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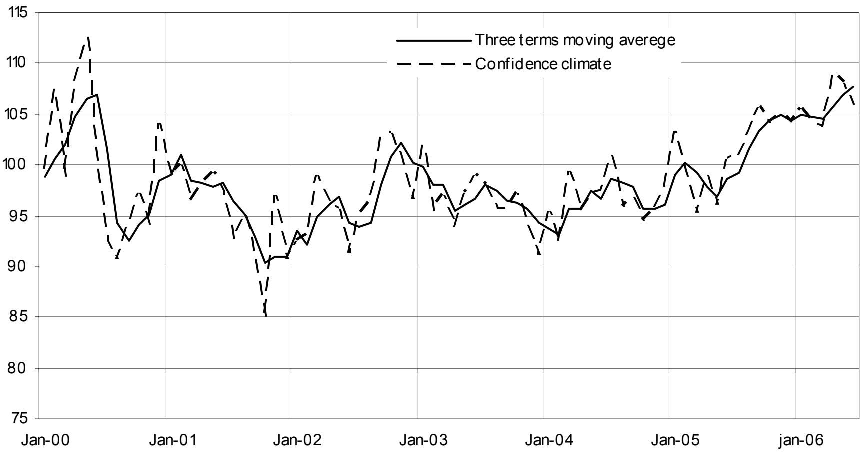
RETAIL TRADE FIRMS' CONFIDENCE ABATES IN JUNE

- **The seasonally adjusted confidence indicator of retail trade firms, which had peaked in the previous two month, dropped in June to 105.9, close to the level posted last January (moving from 108.1 in May)**
- **Respondents gave on the whole a less favourable assessment on current and future sales. Furthermore, restocking was considered to have started once more**
- **With regard to the series excluded from the definition of retail climate, respondents became less optimistic about expectations on the level of employment, while they marginally improved their prospects on the growth in the volume of orders. As for prices, current inflation was considered to be accelerating, but retail traders anticipated a moderate slowing in the following three months**
- **The breakdown by type of retail distribution showed that that the deterioration in the indicator was ascribable to the worsening in confidence for traditional retail trade firms only. For the latter sector, the seasonally adjusted index actually declined from 109.6 to 105.4, while for "modern" distribution it remained virtually unchanged at its previous month level (at 106.3, compared to 106 in May)**

CONFIDENCE CLIMATE
(seasonally adjusted data, indices 2000=100)



Data on July shall be released on September 18, 2006

The next ISAE surveys are scheduled as follows:
August 3, 2006: *ISAE International Comparison of Consumer and Business Surveys (reference period: July)*

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

According to the ISAE survey, carried out on a panel of about 1,000 firms operating in the traditional and large retail distribution, the seasonally adjusted confidence indicator, which had reached a peak in the previous two months, actually dropped in June to 105.9, close to the level posted last January (falling from 108.1 in May). This development reflected in general less favourable opinions on both assessments and expectations on business activity. Furthermore, restocking was considered to have started once more.

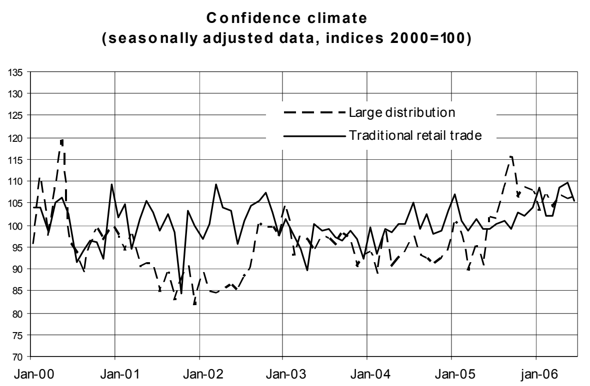
With regard to the variables excluded from the definition of confidence, for the following three months respondents expected a rise in the volume of orders and a decline in the level of employment. As for prices, surveyed firms judged that current inflation was accelerating, stating at the same time that they wanted to marginally scale down prices during the following three months.

