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

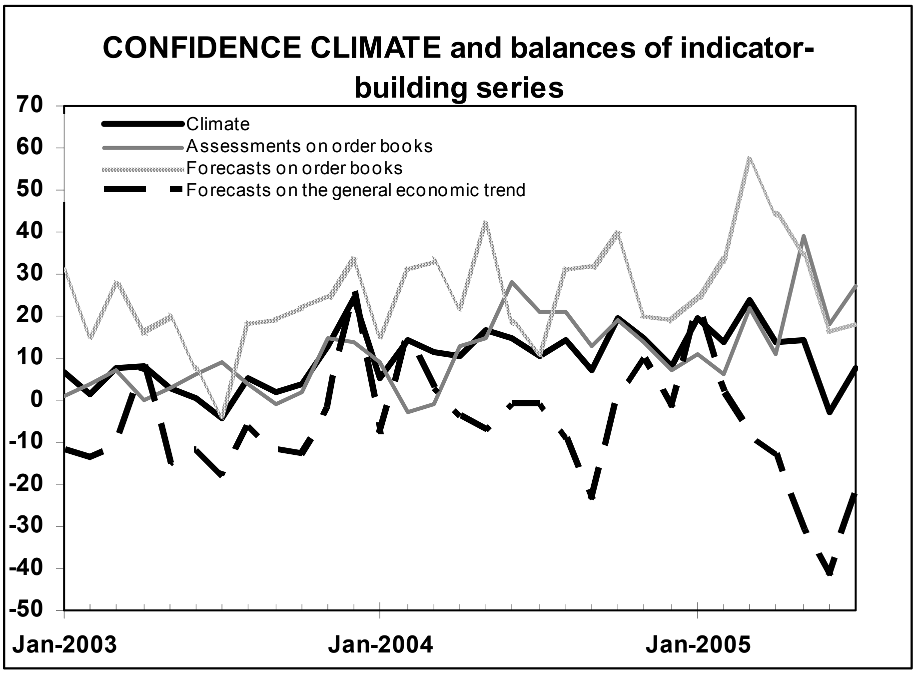
Date: **July 27, 2005**
TEL.: **06/444821**

IN JULY CONFIDENCE GROWS AGAIN IN THE MARKET SERVICE SECTOR

- **The raw index rises from -3 to 8 thanks to an improvement in all confidence-building components; however, the comparison with July 2004 (when the index equalled 10) shows a contraction on a y/y basis**
- **The m/m improvement concerns all sectors: the indicator grows from -1 to 10 in households services, thanks to favourable expectations on demand, it passes from 12 to 20 in financial services and from -5 to 5 in business services. In July 2004, the confidence climate in households, financial and business services were equal to 21, 9 and 0 respectively**
- **Looking at geographical partitions, confidence definitely increases in the North-west (from 4 to 20) and in the North-east (from -15 to 35), where operators are optimistic on current and future order books as well as on the economic situation as a whole. The index recovers in the South (from -28 to -12) and worsens in the Centre (from -2 to -6) due to negative forecasts on the economic trend**

THE SHARE OF FIRMS PERCEIVING OBSTACLES TO PRODUCTION IS SLIGHTLY DECREASING

- **According to the usual quarterly ISAE Survey, the share of firms perceiving obstacles to production in Q2 2005 falls to 39%.(from 40% in Q1 2005)**
- **Among the production-hampering factors, 85% of firms (66% in Q1) mention "other reasons", while insufficient demand (indicated by 22% of firms as against 28% in Q1), financial constraints (24% as against 35% in Q1) and lack of manpower (5% compared to 11% in Q1) seem to be less important. Firms do not perceive insufficient room and machinery as a binding constraint in Q2 as well**



Data on August and September shall be diffused on ***September 29, 2005***

Next ISAE Surveys are scheduled as follows:
August 1, 2005: *Comparative Business Surveys for Italy, Germany and France (Reference months: July)*

