Scenario (Probability)		Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
A (20%)	DJ Price	13,060	13,130	12,900	13,110	13,030	13,090	12,860	13,030	12,930	13,090	12,890	13,030
	Change M/M	-6.01%	0.54%	-1.75%	1.63%	-0.61%	0.46%	-1.76%	1.32%	-0.77%	1.24%	-1.53%	1.09%
	Cumulate	-6.01%	-5.48%	-7.23%	-5.60%	-6.21%	-5.75%	-7.51%	-6.19%	-6.95%	-5.72%	-7.24%	-6.16%
B (10%)	DJ Price	13,750	13,920	13,760	13,960	13,780	13,840	13,700	13,860	13,680	13,780	13,590	13,720
	Change M/M	-1.05%	1.24%	-1.15%	1.45%	-1.29%	0.44%	-1.01%	1.17%	-1.30%	0.73%	-1.38%	0.96%
	Cumulate	-1.05%	0.19%	-0.96%	0.49%	-0.80%	-0.36%	-1.37%	-0.21%	-1.50%	-0.77%	-2.15%	-1.20%
C (70%)	DJ Price	13,430	13,490	13,280	13,520	13,360	13,510	13,300	13,480	13,300	13,430	13,240	13,410
	Change M/M	-3.35%	0.45%	-1.56%	1.81%	-1.18%	1.12%	-1.55%	1.35%	-1.34%	0.98%	-1.41%	1.28%
	Cumulate	-3.35%	-2.90%	-4.46%	-2.65%	-3.84%	-2.71%	-4.27%	-2.92%	-4.25%	-3.27%	-4.69%	-3.40%

US Consumer Price Index (Scenario Analysis from January 2007 to August 2008)

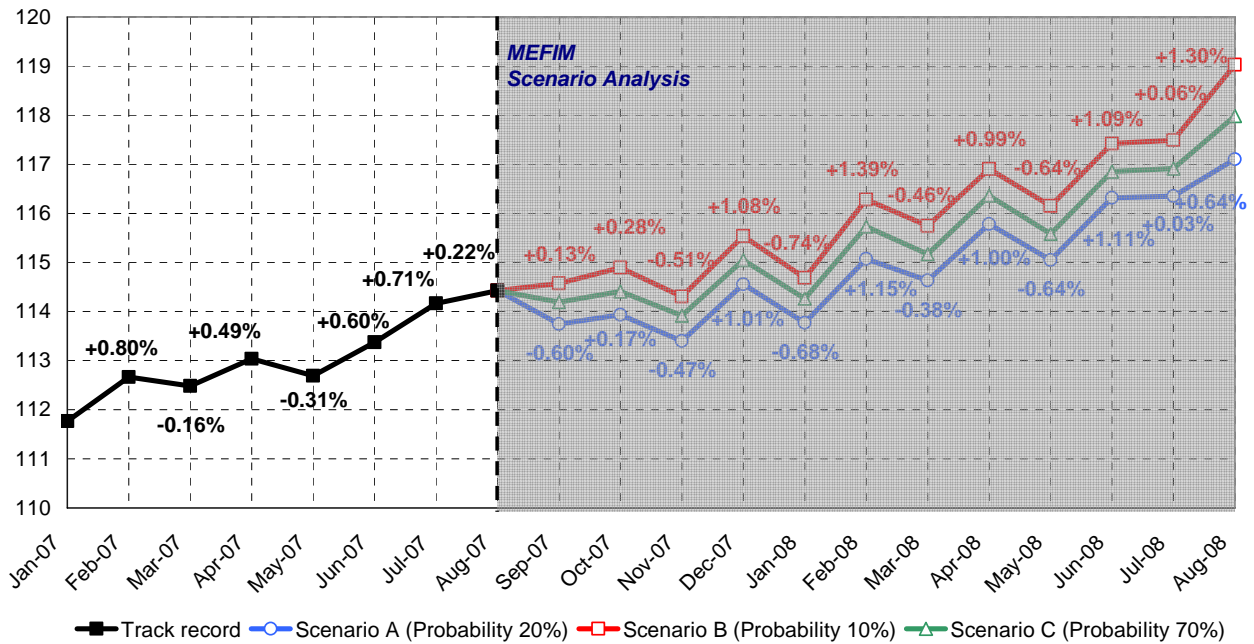


US Consumer Price Index (MEFIM Scenario Analysis from September 2007 to August 2008)

