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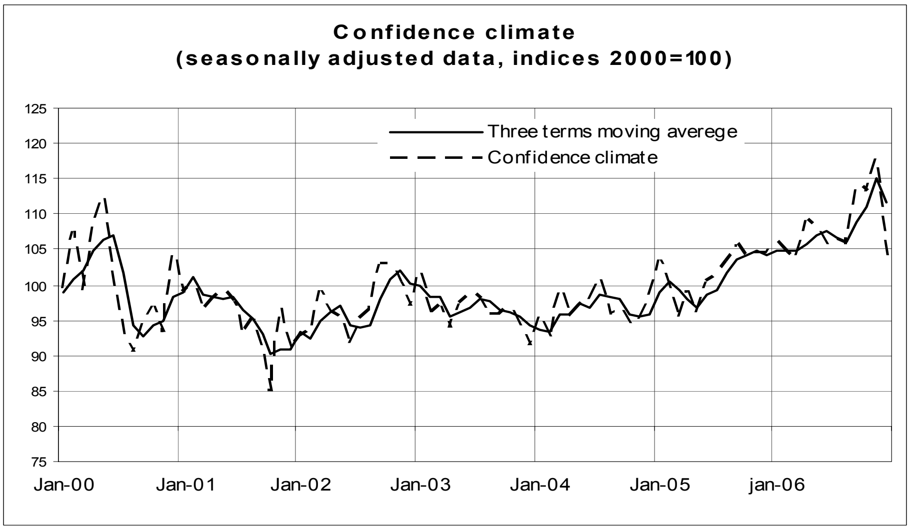
# AFTER THE STRONG GROWTH OF THE LAST MONTHS, IN DECEMBER RETAIL TRADE FIRMS' CONFIDENCE RETURNED TO THE LEVEL POSTED IN THE FIRST QUARTER OF 2006

- **The seasonally adjusted confidence indicator suddenly slumped to 104.3 (from 117.9 in November): assessments on current and future sales clearly worsened, and inventories started to build up once more**
- **Surveyed firms continued to be pessimistic about expectations on the future volume of orders and employment. Furthermore, they indicated a slowdown in current inflation, but projected an increase in selling prices during the next three months**
- **The worsening in confidence, though widespread in both distribution channels, was nevertheless sharper for large retail trade. The seasonally adjusted index actually declined from 116.9 to 112.6 for traditional trade and abruptly plunged from 118.3 to 97.5 for "modern" distribution**




**Data on January shall be released on January 30, 2007**

*The next ISAE surveys are scheduled as follows:*
**January 10, 2007:** *ISAE International Comparison of Consumer and Business Surveys (reference period: December)*

**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 December 1 and December 19 on a panel of about 1,000 firms operating in the traditional and large retail distribution, pointed in December to a slump in Italian retailers' confidence. Following the sharp increase posted over the last quarter, the seasonally adjusted confidence indicator returned close to the value recorded in the first quarter of 2006, lowering to 104.3 (from 117.9 in November). In particular, survey results highlighted a sharp downgrade in the opinions on the current and future trend of sales and, consequently, a substantial restocking of inventories.

With regard to the variables excluded from the definition of confidence, respondents confirmed and further accentuated, with respect to November, their pessimistic anticipations on the future volume of both orders and employment. Lastly, as for prices, firms indicated an easing of current inflation, but at the same time stated the intention to increase selling prices in the following three months.

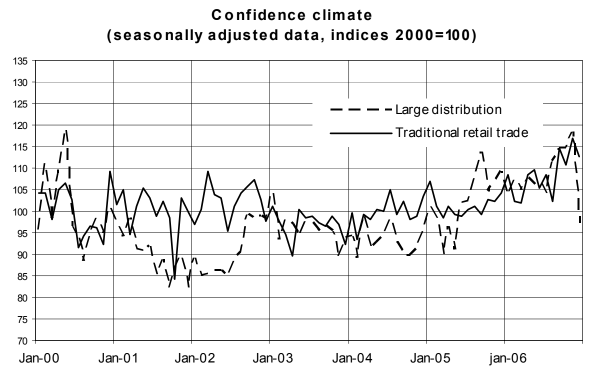
The breakdown of the data by type of retail distribution showed that the sharp decline in confidence, which characterized both distribution channels, was particularly marked for large distribution. The seasonally adjusted indicator actually edged down from 116.9 (in November) to 112.6 for traditional trade, but dropped from 118.3 to 97.5 for "modern" distribution, moving clearly below its annual average.

