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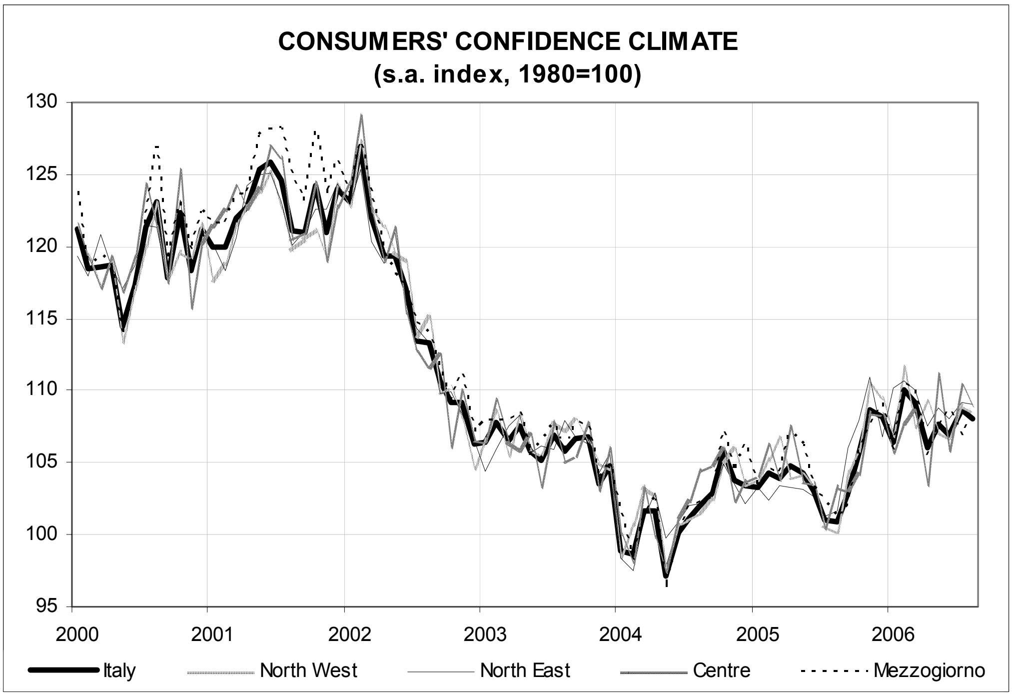
CONSUMER CONFIDENCE SLIPS IN AUGUST

- **In August, the seasonally adjusted index lowered to 108 from the high peak recorded in the previous month (when it reached 108.7), though remaining clearly above its second quarter average. The indicator also adjusted for irregular components notched up (to 108.2 from 108), and the raw index decreased one point (from 110.4 to 109.4)**
- **Once the euphoria related to the sports events vanished, the indicator for the country's general economic situation declined from 96.5 to 94.9, while the index regarding the respondents' personal situation stabilized at 115.6 (compared to 115.7 in July)**
- **Nevertheless, respondents continued to send cautious signals concerning their attitudes toward consumer durables. Further deterioration in the present convenience to buy was partly offset by an increase in buying intentions for the following months**
- **Concerns about inflationary pressures strengthened, probably due to a worsening in the international political and military situation, with assessments and forecasts for a rise in inflation bouncing to the record high levels reached in September 2005 and February 2003, respectively**
- **Following the peak hit in July, confidence began to worsen again in the North and the Centre of the country, while it improved in the *Mezzogiorno*: in the latter region, higher optimism was backed in particular by better assessments and forecasts on savings and by the improved convenience to purchase consumer durables**



Data on September shall be released on September 21, 2006
The next ISAE surveys are scheduled as follows:
August 31, 2006: *ISAE Monthly Business Survey on Manufacturing and Extractive Firms (reference period: August 2006)*
September 5, 2006: *ISAE Monthly Business Services Survey (reference period: August 2006) and ISAE Monthly Survey on Construction (reference period: July 2006)*
September 6, 2006: *ISAE International Comparison of Consumer and Business Surveys (reference period: August 2006)*
September 18, 2006: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: July 2006)*
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)