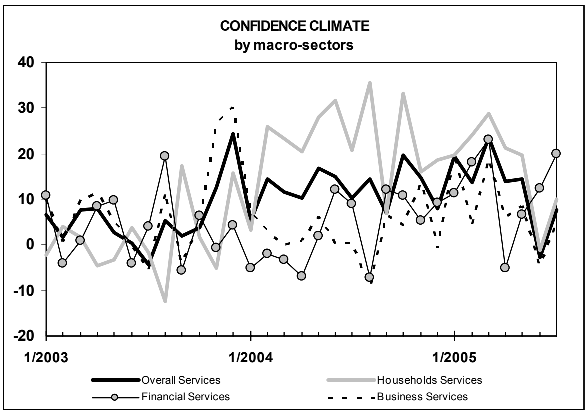
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site www.isae.it)

General results

According to the ISAE Survey on Market Services carried out between July 1 and 22 on a panel of about 2,000 firms, the July confidence climate in market services grows again. The raw index rises from -3 to 8 thanks to an improvement in all confidence-building components, thus partially recovering the strong contraction observed between April ad June. The comparison with July 2004 (needing no seasonal adjustment) shows a y/y contraction (the index equalled 10).

The confidence improvement concerns all sectors: the indicator grows from -1 to 10 in households services- thanks to favourable expectations on demand, it passes from 12 to 20 in financial services and from -5 to 5 in business services. In July 2004, the confidence climate in households, financial and business services equalled 21, 9 and 0 respectively.

Looking at geographical partitions, confidence definitely increases in the North-west (from 4 to 20) and in the North-east (from -15 to 35), where operators are optimistic on current and future order books as well as on the economic situation as a whole. The index recovers in the South (from -28 to -12) and worsens in the Centre (from -2 to -6) because of negative forecasts on the economic trend.

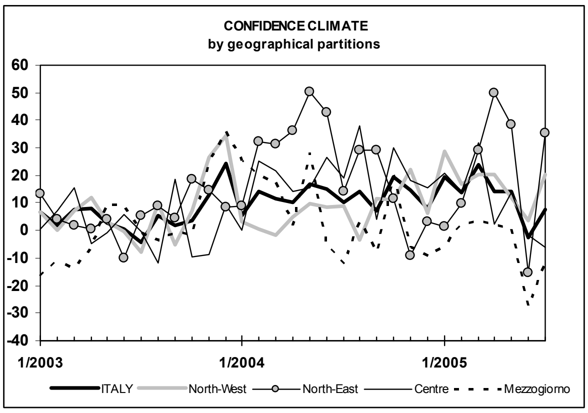


Situation in the reference period

In July, market service operators express rosier evaluations on their current order books (the balance passing from 18 to 27) and employment (from -6 to -3), while they are cautious on turnover (the balance falling from 17 to 16).

Looking at single sectors, favourable assessments in order books prevail in households services, while the turnover balance falls and the one on employment slightly recovers (though remaining negative). Financial and business service operators are optimistic on all the surveyed variables.

Breaking down data by geographical partitions, the balances of order books and turnover rise in the North-west, while the one of employment recovers. In the North-east, firms express positive evaluations on all variables. Assessments on order books and employment improve in the Centre, while those on turnover worsen. Finally, Southern operators express moderately favourable opinions on order books, while the turnover and employment balances suddenly deteriorate.