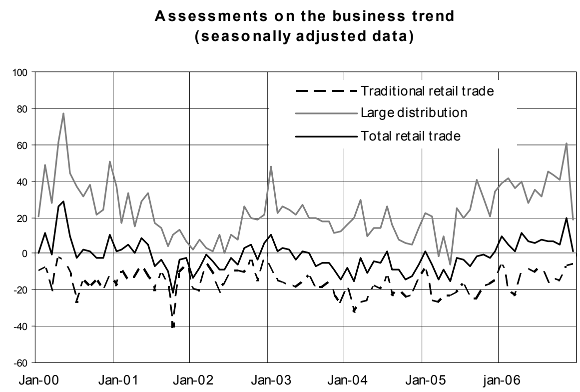
**Situation in the reference month (December 2006)**

In December, surveyed firms gave a decidedly less confident appraisal of current business activity: the seasonally adjusted balance of the variable actually lowered from 19 (in November) to 1. Moreover, stocks were considered to have built up sharply. The related balance (which is not affected by seasonal factors) increased from 7 (in November) to 12. With regard to the opinions on current suppliers' prices, the seasonally adjusted balance of the variable started to decline once more, moving from 33 to 29.

The breakdown of the survey results by type of retail distribution indicated that the clear predominance of negative assessments on current business activity especially mirrored retailers' opinions in large distribution. The seasonally adjusted balance of the variable actually slipped from -7 to -6 for traditional distribution, but plummeted from 61 to 18 for "modern" distribution. With regard to the inflation trend, the perception of a decline in suppliers' prices characterized operators in both distribution channels. The seasonally adjusted balance of the variable actually decreased from 37 to 29 (as in last April) for traditional retail trade and from 38 to 29 for "modern" distribution.

Finally, the seasonally adjusted balance of inventories remained stable (at 2) for large distribution, but grew from 11 to 17 for traditional retail trade.



## Outlook for the months ahead

In December, in line with the trend disclosed by the previous survey, the overall situation was characterised by a general worsening in all prospects of surveyed firms. In December, the seasonally adjusted balances for the future volume of both sales and orders, as well as employment continued to decline with respect to the previous month (moving to 17 from 34, to 1 from 8 and to 1 from 13, respectively). Furthermore, expectations of an acceleration in selling price inflation were confirmed: the raw balance of the variable increased from 12 to 20.

The breakdown of the data by type of retail distribution showed that the pessimism which characterized the entire sector, though affecting both distribution channels, continued, for the second month running, to be more marked among "modern" retail operators. For these entrepreneurs, the seasonally adjusted balances for the future volume of sales, orders and employment actually declined, in the order, from 57 to 26, from 26 to 13 and from 40 to 15. For traditional distribution, the same balances moved instead from 18 to 12, from -3 to -13 and from 0 to -5. Lastly, with regard to the trend in selling prices, the raw balance of the variable increased from 11 to 17 for traditional retail trade and from 13 to 26 for "modern" distribution.

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

| Month | Confidence climate | Business trend (assessments) | Business trend (forecasts) | Inventories |
|---|---|---|---|---|
| July | 106,4 | 7 | 5 | 1 |
| August | 105,7 | 7 | 8 | 4 |
| September | 114,2 | 7 | 32 | 4 |
| October. | 113,1 | 5 | 36 | 10 |
| November. | 117,9 | 19 | 34 | 7 |
| December. | 104,3 | 1 | 17 | 12 |

**Forecasts on business trend**
**(seasonally adjusted data)**