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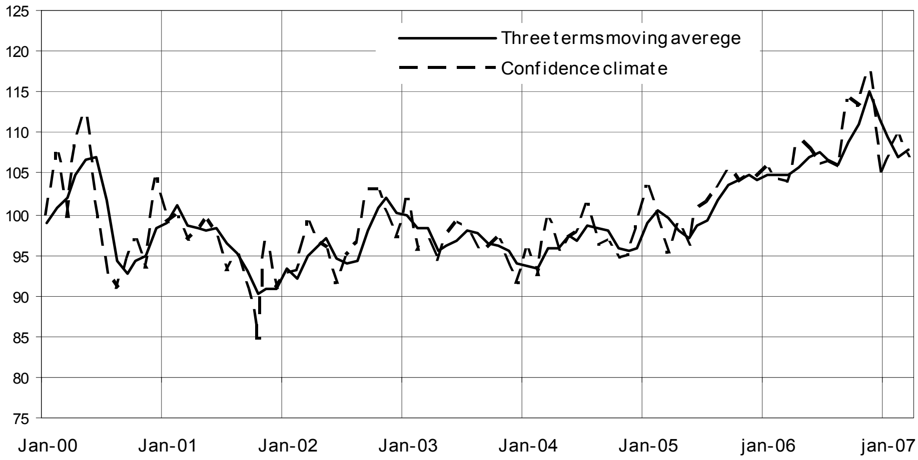
RETAIL TRADE FIRMS' CONFIDENCE DECLINES IN MARCH

- **The seasonally adjusted overall confidence indicator diminished from 109.8 to 107. The worsening characterized mainly the opinions on current sales, whereas expectations on future business activity remained stable. Inventories were considered to have slightly built up**
- **Among the series excluded from the definition of retail climate, expectations on the volume of orders staged cautious optimism. Also anticipations for future labour market developments turned favourable. Lastly, however, both present and future inflation further accelerated**
- **The worsening in confidence was not evenly spread across distribution channels. The seasonally adjusted index actually declined from 121.2 to 112.8 for traditional retail trade and improved, instead, from 97.9 to 100.2 for "modern" distribution**

Confidence climate
(seasonally adjusted data, indices 2000=100)



Data on April shall be released on April 30, 2007

The next ISAE surveys are scheduled as follows:
April 5, 2007: *ISAE International Comparison of Consumer and Business Surveys (reference period: March)*

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

General results

The ISAE survey, carried out between March 1 and March 19 on a panel of about 1,000 firms operating in traditional and large retail distribution, showed that in March Italian retailers' confidence started to decline once more. The seasonally adjusted overall indicator actually lowered from 109.8 (in February) to 107. The decline was mostly ascribable to unfavourable developments in respondents' opinions on the volume of current sales. Furthermore, compared to the previous month, the survey pointed to stability in expectations for the future volume of sales and to a slight build up in inventories.

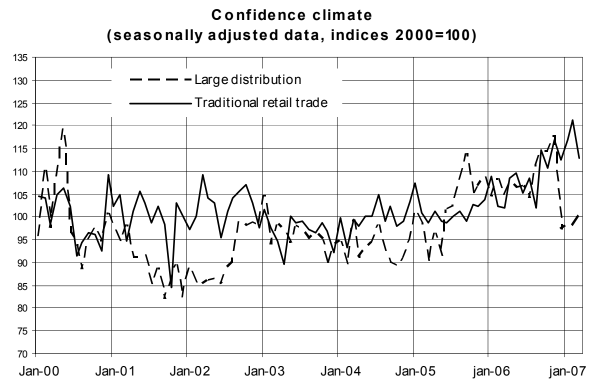
With reference to the variables excluded from the definition of confidence, opinions on the future volume of orders were still cautiously optimistic. Also expectations on the level of employment turned favourable again. As for price developments, the results confirmed a rise in suppliers' prices for the third month in succession and also showed firms' intention of slightly raising selling prices.

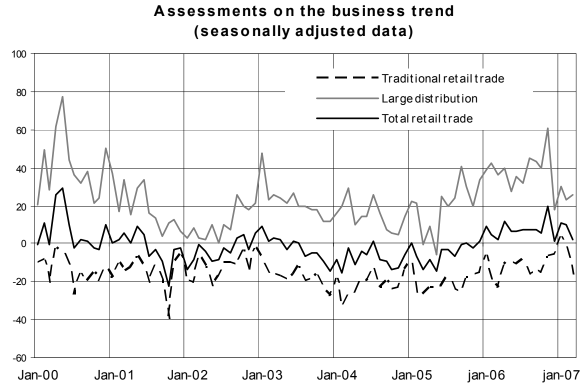
Considering the breakdown of data by type of retail distribution, traditional retail firms sent decidedly negative signals: the related seasonally adjusted confidence index actually lowered from 121.2 (in February) to 112.8. In contrast, large distribution firms recorded favourable developments: the same overall indicator rose from 97.9 to 100.2.

Situation in the reference month (March 2007)

In March, surveyed firms started once more to give a negative appraisal of current business activity: following the sharp increase posted in the first two months of 2007, the seasonally adjusted balance of the variable dropped from 10 (in February) to 2. However, stocks were considered to have only moderately increased. The related balance (which is not affected by seasonal factors) inched up from 6 to 7. With regard to the opinions on the current suppliers' price trend, the seasonally adjusted balance of the variable continued to increase for the third consecutive month, moving from 34 to 37.

The breakdown of survey results by type of retail distribution showed divergent opinions. In traditional distribution, operators gave a highly negative assessment on current business activity and considered suppliers' prices to have increased. The seasonally adjusted balance actually plunged from -1 to -16 for the former variable, but rose from 30 to 34 for the latter one. By contrast, operators in "modern" distribution viewed a rise in the current volume of sales (the related seasonally adjusted balance rose from 23 to 26) and a decline in suppliers' prices (to 39 from 42 in February). As for inventories, the seasonally adjusted balance of the variable remained unchanged for "modern" distribution (at 8), but increased for traditional retail trade (to 7 from 5 in February).





Outlook for the months ahead

In March, in a situation characterized by stability in expectations for the future volume of sales (the seasonally adjusted balance of the variable stayed at 19), cautious optimism about the future level of both orders and employment emerged instead. The seasonally adjusted balances of the variables actually increased from 6 to 7 and from 2 to 4, respectively. With regard to changes in future selling prices, also in March the ISAE survey confirmed moderate increase in inflationary pressures: the raw balance for the variable rose from 22 to 23.

The breakdown of data by type of retail distribution showed rosier expectations among operators in large retail distribution. They actually expected a clear increase in business activity (in seasonally adjusted terms, the variable rose from 28 to 34) and also a recovery in the volume of orders (to 25 from 18 in February). On the contrary, operators in traditional retail trade expected a decline for the former variable (to 17 from 13 in February) and stability for the latter one (at -3). With regard to prospects for inflation, large distribution firms anticipated a rise in selling prices (the raw balance of the variable increased from 24 to 25), while traditional distribution operators maintained expectations unchanged (at 21). To conclude, surveyed firms of both distribution channels gave equally unfavourable evaluations of future labour market developments: for "modern" distribution the seasonally adjusted balance worsened from 13 to 11, and for traditional retail trade the related balance slipped from 2 to 0.

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

Month	Confidence climate	Business trend (assessments)	Business trend (forecasts)	Inventories
October	113,1	6	36	10
November	117,7	19	33	7
December	104,4	1	17	12
January	106,6	11	10	9
February	109.8	10	19	6
March	107.0	2	19	7