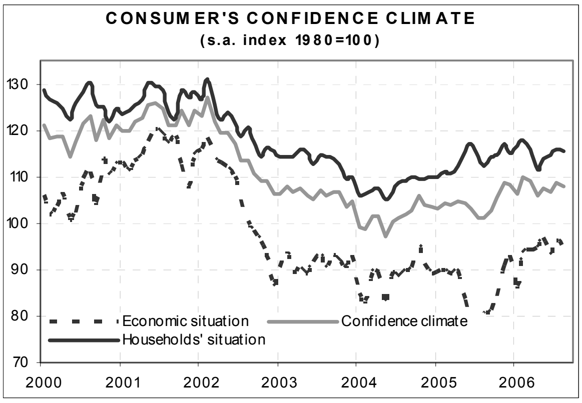
Italian consumers' confidence

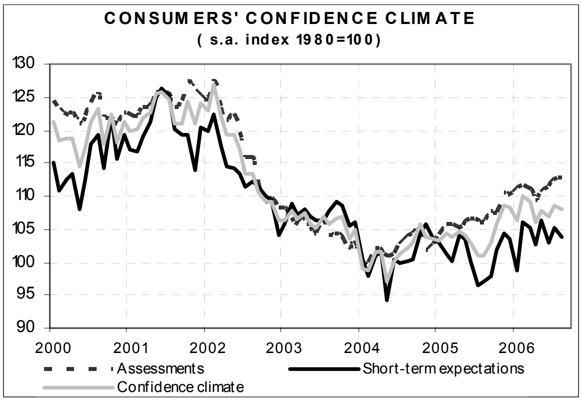
According to the ISAE Survey, carried out on a sample of 2,000 respondents between August 1 and August 11, Italian consumers' confidence decreased from 108.7 in July to 108 in August, though remaining clearly higher than its second quarter average. The indicator also adjusted for irregular components edged up to 108.2 (from 108), and the raw index decreased one point from 110.4 to 109.4.

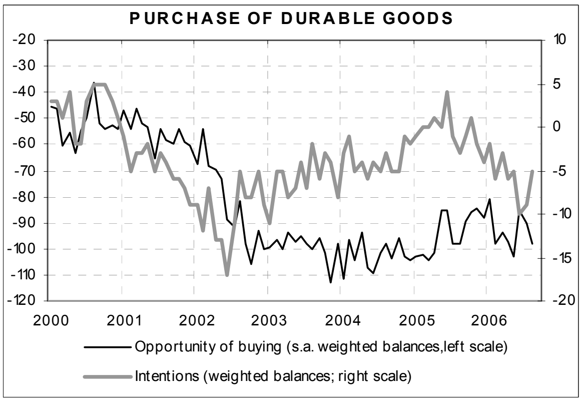
Once the euphoria related to the sports events vanished, the indicator for the country's general economic situation declined from 96.5 to 94.9, while the one regarding the respondents' personal situation stabilized at 115.6 (compared to 115.7 in July). Nevertheless, respondents continued to send cautious signals about their attitudes toward consumer durables: further deterioration in the assessment on the present convenience to buy was partly offset by the recovery in buying intentions for the following months.

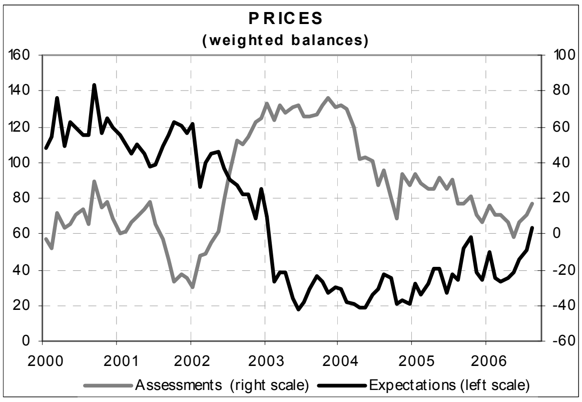
Finally, concerns about new inflationary pressures intensified, probably due to a worsening in the international political and military situation: the number of respondents believing prices to have risen in the last twelve months increased to the highest level since September 2005, while respondents expecting an increase in future prices started again to outnumber those anticipating a decline, and the related balance went back to its February 2003 high level.

The regional breakdown of data showed that confidence started to worsen again in the North and the Centre of the country, following the peak reached in July, while it improved in the *Mezzogiorno*: in the latter region, higher optimism was backed in particular by better opinions and forecasts for savings and by the improved convenience to purchase consumer durables.









