ISTITUTO DI STUDI E ANALISI ECONOMICA
Piazza dell'Indipendenza, 4 00185 Roma tel.: + 39-0644482.1 fax: + 39-0644482229

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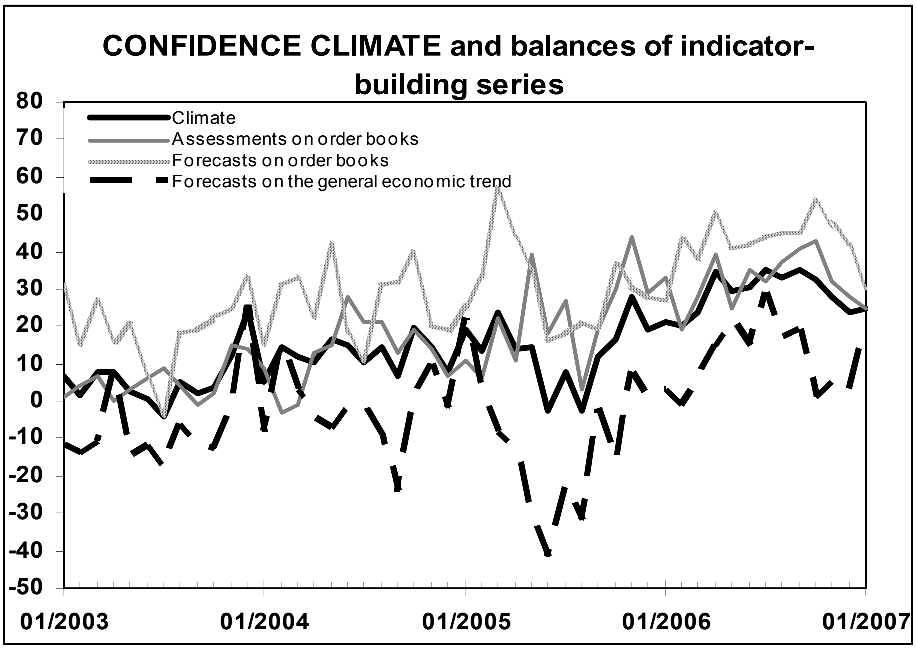
TEL.: **06/444821**

IN JANUARY CONFIDENCE AMONG MARKET SERVICES FIRMS EDGES UP

- **The raw index increased to 25 (from 24 in December) backed by more favourable expectations for the Italian economy. The year-on-year change in confidence – which is not affected by seasonal factors – also showed an improvement (in January 2006, the index stood at 21)**
- **Some important differences emerged, nevertheless, at the industry and the regional levels. Macro sector analysis pointed to a sharp drop in confidence for household services (to 7 from 26). The indicator clearly recovered, instead, for financial services (to -2 from -15) and soared for business services (to 35 from 22). In January 2006, the confidence climate for household, financial and business services came in at 17, 9 and 24, respectively**
- **On a regional basis, confidence increased to 29 (from 22) in the North West and lowered in all the other areas, moving to 26 (from 28) in the North East, to 13 (from 25) in the Centre and to 24 (from 29) in the South. In January 2006, the confidence climate in the North West, the North East, the Centre and the South stood, in the order, at 27, 13, 19 and 3**
- **Among the variables excluded from the confidence indicator, opinions and expectations on employment sent more favourable signals, in a situation characterized by a further increase in the inflationary pressures which emerged for the first time last month**

IN THE FOURTH QUARTER 2006, THE PERCENTAGE OF FIRMS PERCEIVING THE EXISTENCE OF FACTORS LIMITING BUSINESS ACTIVITY DECLINED

- **According to the traditional ISAE quarterly survey, the percentage of firms perceiving the existence of obstacles to production fell to 36% (from 51% in the third quarter)**
- **Among the factors limiting business activity, the relevance of insufficient demand and shortage of labour force increased (to 56% of the respondents from 26% in the previous survey, and to 12% from 4%, respectively). On the contrary, the importance of financial constraints and "other unspecified factors" declined (to 24% of the sample from 37% and to 12% from 35%)**



