



ISTITUTO DI STUDI E ANALISI ECONOMICA

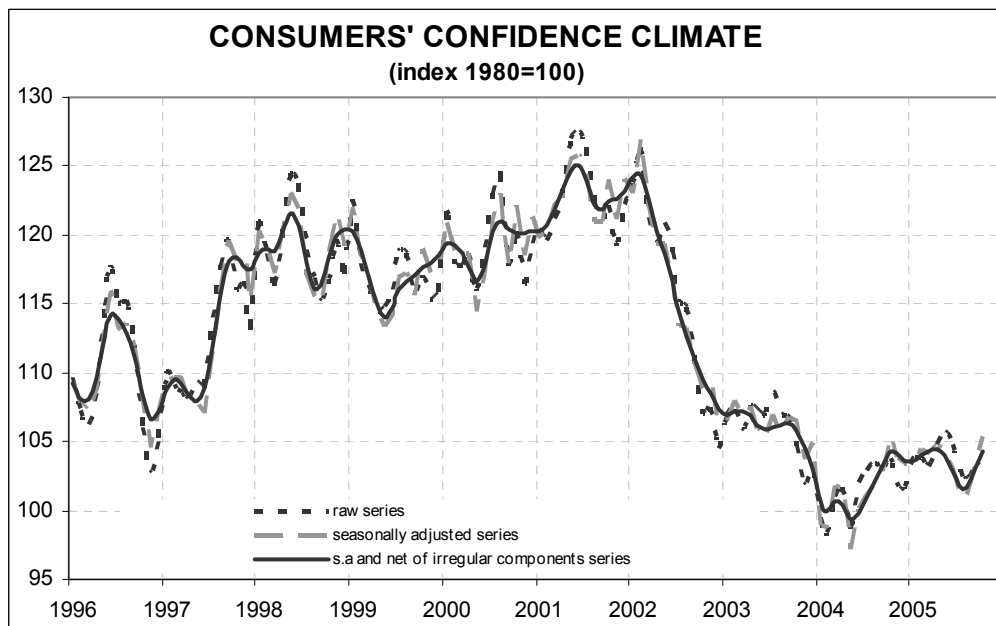
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## THE CONSUMERS' CONFIDENCE GROWS IN OCTOBER AND REACHES THE PEAK OF THE PAST TWELVE MONTHS

- The seasonally adjusted indicator rises from 102.9 to 105.3, which is the highest figure of 2005; the raw index grows from 103 to 103.5 and the indicator adjusted for the seasonal and irregular components goes from 103 to 104.4
- The respondents' short-term expectations and assessments on the general economic situation improve, particularly with reference to expectations on the country's economic situation
- The evaluations on the present economic situation and on the respondents' own situations remain substantially stable
- Indeed, signals of tensions emerge in prices, both in terms of assessments and of short-term forecasts, probably because of the energy price rises
- In the euro area, the September confidence remains stable for the fifth month in a row, in spite of the weak signals of recovery emerging in Germany and in France, which are offset by a slight average contraction observed in the other countries
- In the United States, confidence suddenly falls in September according to both the Conference Board and the Michigan University data. According to the Michigan University early-data, the index should fall again in October owing to a worsening in assessments on the current situation and in short-term expectations



Data referring to November shall be diffused on **November 23, 2005**.

Next ISAE surveys are scheduled as follows:

**October 26, 2005:** ISAE Monthly Business Survey on Manufacturing and Extractive Firms (Reference month: October)

**October 31, 2005:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: September) and ISAE Monthly Business Service Survey (Reference month: October)

