



ISTITUTO DI STUDI E ANALISI ECONOMICA

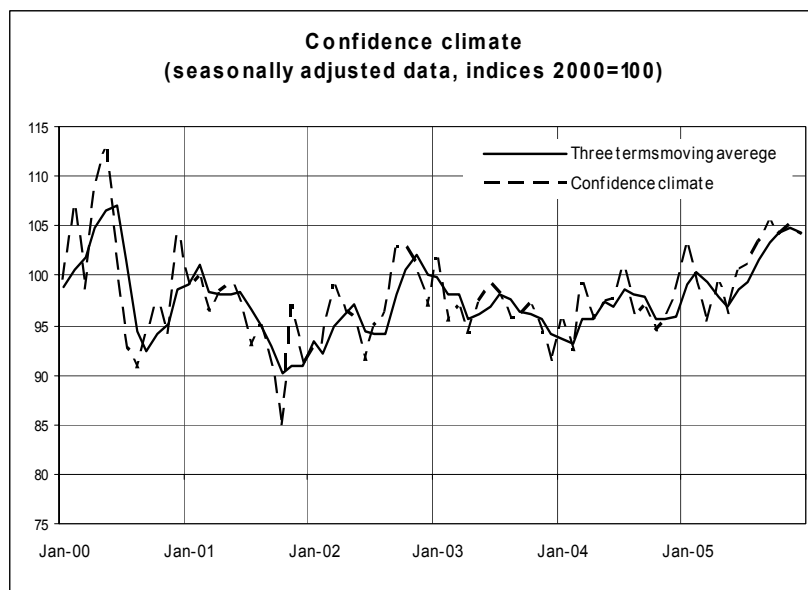
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CONFIDENCE OF RETAIL TRADE FIRMS WEAKENS IN DECEMBER

- The seasonally adjusted confidence index of retail trade firms edged down in December to 104.1 from 105 in the previous month. Respondents positively judged current business activity and the level of inventories, while they markedly reduced their expectations on the volume of sales
- Among the series excluded from the definition of retail climate, prospects for the volume of future sales and orders worsened, while those for labour market developments remained unchanged. With regard to prices, current inflation accelerated somewhat, but retail firms predicted a widespread easing of inflation for the months ahead
- The fall in confidence was not reflected in both types of retail distribution. Actually, the seasonally adjusted index declined from 108.4 to 107.9 for large distribution, but rose from 102 to 104.1 for traditional retail trade



Data on January shall be diffused on February 28, 2006.

The next ISAE surveys are scheduled as follows:

February 6, 2006: ISAE International Comparison of Consumer and Business Surveys (reference period: January 2006)

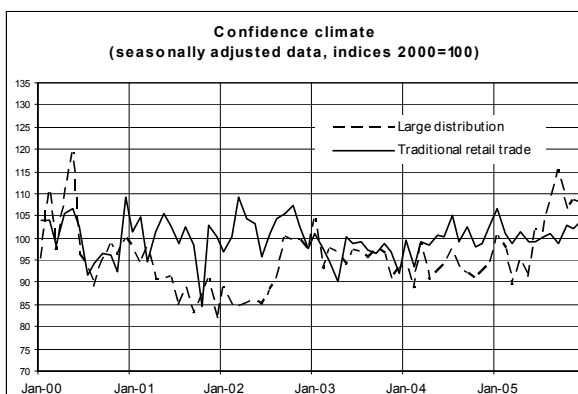
The full text of ISAE Surveys (either hardcopy or electronic format) is available on sale (for further information see the web site www.isae.it)

General results

According to The ISAE survey, carried out on a panel of about 1,000 firms operating in traditional and large retail distribution, the confidence indicator recorded a setback in December. The overall seasonally adjusted index, which had recovered the previous month, slipped back to the October level (to 104.1 from 105 in November). In particular, notwithstanding a situation characterized by marked de-stocking and a moderate recovery in the assessment on current business, the indicator reflected a marked deterioration in the prediction of future sales.