Data on February shall be released on February 27, 2007
The next ISAE surveys are scheduled as follows:
February 7, 2007: *ISAE International Comparison of Consumer and Business Surveys (reference period: January)*

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)

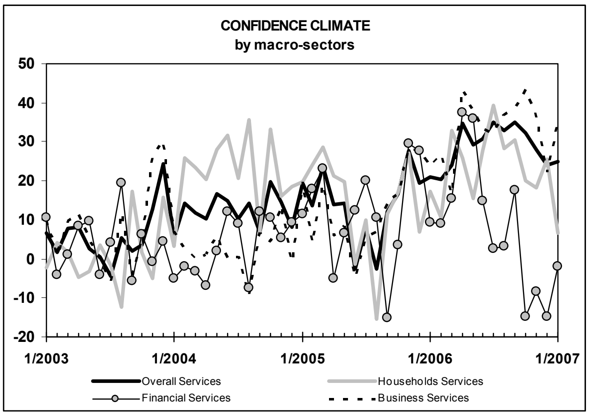
General results

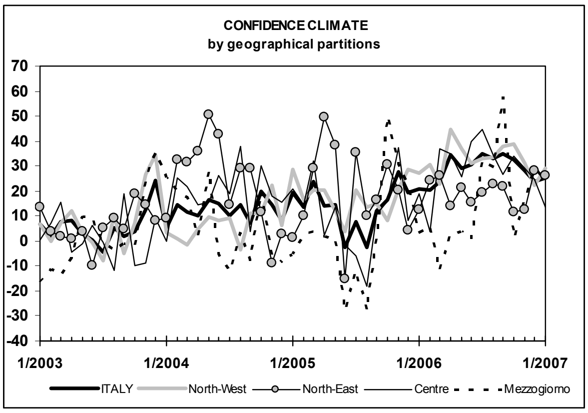
The ISAE Survey, carried out on a panel of around 2,000 firms between January 2 and January 19, showed a slight recovery in confidence for the market services sector in January. The raw indicator actually edged up to 25 (from 24 in December), due to more favourable expectations for the Italian economy. The year-on-year change in confidence – which is not affected by seasonal factors – also showed an improvement (in January 2006, the index stood at 21).

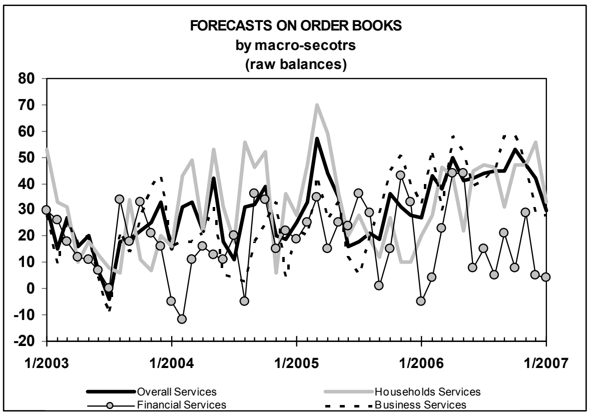
Some important differences emerged, nevertheless, at the industry and the regional levels. According to the analysis of the macro sectors, in line with the results of the ISAE consumer survey, confidence abruptly fell for household services (to 7 from 26), whereas the indicator clearly recovered for financial services (to -2 from -15) and soared for business services (to 35 from 22). In January 2006, the confidence climate for household, financial and business services came in at 17, 9 and 29, respectively.

