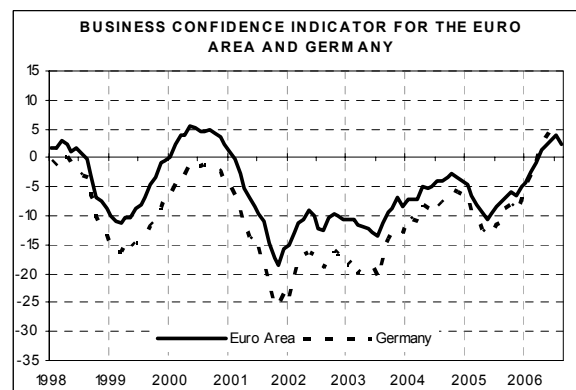
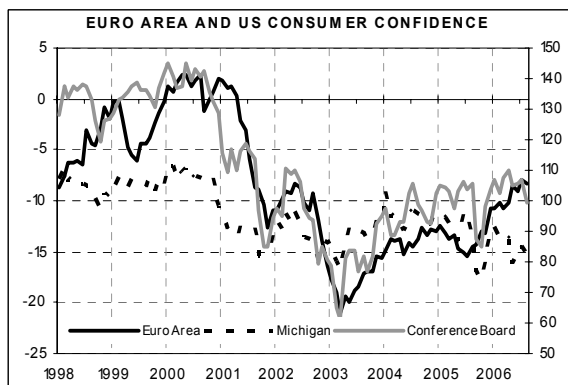




Date: September 6, 2006  
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## IN AUGUST, CONSUMER CONFIDENCE REMAINS UNCHANGED IN THE EURO AREA BUT DECLINES IN THE UNITED STATES. BUSINESS CLIMATE SUFFERS A SETBACK IN THE EURO AREA, DUE TO THE FALL IN PRODUCTION EXPECTATIONS

- In the Euro Area countries, consumers were more optimistic about the short-term economic scenario, even though inflation fears continued to build up
- In the United States, instead, consumers were increasingly concerned by personal and general economic prospects and they scaled down their plans for purchasing houses and cars
- In the average of the Euro Area, manufacturing firms' confidence fell back to the level recorded last May, posting a decline for the first time since November 2005
- The decrease was principally due to the worsening in short-term expectations for production. The assessment on the level of orders and of inventories stabilized instead. Finally, firms anticipated a slight increase in industrial selling prices
- Among main countries, both Germany and Spain sent negative signals because of a fall in short-term expectations for production. Unfavourable indications characterized the United Kingdom as well, where inventories sharply built up
- Lastly, in most countries signs of an acceleration in the rate of selling price inflation emerged



**Data on September shall be released on October 5, 2006**

The next ISAE surveys are scheduled as follows:

**September 18:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: July)

**September 21:** ISAE Monthly Consumer Survey (reference period: September)

**September 27:** ISAE Monthly Business Survey on Manufacturing and Extractive Firms (reference period: September)

**September 28:** ISAE Monthly Business Services Survey (reference period: September); ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: August-September) and ISAE Monthly Survey on Construction (reference period: August)

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](http://www.isae.it))

## Consumer confidence in the Euro Area, the United States and the United Kingdom<sup>1</sup>

In August, consumer confidence stayed the same in the Euro Area, but showed signs of worsening in the United States. In the Euro Area countries, optimism about short-term economic prospects increased, even though inflation fears continued to build up. In the United States, instead, consumers were increasingly concerned about personal and general economic prospects and they scaled down their plans for purchasing houses and cars.

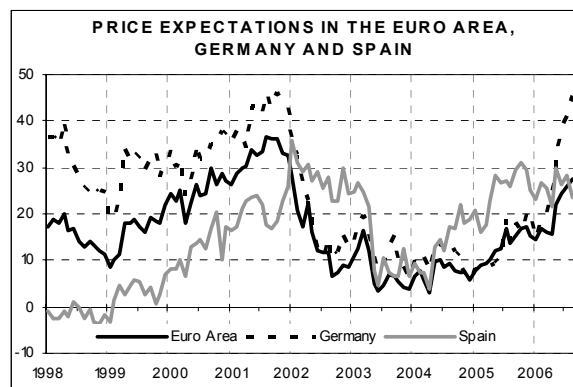
In more detail, the index calculated by the European Commission for the average of the Euro Area held steady at -8, remaining at its highest level since September 2002. Expectations for labour market developments improved (the balance referring to unemployment declined from 13 to 11), whereas the one for price expectations increased to 28 (from 26), reaching a record high since January 2002, when perceived inflation was soaring due to the euro changeover.

Confidence slightly edged down in Germany to -7 (from -6 in July), mainly because of a worsening in future saving opportunities (from 4 to -3, the lowest level since June 2003). Expectations for unemployment declined instead (from 14 to 11). Finally, inflation expectations increased: the related balance rose to 45 (from 41 in July), its highest level since November 2001. In Spain, instead, the confidence climate inched up to -13 (from -14 in July), chiefly thanks to an improvement in all the underlying components of the indicator apart from future saving opportunities, for which the balance lowered, instead, from -22 to -28. In contrast with the trend in the average of the Euro Area, inflationary pressures eased in Spain (the balance lowered from 28 to 24).