Scenario (Probability)		Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
A (20%)	US CPI	207.74	206.71	206.21	206.70	207.23	208.49	210.22	211.74	212.80	213.45	213.21	213.63
	Change M/M	-0.09%	-0.49%	-0.24%	0.24%	0.26%	0.61%	0.83%	0.72%	0.50%	0.30%	-0.11%	0.20%
	Cumulate	-0.09%	-0.58%	-0.82%	-0.59%	-0.33%	0.28%	1.11%	1.83%	2.33%	2.64%	2.52%	2.72%
B (10%)	US CPI	208.32	207.27	206.85	207.31	207.86	209.14	210.89	212.43	213.48	214.09	213.86	214.82
	Change M/M	0.20%	-0.51%	-0.20%	0.22%	0.26%	0.62%	0.84%	0.73%	0.49%	0.29%	-0.11%	0.45%
	Cumulate	0.20%	-0.31%	-0.51%	-0.29%	-0.03%	0.59%	1.43%	2.16%	2.65%	2.94%	2.83%	3.28%
C (70%)	US CPI	208.05	206.99	206.52	207.01	207.54	208.82	210.54	212.10	213.13	213.75	213.51	214.19
	Change M/M	0.06%	-0.51%	-0.23%	0.24%	0.25%	0.62%	0.82%	0.74%	0.49%	0.29%	-0.11%	0.32%
	Cumulate	0.06%	-0.45%	-0.67%	-0.43%	-0.18%	0.44%	1.26%	2.00%	2.49%	2.78%	2.67%	2.98%

US Industrial Production Index

(Scenario Analysis from January 2007 to August 2008)