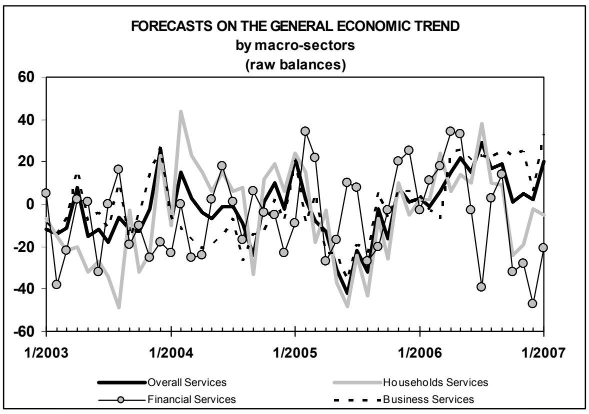
On a regional basis, confidence increased to 29 (from 22) in the North West and lowered instead in all the other areas, reaching 26 (from 28) in the North East, 13 (from 25) in the Centre and 24 (from 29) in the South. In January 2006, the confidence index in the North West, the North East, the Centre and the South stood, in the order, at 27, 13, 19 and 3.

According to the traditional ISAE quarterly survey, in the fourth quarter of 2006, the percentage of firms perceiving the existence of factors limiting business activity declined to 36% (from 51% in the previous quarter). Among the main obstacles to production, the importance of insufficient demand and shortage of labour force increased over the previous quarter.









Situation in the reference period

In January, market services operators gave a less confident appraisal of orders (to 25 from 28), and also scaled down, though less markedly, their assessments on turnover (the balance declined to 19 from 20). The balance for employment increased instead to 8 (from 1).

However, the assessments on the current situation were patchy at both the industry and the regional levels. In the household services sector, the balance for employment slightly recovered, though remaining negative. On the contrary, the opinions on orders and turnover clearly worsened, recording negative values. The reduction characterized mainly ground transportation, telecommunications and real estate services. For financial services, the balances for orders and turnover improved, and the one for employment worsened. Business services operators, instead, in contrast with the trend at the national level, gave a decidedly optimistic appraisal of orders. The balances for turnover and employment moderately declined instead.

On a regional basis, in the North West the balance for orders declined, remaining nevertheless clearly in positive territory. On the other hand, favourable opinions on turnover and employment emerged. In the North East and the Centre, the balances for orders and turnover clearly declined, whereas the one for employment increased markedly in the North East and lowered in the Centre. Finally, in the South, operators were more optimistic than in December about orders and turnover. However, the balance for employment moderately lowered.

Outlook for the next three months

In January, caution characterized short-term expectations. On the one hand, the balances for orders and turnover actually worsened (to 30 and 22 from 42 and 39, respectively), on the other hand those for employment and the economic trend strongly improved (to 22 from 16 and to 20 from 2). Nevertheless, with respect to prices, also in January operators anticipated an increase in selling prices (the balance reached 19 from 7 in the previous month).

Also with regard to forecasts, the situation was rather mixed at both the industry and the regional levels. On an industry basis, for household services the balances referring to company variables as well as to the Italian economy worsened. For financial services, instead, the balances for orders and turnover were marginally lower, while those for employment and the economy recovered. Business services operators gave a more optimistic assessment, with respect to December, on employment and the economic trend. However, expectations for orders and turnover deteriorated.

At the regional level, in the North West, the balances for orders and turnover decreased, while those for employment and the economic trend markedly improved. In the North East, the balances for orders and employment declined, though remaining in positive territory, whereas the forecasts for turnover and the general economic trend improved. In the Centre, instead, operators became more pessimistic, with respect to December, about both company variables and the overall economy. Finally, in the South, operators were optimistic about the future trend for orders, turnover and employment. The balance for the economy nevertheless significantly declined .

Quarterly survey results (fourth quarter 2006)

According to the traditional ISAE quarterly survey, based on the same sample of the monthly survey, in the fourth quarter of 2006, the percentage of firms perceiving the existence of factors limiting production lowered to 36% (from 51% in the previous survey). The decline was homogeneous across sectors. In detail, the share of firms recording the existence of obstacles diminished to 40% (from 47%) for household services, to 14% (from 40%) for financial services and to 35% (from 54%) for business services.

Among the main obstacles to business activity, operators increasingly quoted, compared to the previous quarter, insufficient demand (the share of respondents rose to 56% from 26% in the third quarter) and the shortage of labour force (to 12% from 4%). In contrast, the role of financial constraints and "other unspecified factors" declined (to 24% from 37% and to 12% from 35%, respectively).