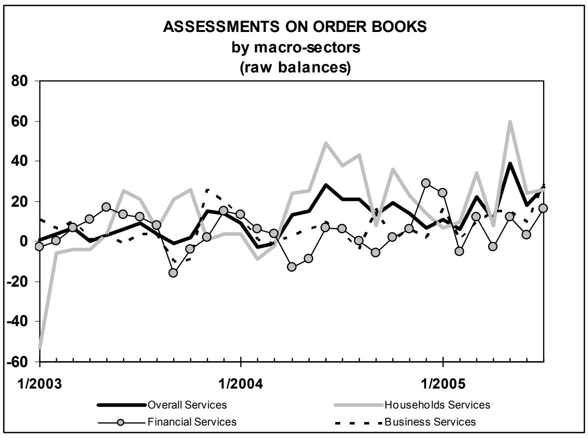


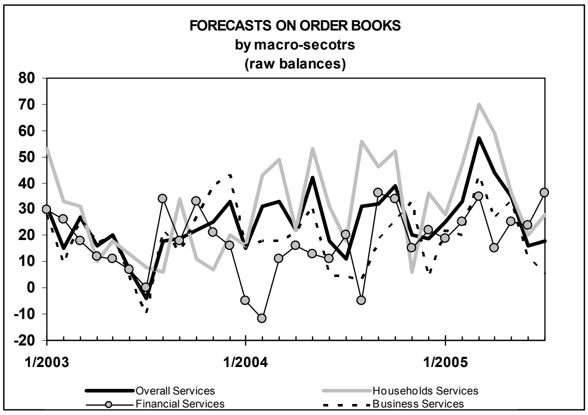
Forecasts for next quarter

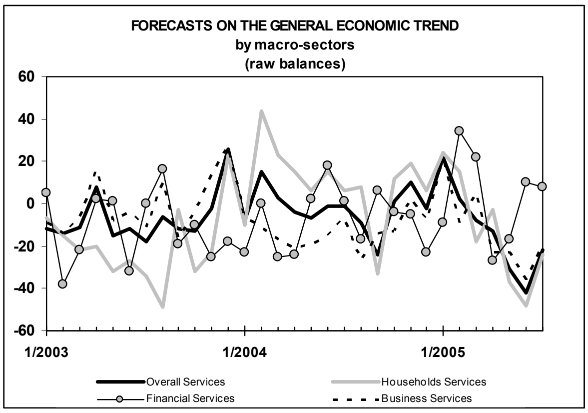
The entrepreneurs' expectations are rather cautious. Indeed, the balance of order books improves (from 16 to 18) and those on employment and the general economic trend recover (though remaining negative) from -8 and -42 to -5 and -22 respectively. Conversely, the balance of the expected turnover worsens in July as well, passing from 16 to13.

Turning to single sectors, the order-book balance improves in households services, while that on the general economic trend recovers in spite of its negative sign; conversely, the turnover and employment balances fall in July. Financial services operators are optimistic on order books, while their employment balance remains negative and the balances referring to turnover and to the general economic trend deteriorate. Unfavourable expectations on order books prevail in business services, which runs counter the national figures, while the turnover and employment balances clearly improve and the balance on the general economic trend is recovering.

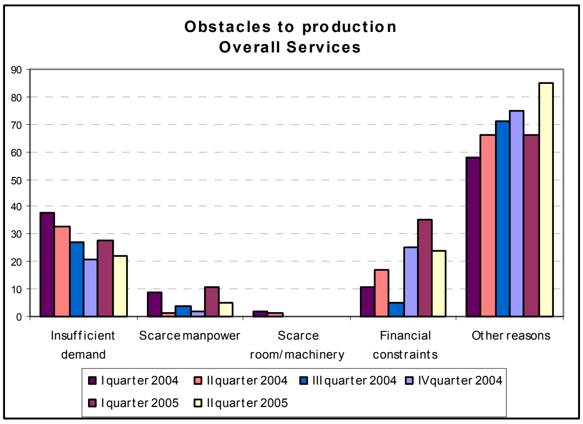
Looking at geographical partitions, entrepreneurs are optimistic on all variables in the North-west and even more so in the North-east. In the Centre, the balances of order books, turnover, employment and the general economic trend fall in July as well. Finally, in the South, operators express rosy expectations on order books, while their balance on the general economic trend recovers and the turnover and employment balances worsen.







The main quarterly results (Q2 2005)



According to the usual quarterly Survey, carried out on the same sample surveyed on a monthly basis, the share of firms perceiving obstacles to production in Q2 2005 falls to 39% (40% in Q1 2005). Among the production-hampering factors, 85% of firms (66% in Q1) mention "other reasons" as a major problem. Conversely, insufficient demand (indicated by 22% of firms as against 28% in Q1), financial constraints (24% as against 35% in Q1) and lack of manpower (5% compared to 11% in Q1) seem to play smaller roles, while firms do not perceive insufficient room and machinery as a binding constraint in this quarter as well.

There are, however, some differences in the various sectors: indeed, in households services, the share of operators perceiving obstacles to production considerably decreases (from 36 in Q1 to 32% in Q2). Besides, in this macro-sector, insufficient demand seems to be less binding than in the past (from 30 to 10%), while financial constraints become more important (from 40 to 46%). Conversely, in business services, the percentage of firms perceiving their productive activity is hampered grows from 46 to 49% and demand constraints seem to be more important than in Q1 (from 26 to 32%).