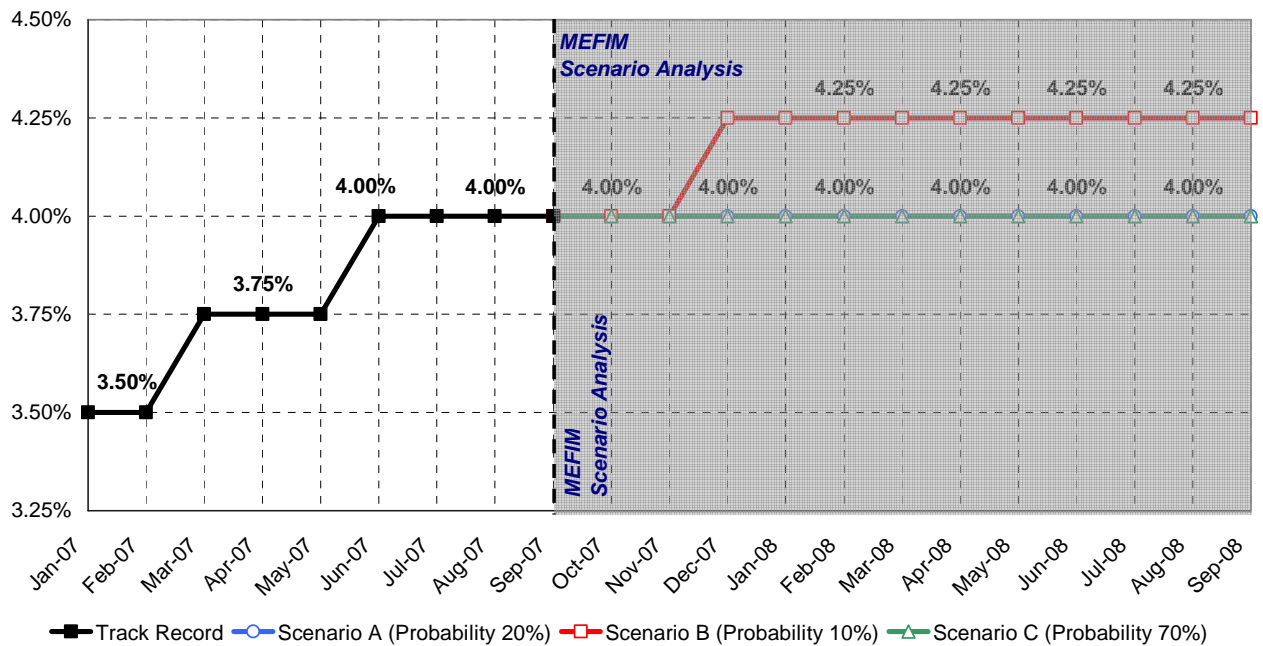
US Industrial Production Index

(MEFIM Scenario Analysis from September 2007 to August 2008)

Scenario (Probability)		Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
A (20%)	US IPI	113.74	113.94	113.40	114.55	113.77	115.08	114.64	115.78	115.04	116.32	116.35	117.10
	Change M/M	-0.60%	0.17%	-0.47%	1.01%	-0.68%	1.15%	-0.38%	1.00%	-0.64%	1.11%	0.03%	0.64%
	Cumulate	-0.60%	-0.43%	-0.89%	0.12%	-0.56%	0.58%	0.20%	1.20%	0.56%	1.67%	1.70%	2.34%
B (10%)	US IPI	114.57	114.89	114.31	115.54	114.69	116.28	115.75	116.90	116.15	117.42	117.49	119.02
	Change M/M	0.13%	0.28%	-0.51%	1.08%	-0.74%	1.39%	-0.46%	0.99%	-0.64%	1.09%	0.06%	1.30%
	Cumulate	0.13%	0.40%	-0.10%	0.98%	0.24%	1.63%	1.17%	2.17%	1.52%	2.62%	2.68%	3.98%
C (70%)	US IPI	114.19	114.41	113.92	115.05	114.26	115.73	115.16	116.36	115.59	116.85	116.91	117.98
	Change M/M	-0.21%	0.19%	-0.43%	0.99%	-0.68%	1.28%	-0.49%	1.04%	-0.66%	1.09%	0.05%	0.92%
	Cumulate	-0.21%	-0.02%	-0.44%	0.55%	-0.13%	1.15%	0.66%	1.70%	1.03%	2.13%	2.18%	3.10%

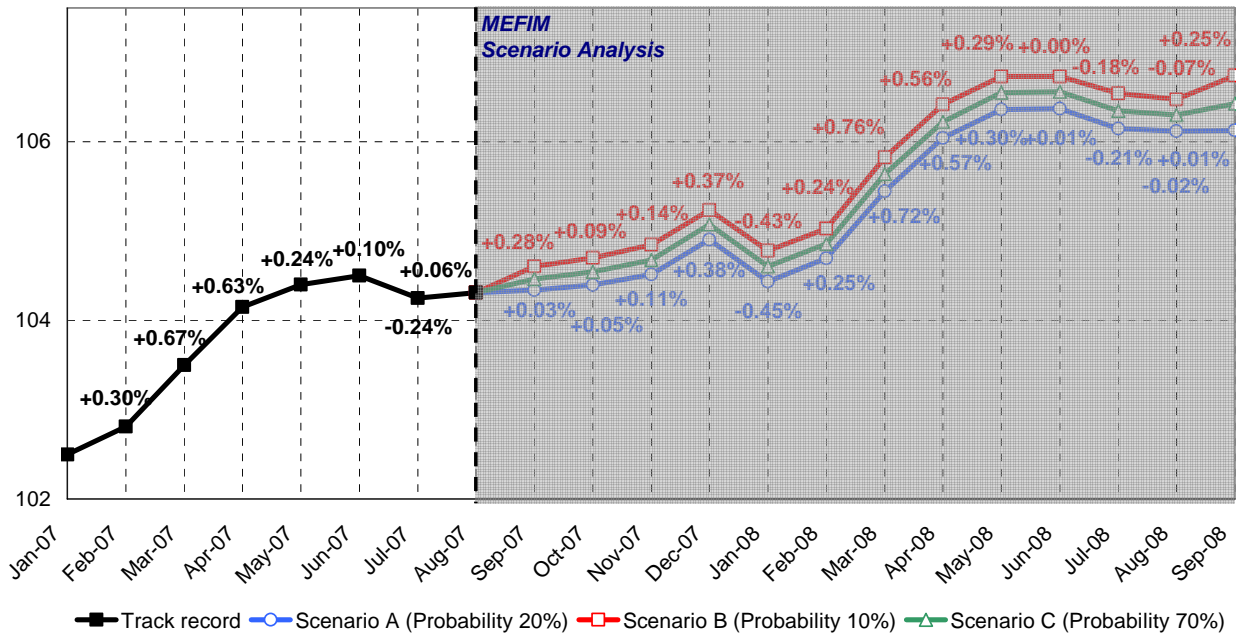
Euro Area		
Scenario A (Probability: 20%)	Scenario B (Probability: 10%)	Scenario C (Probability: 70%)
Assumptions:	Assumptions:	Assumptions:
<ul style="list-style-type: none"> Solid economic growth sustained by both private consumption and investment spending Industrial sector back on the recovery path The US credit market crisis brought a contained slowdown in economic growth 	<ul style="list-style-type: none"> Buoyant economic conjuncture Strengthening in domestic demand driven by private investment and household spending, which are fostered by improvements in labour market conditions The US credit markets crisis is the root of uncertainties in the confidence climate Inflationary pressures fuelled by increasing oil prices 	<ul style="list-style-type: none"> Favourable domestic demand, though not broad-based across Member States Weak recovery in the manufacturing sector Inflation is stable at around (but below) 2% US subprime fallout weakens the real economic growth
ECB's expected action:	ECB's expected action:	ECB's expected action:
to leave unchanged the REFI rate at 4.00%	to rise REFI by +25 b.p. in the December 2007 meeting	to leave unchanged the REFI rate at 4.00%