In the United Kingdom as well, the confidence climate stabilized (at -6): expectations on the country's economic situation worsened, while prospects for the respondents' personal situation and for labour market

developments remained unchanged, and future saving opportunities improved. Finally, also British consumers expected a rise in inflation. The related balance surged to its highest level since March 2003 (moving to 23 from 18).

In the United States, the consumer confidence index calculated by the Conference Board plunged to 99.6 from 107. The index of the University of Michigan recorded a decline from 84.7 to 82. For the Conference Board indicator, it was the lowest level in the current year and the monthly fall was the largest since the one posted a year ago on the occasion of hurricane Katrina. The worsening was principally due to a deterioration in general economic conditions and, mostly, to increased pessimism about labour market prospects. More in detail, the indicator for the current situation plummeted by more than ten points, from 134.2 to 123.4, the one for short-term expectations lowered from 88.9 to 83.8. The University of Michigan survey also confirmed the concerns about labour market developments. Accordingly, also due to expectations of a fall in real wages, respondents anticipated a slowdown in personal revenue and a scaling down in purchase intentions for houses and cars, which fell back to their lowest level since 1990. On the other hand, the survey portrayed some improvement for the situation in the second half of the month, in coincidence with the fall in oil prices and with resulting lower fears of rising inflation.



<sup>1</sup> France does not release data for August

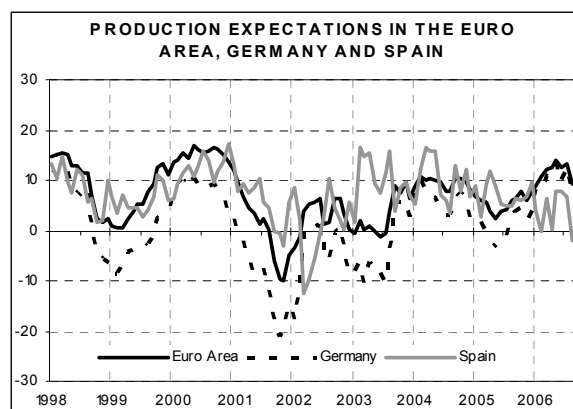
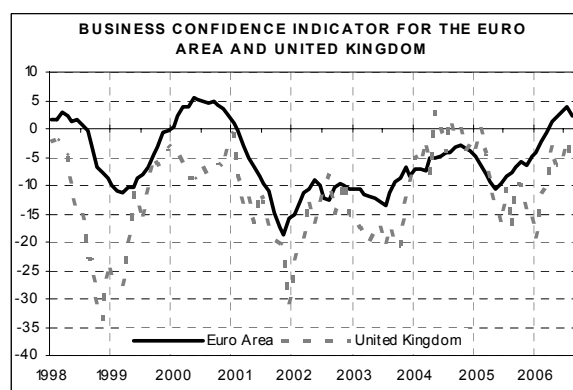
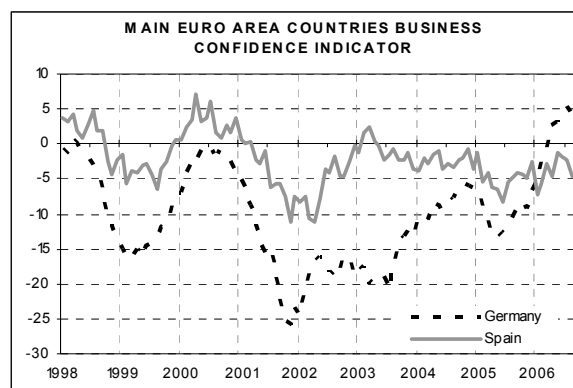
## Business confidence in the Euro Area and the United Kingdom<sup>2</sup>

According to the European Commission survey, recovery in manufacturing firms' confidence suffered a setback in the average of the Euro Area. In August, the index stood at 2 (compared to 4 in the previous month). It returned to the level posted last May, recording a fall for the first time since November 2005. The decrease was principally due to the worsening in short-term expectations for production. The assessment on the level of orders and on inventories stabilized instead. Finally, firms anticipated a slight increase in industrial selling prices.

With regard to the main Euro Area economies, in Germany business confidence edged down slightly in August: it came in at 4 from 5 in the previous month, mainly because of a worsening in production expectations (the indicator moved from 12 to 8, lowering to the level recorded in February). Nevertheless, the assessment on the level of orders improved somewhat and inventories stabilized. Finally, firms expected a new rise in industrial selling prices: the related balance increased to 13 from 9 in the previous month, returning to its highest level since January 2005. In Spain as well, confidence worsened in August, standing at -5, compared to -2 in July, mainly due to a sharp deterioration in short-term expectations for production activity. Inventories remained unchanged instead. As for prices, the inflation trend stabilized in August: the balance stayed at 7, the level posted last March.

Finally, confidence markedly deteriorated in the United Kingdom, where it came in at -7 (as against -2 in July, going back to the level posted last June) because of a sharp worsening in all the underlying components of the business climate (above all inventories started to build up again, moving from 6 to 17). Lastly, with regard to the price trend, entrepreneurs expected a significant increase in

industrial selling prices: the balance rose to 15 from 8 in July, surging to the highest level since March 2005.



<sup>2</sup> France does not release data for August.