**November 2, 2005:** Comparative Business Surveys for Italy, Germany and France (Reference month: October)

**November 3, 2005:** ISAE Quarterly Business and Consumers Surveys: Territorial Aspects (Reference period: Q3 2005)

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

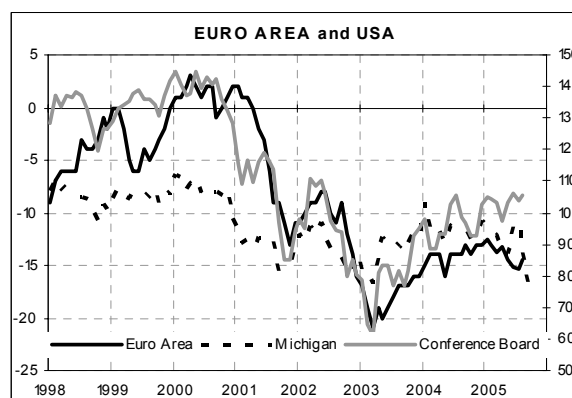
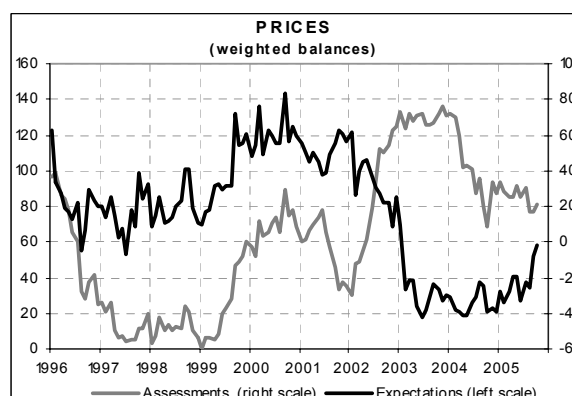
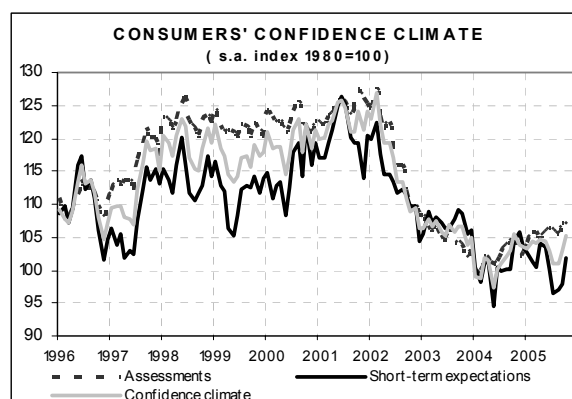
## Confidence in Italy, in the euro area and in the United States

According to the ISAE Consumer Survey carried out between October 3 and 14 on a sample of 2,000 respondents, the Italian consumers' confidence climate strengthen in October, rising from 102.9 to 105.3, which is the highest peak of 2005; the raw index grows from 103 to 103.5 and the indicator adjusted for the seasonal and irregular components goes from 103 to 104.4, which is the best score since April 2005.

In particular, an improvement is observed in short-term expectations: the index increases by four percentage points, rising from 97.8 in September to 101.8 in October (which is close to the May peaks). Also assessments on the general economic situation improve (from 80.8 to 83.8), which is also the best score since May. Indeed, the respondents' evaluations on their own situations and on the present economic situation remain substantially stable: the two figures pass from 114.5 and 107.2 to 114.7 and 107 respectively (seasonally adjusted data).

Turning to price dynamics, the concerns on the acceleration which had characterised the September expectations are confirmed and are mirrored in assessments on the present situation.

In the euro area, the September confidence indicator remains stable for the fifth month in a row, in spite of the weak signals of recovery emerging in Germany and in France, which are offset by a slight average contraction observed in the other countries. In the United States, confidence suddenly falls in September according to both the Conference Board and the Michigan University data. According to the Michigan University early-data, the index should fall again in October owing to a worsening in both assessments on the current situation and short-term expectations.