ECB REFI
(Scenario analysis from January 2007 to September 2008)



EU Consumer Price Index

(Scenario Analysis from January 2007 to September 2008)



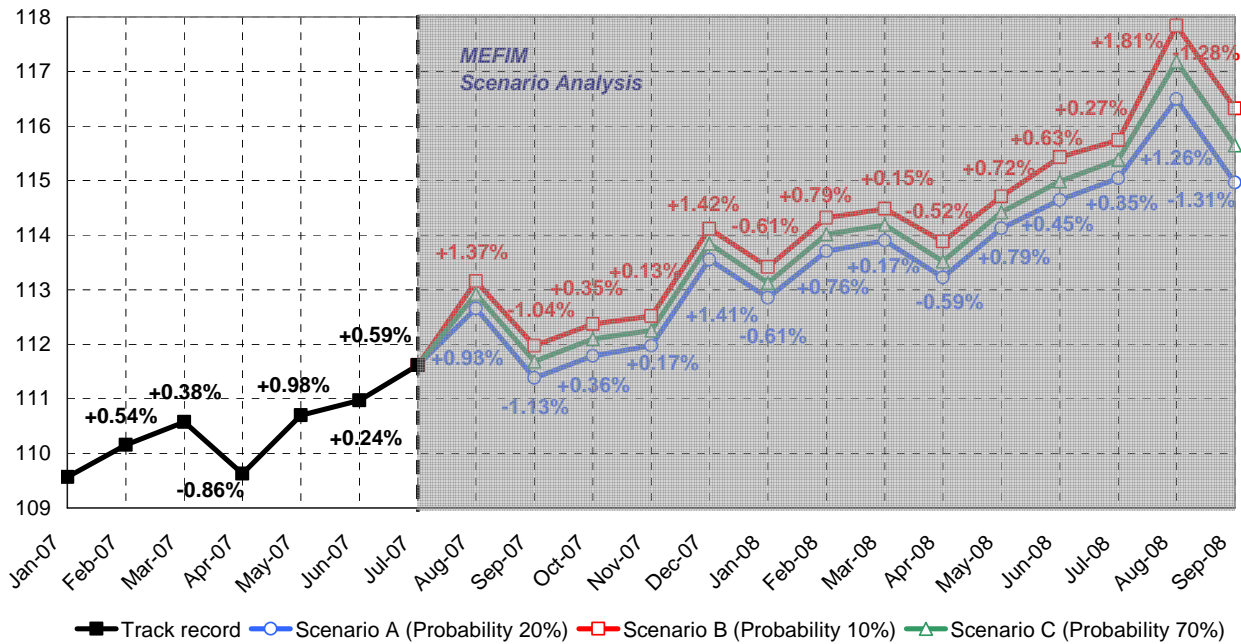
EU Consumer Price Index

(MEFIM Scenario Analysis from September 2007 to September 2008)