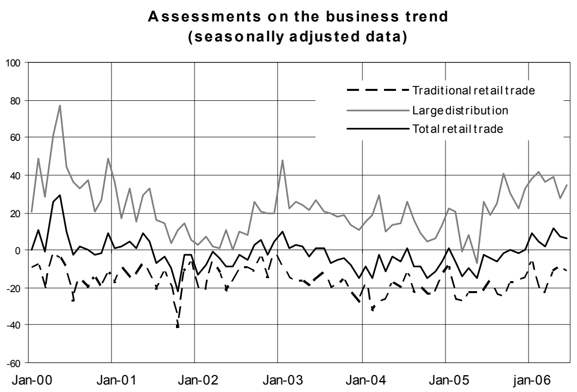
The breakdown of the data by type of retail distribution indicated that the worsening in confidence was ascribable to traditional retail trade firms only. The related seasonally adjusted indicator declined in fact to 105.4 from 109.6. The index remained, instead, virtually unchanged for "modern" distribution (at 106.3, compared to 106 in May).

Situation in the reference month (June 2006)

In June, the assessment on current retail business activity slightly worsened. The seasonally adjusted balance of the variable slipped from 7 to 6. Furthermore, surveyed firms judged that restocking had started: the related balance increased from 1 to 5. Finally, compared to the previous survey, the balance for the assessment on suppliers' prices began to increase once more, moving from 27 to 30 on a seasonally adjusted basis.

Also in June, the views that emerged were not homogeneous across the distribution channels. The seasonally adjusted balance for the assessment on current business activity posted a sharp improvement for large distribution (to 35 from 28 in May), while it worsened for traditional distribution (to -11 from -9). In line with the developments recorded for current retail sales, the volume of inventories grew for traditional retail trade (the seasonally adjusted balance of the variable rose in fact from 1 to 6), whereas they remained unchanged for "modern" distribution (at 2). Finally, suppliers' prices also sent contrasting signals: the seasonally adjusted balance of the variable increased in fact from 23 to 25 for large distribution, remaining instead stable (at 31) for the traditional one.





Outlook for the months ahead

In June, retail traders worsened their short term expectations for the volume of future sales, but they gave by and large a more confident appraisal of the expected volume of future orders. The seasonally adjusted balance of the former variable actually fell back from 12 to 9, while the balance for the latter variable grew from 4 (in May) to 6. Furthermore, on the whole, retail traders worsened their expectations on the employment trend: the seasonally adjusted balance of the variable, in fact, declined once more, moving from 18 to 16. To conclude, regarding selling prices, retail traders anticipated a moderate slowing down in inflation, and the raw balance of the variable slipped from 6 to 5, returning to the level record last March.

The breakdown of the data by type of retail distribution indicated that the worsening in expectations on the future volume of sales, though spread among both distribution channels, was particularly marked for large retail trade. The related seasonally adjusted balance of the variable actually fell from 46 to 40 for "modern" distribution but from -9 to -12 for traditional retail trade. As for the future level of both orders and employment, the seasonally adjusted balances increased for large distribution (to 43 from 42, and to 43 from 40, respectively), while they showed a retrenchment for traditional distribution (to -23 from -16, and to -4 from 0). To conclude, the intentions of retail traders regarding selling prices were also divergent. The raw balance of the variable declined, for the fourth month running, for traditional distribution (to 3 from 5 in May), while it continued to recover, although moderately, for "modern" distribution (rising from 7 to 8).

Confidence climate and balances of the index-building series

(seasonally adjusted data)

Month	Confidence climate	Business trend (assessments)	Business trend (forecasts)	Inventories
Jan.	105,6	9	2	1
Feb.	104,3	5	4	3
Mar.	103,8	1	9	6
Apr	109,2	12	12	3
May	108,1	7	12	1
Jun	105,9	6	9	5