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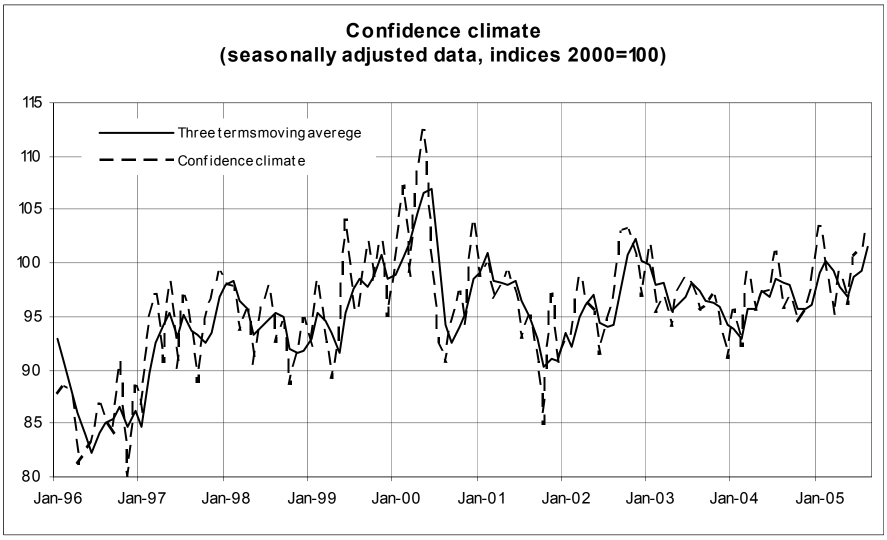
TRADE OPERATORS' CONFIDENCE GROWS AGAIN IN JULY-AUGUST, PARTICULARLY IN LARGE DISTRIBUTION

- **The seasonally adjusted confidence indicator rises from 100.5 in June to 101.1 in July and to 103.2 in August, which is close to the best scores since January 2005**
- **Breaking down data by kind of distribution, the seasonally adjusted confidence climate of large distributors remains stable in July (101.2), jumping up to 108.5 in August, which is one of the peaks since May 2000. In traditional distribution, confidence registers a more gradual growth and the (seasonally adjusted) indicator rises from 98.9 in June to 100.3 in July and to 101 in August**
- **The favourable evolution is due, in particular, to the improved expectations on the future business trend, while inventories seem to show a gradual reduction. Conversely, assessments expressed by operators on the current sale trend are unfavourable in both summer months**
- **Among non confidence-building variables, short-term expectations on the future order-book volume and on the labour market are negative in July and positive in August**
- **Turning to prices, the current inflation dynamics – which was originally decelerating – gives rise to new concerns in August. Conversely, future inflationary expectations are slowing down**



*Data on September shall be diffused on **October 31, 2005.***

Next ISAE Surveys are scheduled as follows:
October 3, 2005: *Comparative Business Surveys for Italy, Germany and France (Reference months: August-September)*

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

General results

According to the ISAE Monthly Survey carried out on a panel of about 1,000 firms operating in traditional retail trade and in large distribution in July and August, a gradual improvement is emerging in the Italian operators' confidence. Indeed, the (seasonally adjusted) confidence indicator rises from 100.5 in June to 101.1 in July and to 103.2 in August, which is close to the best scores since January 2005. The favourable evolution is mainly due to the improved expectations on the future business trend, while inventories seem to show a gradual reduction. Conversely, assessments expressed by operators on the current sale trend are unfavourable in both summer months.

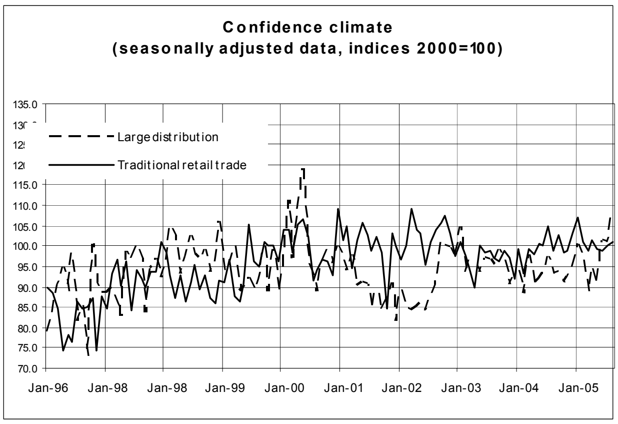
Among non confidence-building variables, short-term expectations on the future order-book volume and on the labour market are negative in July and positive in August. The Survey shows an oscillating trend in assessments on producer prices: the current inflation dynamics is slowing down in July and seems to find a new thrust in August. Finally, expectations on selling price variations seem to be decelerating.