Scenario (Probability)		Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
A (20%)	EU CPI	104.34	104.39	104.51	104.91	104.43	104.69	105.45	106.04	106.36	106.37	106.15	106.12	106.13
	Change M/M	0.03%	0.05%	0.11%	0.38%	-0.45%	0.25%	0.72%	0.57%	0.30%	0.01%	-0.21%	-0.02%	0.01%
	Cumulate	0.03%	0.08%	0.19%	0.57%	0.12%	0.37%	1.09%	1.65%	1.96%	1.96%	1.75%	1.73%	1.74%
B (10%)	EU CPI	104.60	104.70	104.85	105.24	104.78	105.03	105.83	106.42	106.73	106.73	106.54	106.47	106.74
	Change M/M	0.28%	0.09%	0.14%	0.37%	-0.43%	0.24%	0.76%	0.56%	0.29%	0.00%	-0.18%	-0.07%	0.25%
	Cumulate	0.28%	0.37%	0.51%	0.88%	0.45%	0.69%	1.45%	2.01%	2.30%	2.30%	2.13%	2.06%	2.31%
C (70%)	EU CPI	104.46	104.54	104.68	105.08	104.60	104.86	105.64	106.22	106.55	106.56	106.35	106.30	106.43
	Change M/M	0.15%	0.08%	0.13%	0.38%	-0.45%	0.24%	0.75%	0.55%	0.31%	0.01%	-0.20%	-0.04%	0.12%
	Cumulate	0.15%	0.22%	0.35%	0.73%	0.28%	0.53%	1.27%	1.82%	2.13%	2.14%	1.94%	1.90%	2.02%

EU Industrial Production Index

(Scenario Analysis from January 2007 to September 2008)



EU Industrial Production Index

(MEFIM Scenario Analysis from August 2007 to September 2008)

Scenario (Probability)	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
A (20%)	112.66	111.38	111.79	111.97	113.55	112.85	113.71	113.90	113.23	114.13	114.64	115.04	116.49	114.96
EU IPI														
Change M/M	0.93%	-1.13%	0.36%	0.17%	1.41%	-0.61%	0.76%	0.17%	-0.59%	0.79%	0.45%	0.35%	1.26%	-1.31%
Cumulate	0.93%	-0.20%	0.16%	0.33%	1.74%	1.12%	1.88%	2.05%	1.46%	2.25%	2.70%	3.05%	4.31%	3.00%
B (10%)	113.15	111.98	112.37	112.52	114.12	113.42	114.32	114.49	113.88	114.71	115.43	115.74	117.84	116.32
EU IPI														
Change M/M	1.37%	-1.04%	0.35%	0.13%	1.42%	-0.61%	0.79%	0.15%	-0.52%	0.72%	0.63%	0.27%	1.81%	-1.28%
Cumulate	1.37%	0.33%	0.69%	0.82%	2.24%	1.63%	2.42%	2.57%	2.04%	2.76%	3.39%	3.66%	5.47%	4.19%
C (70%)	112.92	111.69	112.10	112.26	113.85	113.13	114.02	114.19	113.52	114.42	114.99	115.38	117.18	115.65
EU IPI														
Change M/M	1.17%	-1.10%	0.37%	0.14%	1.42%	-0.63%	0.79%	0.15%	-0.58%	0.79%	0.50%	0.34%	1.56%	-1.31%
Cumulate	1.17%	0.07%	0.44%	0.58%	2.00%	1.37%	2.15%	2.30%	1.72%	2.51%	3.01%	3.35%	4.91%	3.60%