With regard to variables excluded from the definition of the climate, predictions on future employment remained unchanged, while serious concerns characterized the forecasts for the volume of sales. Concerning inflation, data recorded a moderate increase in suppliers' prices, but reporting firms continued to predict a cut in their own selling prices for the following months.

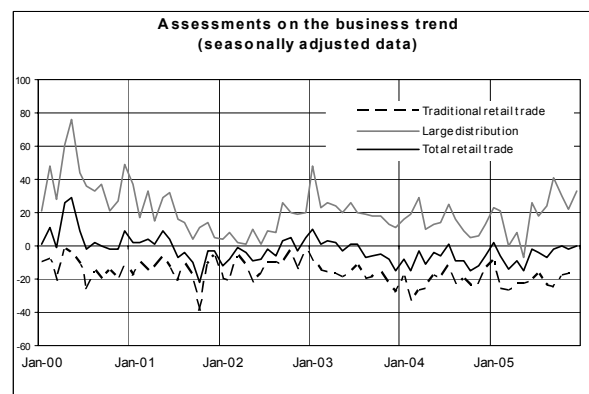
The breakdown of data by type of retail trade showed that the weakening in confidence did not characterize both retail distribution channels. The indicator decreased moderately for large retail trade (from 108.4 to 107.9), while it showed signs of revival for traditional distribution (from 102 to 104.1).



Situation in the reference month (December 2005)

In December, the assessment on current retail business activity moderately recovered. The seasonally adjusted balance of the variable rebounded from -2 to 0, reaching the level posted in last October. Furthermore, responding firms recorded marked de-stocking: the balance of inventories (which is not affected by seasonal factors) decreased from 10 to 3. With regard to the evaluation of suppliers' prices, inflationary pressures were considered to have somewhat increased. On balance, the variable rose from 22 to 23.

According to the breakdown by type of retail distribution, large retailers judged very positively growth in business activity, and traditional retailers were also optimistic. The related seasonally adjusted balance increased from 22 to 33 for "modern" distribution, and from -17 to -15 for traditional retail trade. Indications were homogeneous also with respect to the evaluation of both the level of inventories and prices. For the former variable the balance decreased from 2 to -2 in large distribution and from 15 to 5 in traditional trade, and for the latter one the related balance fell from 23 to 18 in "modern" distribution and from 30 to 25 in traditional retail trade.



Outlook for the months ahead

In December, retail traders surveyed by ISAE portrayed a less optimistic scenario. In a situation characterized by a sharp easing of inflation expectations (the raw balance for selling prices declined from 9 to -2), the seasonally adjusted balance for the future volume of both sales and inventories declined again (from 19 to 8, and from 7 to -2, respectively), whereas the seasonally adjusted balance of expectations of future employment remained stable, at 5.

Both large and traditional retailers expected a worsening in business activity and in the volume of sales. The seasonally adjusted balances of these variables decreased from 60 to 44 and from 44 to 28 respectively for large distribution, and from -6 to -13 and from -17 to -27 for traditional retail trade. Furthermore, in line with overall distribution, plans to reduce selling prices were confirmed by both sectors: the raw balance of the variable, in fact, declined from 15 to -6 for large distribution, and from 6 to 1 for traditional retail trade. As for employment, “modern” retailers became more optimistic (the seasonally adjusted balance rose from 17 to 25), while traditional retail traders seemed to be more pessimistic (the related balance fell from 0 to -6).

Confidence climate and balances of the index-building series (seasonally adjusted data)

Month	Confidence climate	Business trend (assessments)	Business trend (forecasts)	Inventories
Aug.	103,3	-7	12	2
Sept.	105,6	-2	18	7
Oct.	104,0	0	14	9
Nov.	105,0	-2	19	10
Dec.	104,1	0	8	3