### The ISAE Survey: the overall economic situation

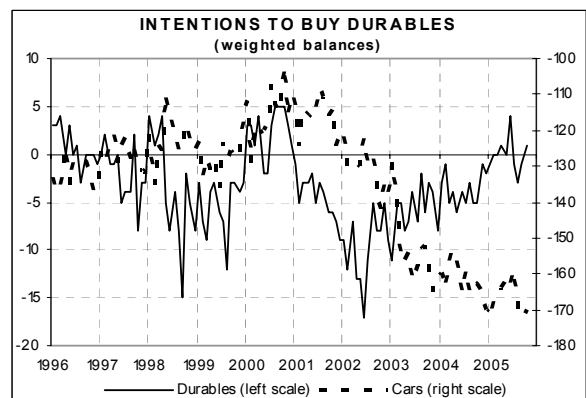
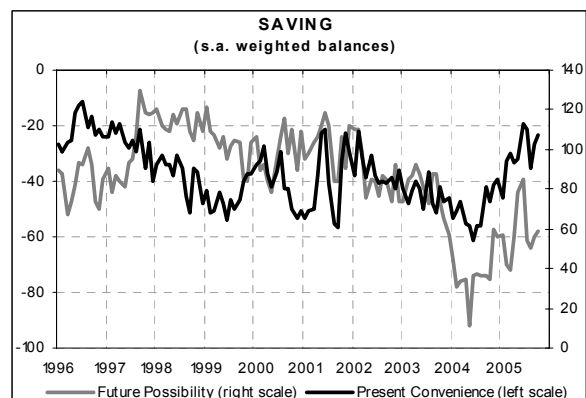
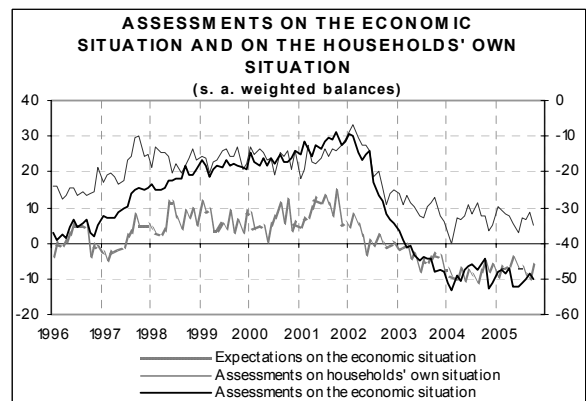
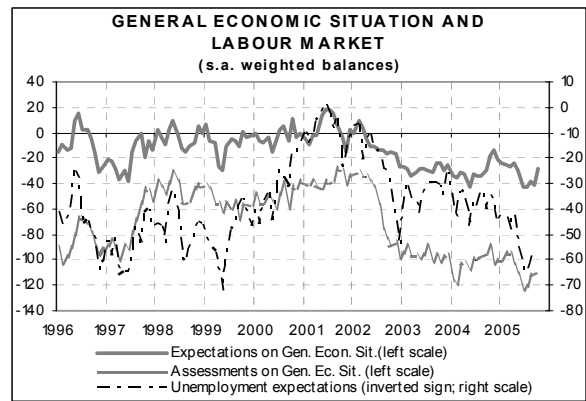
In October, the gradual improvement in assessments on the general economic situation which had started in July is confirmed (the balance recovers from -111 to -109). Favourable signals come from short-term expectations, which pass from -41 to -28, thus marking the best score since April 2005. Also expectations for an unemployment rise continue to diminish: the balance decreases from 57 to 56, which is close to the May figures.

Few signals of inflationary tensions are looming ahead: the raw weighted balance of assessments on the past twelve months passes from 77 to 81, thus marking a reverse of trend compared to the past two months. In particular, the share of those considering prices rose “very much” rises from 27 to 30%, even though the number of respondents considering prices “slightly” rose decreases from 40 to 38% and the percentage of respondents “considering prices “slightly” increased or remains unchanged goes from 16 to 15%.

Expectations for the next twelve months continue to deteriorate. The raw weighted balance passes from -8 to -2, which is the worst result since January 2003. In particular, the share of those fearing a similar or larger growth in the future rises from 30 to 32%, while the percentage of respondents expecting a smaller growth increases from 16 to 17% and the number of those expecting price stability in the next twelve months diminishes from 45 to 41%, which is the worst figure since the beginning of 2003.