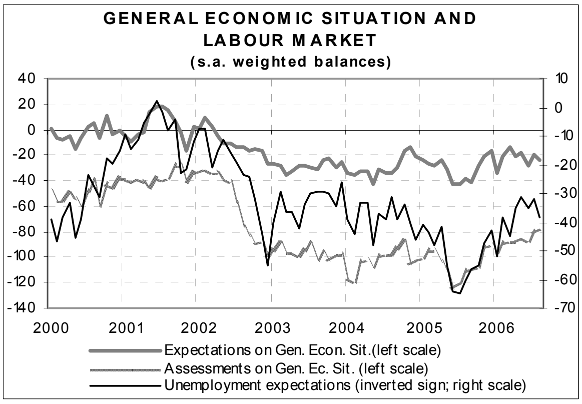
Overall situation

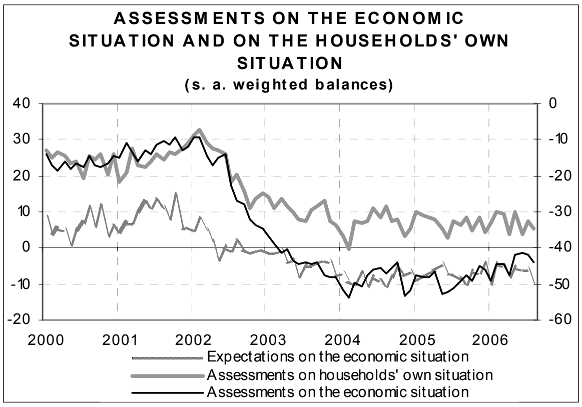
In August, the indicator summarizing the respondents' opinions on the Italian general economic situation declined more than one point, probably due to the petering out of the euphoria related to last month's sports events. In more detail, the opinions on the current situation continued to recover, rising to -77 from -81, while a worsening characterised expectations on the general economic situation (the balance decreased from -19 to -24) and on labour market developments (the balance referring to a rise in unemployment increased from 32 to 38). Inflationary pressures continued to increase: the raw weighted balance of price developments in the last twelve months grew to 77 from 71 in July: the number of respondents who thought that prices rose "to some extent" increased form 45% to 50%, and correspondingly those who believed instead that prices stayed the "same" with respect to the previous twelve months declined form 16% to 13%. Furthermore, the balance of expectations for the following twelve months rose from -9 to 3: on this matter, the number of people anticipating virtual stability in prices posted a steep decline (from 42% to 34%) which was compensated by a rise in the proportion of those believing that prices "will rise less" (from 18% to 24%) or "by the same amount" (from 23% to 27%) also in the next twelve months.

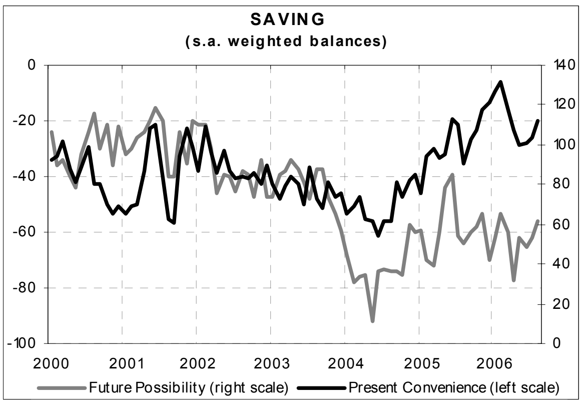
Personal situation

Generally unchanged indications characterized respondents' evaluation of their personal situation: nevertheless, the assessment on savings markedly improved, whereas contrasting signals portrayed consumer durables, and all in all negative indications came from the families' financial situation. In more detail, the balance for the current convenience to save increased from 104 to 112, and the one for future saving opportunities recovered from -62 to -56 (in both cases the balance returned to the favourable levels posted in the first quarter). Instead, consumers' opinions and forecasts on their economic situation worsened (from -42 to -44 and from -6 to -10, respectively). A deterioration portrayed consumers' evaluation of their finances as well (the balance declined form 7 to 6).

Furthermore, respondents continued to be cautious with respect to purchases of consumer durables, posting divergent opinions regarding the current convenience to purchase and short term buying intentions: the balance for the former variable declined







from -90 to -98, whereas expectation for the following months recovered from -9 to -5 (on a raw basis) thanks to a fall in the percentage of respondents who expected spending a "little less" than currently (from 7% to 4% of the sample) and an increase (from 17% to 22%) in those planning to maintain their current spending levels.

Regional breakdown of consumer confidence

The deterioration in the confidence indicator experienced at the national level was the result of diverging trends across regions. The index worsened in the North West and in the Centre, remained virtually stable in the North East, while it improved in the *Mezzogiorno*. In all regions, assessments and forecasts on the general economic situation and opinions on future conditions worsened, while contrasting signals came from the evaluation of the personal situation and current conditions.

North West: after the sharp improvement recorded in July, in the North West confidence started to worsen again (the index moved from 108.9 to 108.5). The deterioration was due to an overall worsening in assessments and forecasts on both the general economic situation and the personal situation. Pessimism also characterized opinions on the current situation, while those on future conditions remained basically stable.

North East: in this region confidence remained virtually unchanged. The index edged down slightly from 109.2 to 109.1. The assessment on the general economic situation and on future conditions worsened, while optimism characterized the evaluation of the personal situation and current conditions.

Centre: this was the region that witnessed the sharpest deterioration in confidence: the index declined from 110.3 to 108.9. In this case, the worsening was the result of assessments and forecasts which were negative overall for the general economic situation and, particularly, the personal situation. Also the opinions on the current situation deteriorated, while those on future conditions worsened even more markedly.

Mezzogiorno: in contrast with the other regions, the consumer confidence index started to improve once again: the indicator increased from 106.9 to 108.5. The recovery was mainly due to an improvement in the opinions on the general economic situation and on future conditions. The assessment on the personal economic situation and on current conditions worsened instead.