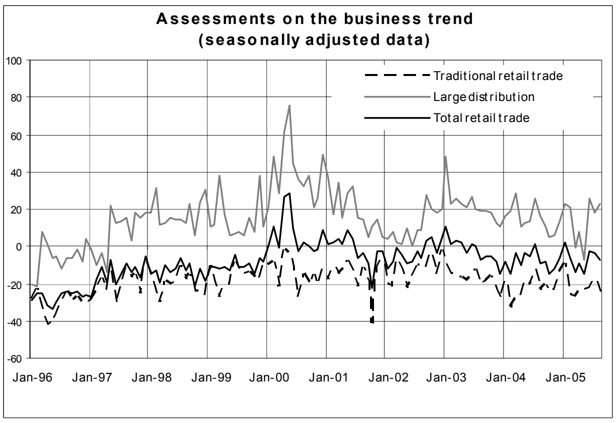
Breaking down data by kind of distribution, in traditional distribution, confidence registers a gradual growth and the (seasonally adjusted) indicator rises from 98.9 in June to 100.3 in July and to 101 in August, while the seasonally adjusted confidence climate of large distributors remains stable in July (101.2), jumping up to 108.5 in August, which is one of the peaks since May 2000.

Situation in the reference months (July-August 2005)

According to operators, the business trend has been deteriorating during the summer months and the balance of that variable goes from -2 in June to -4 in July to -7 in August. Against all odds, inventories are gradually decreasing: the balance diminishes from 7 (June) to 5 (July) to 2 (August). The current price trend further decreases compared to the June trough (17), it is worth 16 in July and goes up to 18 in August.

Breaking down data by kind of distribution, all trade operators think the current business trend is swinging. In particular, traditional retailers register a seasonally adjusted balance passing from -22 in June to -17 in July and to -24 in August. Conversely, operators in large distribution witness a balance contraction from 26 to 18 in July and an improvement to 23 in August. The level of inventories is diminishing in both kinds of distributions and the balance passes from 10 (June) to 7 (July) to 3 (August) in traditional retail trade and remains at 1 in July and falls down to -1 in August in "modern" distribution. Finally, opposing trend emerge from producer prices, which increase in July (from 27 to 28) and in August (31) in traditional retail trade and fall down from 6 to -2 (July) and again up to 4 in August in large distribution.





Forecasts for next months

In the two-month period July-August, within a framework characterised by optimistic expectations on the future sale trend (the seasonally adjusted balance rising from 4 in June to 5 in July and 12 in August), the ISAE respondents are pessimistic and then optimistic on their future sale volume and on the labour market evolution. The seasonally adjusted balance of the former variable passes from 0 to -1 in July and then recovers up to 8 in August. The balance of the latter balance decreases from 14 to 4 in July and grows again to 9 in August. Finally, looking at selling prices, the raw balance gradually decreases over the past two months and it is worth -3 in July and -6 in August (-1 in June).

Breaking down data by kind of distribution, large distribution operators are definitely optimistic on their future business trend ad on the future sale volume. Indeed, the seasonally adjusted balance of the former variable grows from 30 (June) to 38 (July) and to 57 in August. The balance of the latter variable rises from 35 in June to 39 in July and to 52 in August. Unlike their colleagues, traditional retailers – even forecasting an order-book expansion in the two months (the seasonally adjusted balance of the variable grows from -27 in June to -26 in July and to -17 in August) – express their pessimism first and then their optimism on their future sale trend (the seasonally adjusted balance equalling -14 in June, -18 in July and again -14 in August). Conversely, employment expectations seem to be oscillating in both sectors: indeed, as against the June figures (32 in large distribution and 0 in traditional retail trade), both seasonally adjusted balances fall in July (14 and -5 respectively) and then rise in August (27 and -2 respectively). Finally, opposing signals come from the future selling price level: the raw balance of the variable recovers in traditional retail trade (from -1 in June to 1 in July and to 6 in August) while it strongly deteriorates in large distribution (-2 in June, -9 in July and -24 in August).

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

Month	Confidence Climate	Business trend (assessments)	Business trend (forecasts)	Inventories
April	99.2	-9	1	1
May	96.2	-15	4	7
June	100.5	-2	4	7
July	101.1	-4	5	5
August	103.2	-7	12	2