### The ISAE Survey: the households' situations

Definitely stable indications come from evaluations on the households' own situations. Indeed, assessments on the households' financial situations slightly worsen (the balance passing from 8 to 5), as do those on the households' economic situations (the balance falling from -48 to -50).



Expectations for the next twelve months recover from -10 to -7 in terms of balance. Besides, evaluations on saving are rosier both on the present convenience to save (the balance increasing from 103 to 107), and on future saving opportunities (recovering from -60 to -58).

Positive signals come from durables: consumers are less pessimistic on their immediate convenience to purchase them (the balance growing from -89 to -86). Similarly, intentions to make short-term purchases improve: the raw weighted balance passes from -1 to +1, thus being positive again after the months. In particular, the share of those excluding they will make any purchase in the next twelve months diminishes from 76 to 68%, and this is the best score since October 2003. However, the consumers' intentions to spend for major purchases are substantially unchanged: the share of respondents intending to buy a house falls from 3 to 2% and the number of those intending to spend for home maintenance remains at 8%. Finally, the percentage of those intending to buy a car equals 7% for the second month in a row, even though the share of those excluding any purchase falls from 89 to 87%.

### **The Surveys on the euro area and the United States (September and October data)<sup>1</sup>**

In September, the average consumers' confidence in the euro area is stable at -15 for the fifth month in a row, thus marking one of the lowest levels since May 2004. Expectations on the overall economic situation improve, while those on the respondents' own situations and on their future saving opportunities stabilise. With reference to the labour market, the number of those expecting an unemployment rise slightly diminishes and the balance passes from 31 to 30 (thus coming back on the July level). Among non confidence-building variables (according to the

Commission's definition), assessments on the convenience to purchase durables and spending prospects for the next twelve months (slightly) worsen, given that further price rises are expected (the balance passing from 13 to 14).

Among the major countries, confidence slightly recovers in Germany, where the indicator goes from -15 to -14 (close to the May figures), thanks to better forecasts on the country's general economic situation and on the labour market trend (the balance decreasing from 33 to 20, which is close to the May figure). Unfavourable indications come from expectations on the respondents' own situations and on future saving opportunities. With reference to prices, German consumers expect an inflation rekindling, with the balance passing from 14 to 18.

In France too, confidence improves in September and the balance rises from -15 to -13, which is one of the best figure since December 2004. Almost all index-building components recover, with the only exception of forecasts on the labour market trend (the share of those expecting an unemployment rise grows from 29 to 32, which is close to the April 2004 figures). In particular, with reference to the respondents' expectations on the country's overall situation, a marked improvement is observed in September and the balance passes from -17 to -11 (close to the March 2004 figures). Prices are expected to diminish and their balance is expected to fall from 15 to 10 (one of the troughs since the beginning of the year).

In the United States, according to the Conference Board indications, the consumers' confidence indicator falls from 105.5 in August to 86.6 in September, which marks a strong contraction due to a worsening in the sub-index on the current situation (passing from 123.8 to 108.9) as well as in the sub-indicator on expectations (from 93.3 to 71.7). According to the Michigan University data, the American confidence climate witnessed a decline in September, passing from 89.1 to 76.9, which is an all-time low in the past thirteen years.

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<sup>1</sup> The European Commission has not disseminated the August-September data on the confidence indicators in Spain.

The early October data of the Michigan University provide a strongly pessimistic signal: indeed confidence is expected to fall down to 75.4, which means the past quarter witnessed a 21-percentage-point contraction. Looking at single components, the contraction affects both assessments on the current situation (from 98.1 to 95.7) and short-term forecasts (from 63.3 to 62.4), particularly because of the growing respondents' concerns on their own situations (in connection with the raw materials price rise and to the growing indebtedness).