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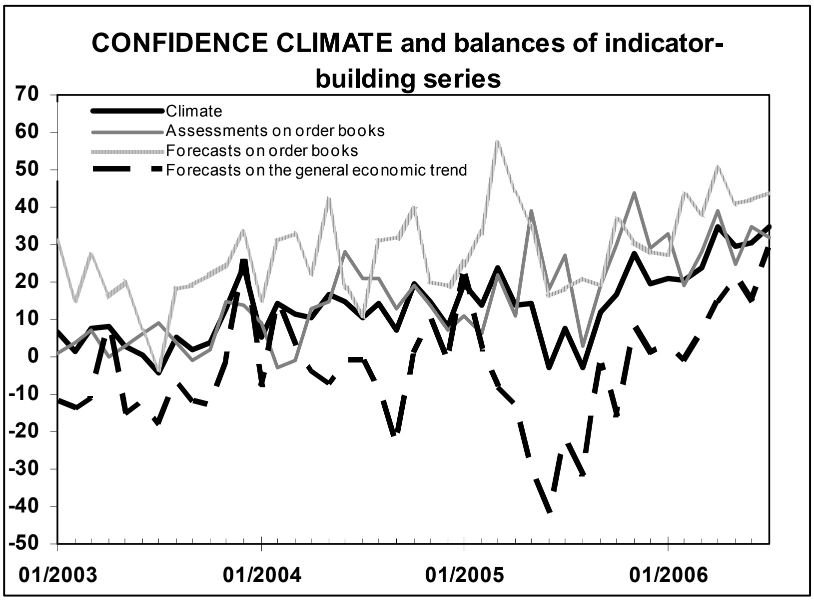
IN JULY CONFIDENCE AMONG MARKET SERVICES FIRMS EXTENDS ITS UPWARD PATH

- **The raw balance increased to 35 (from 31), due to especially favourable expectations for demand and the economy. The year-on-year change in sentiment – which is not affected by seasonal factors – confirmed the clear improvement in confidence (in July 2005, the indicator stood at 8)**
- **The balance rose to 39 (from 28) for household services, while it remained virtually unchanged for business services (moving to 32 from 33). The comparison with the July 2005 figure showed that confidence maintained an upward trend in both sectors: in July of last year, the confidence climate for household and business services firms amounted to 10 and 5, respectively. On the contrary, for financial services the reported balance (3) showed a deterioration in confidence with respect to both the previous month (15) and July 2005 (when the balance amounted to 20)**
- **The improvement in confidence was evenly spread across regions: the indicator increased to 33 (from 31) in North West, to 19 (from 15) in the North East, to 45 (from 40) in the Centre and to 32 (from 1) in the South. In July 2005, the confidence indicator in the North West, the North East, the Centre and the South came in, in the order, at 20, 35, -6 and -12**

IN THE SECOND QUARTER, THE PERCENTAGE OF FIRMS PERCEIVING THE EXISTENCE OF FACTORS LIMITING BUSINESS ACTIVITY EDGES UP

- **The traditional ISAE quarterly survey pointed to a rise to 33% (from 32% in the first quarter) in the percentage of firms perceiving the existence of production constraints. Nevertheless, at the industry level obstacles increased only according to financial and business services operators**
- **Among the factors limiting production, there was a sharp decline in the role of financial obstacles (indicated by 34% of respondents, compared to 48% in the first quarter) and of insufficient demand (reported by 13% of the sample, down from the 15% share accounted for in the previous survey). The proportion of respondents that mentioned the shortage of labour force increased, instead, from 1% to 5%**



Data on August shall be released on September 5, 2006

The next ISAE surveys are scheduled as follows:

July 27, 2006: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: June), and ISAE Monthly Survey on Construction (reference period: June)*
August 3, 2006: *ISAE International Comparison of Consumer and Business Surveys (reference period: July)*

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)

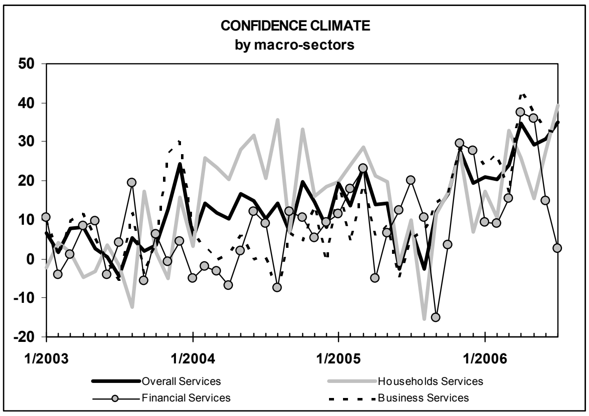
General results

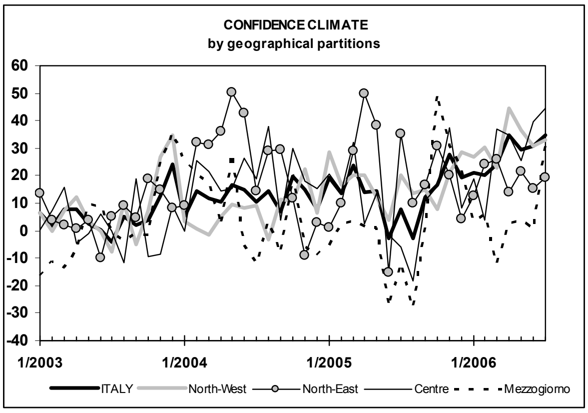
The ISAE Survey, carried out on a panel of around 2,000 firms between July 1 and July 20, pointed to a further improvement in confidence in the market services sector in July. The raw balance actually rose to 35 (from 31), regaining its April high. Especially favourable expectations on demand and the economy contributed to the improvement in the indicator. The year-on-year change in sentiment - which is not affected by seasonal factors - confirmed the clear rise in confidence (in July 2005 the indicator stood at 8).

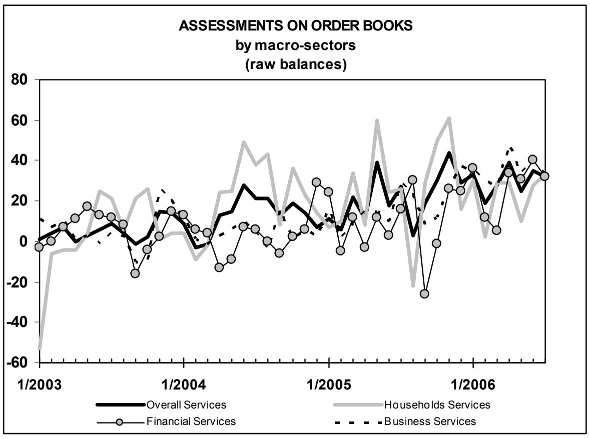
At the industry level, the indicator increased to 39 (from 28) for household services and remained virtually stable for business services (moving to 32 from 33). The comparison with the July 2005 figure showed that confidence confirmed its upward trend in both sectors (in July 2005, confidence among household, and business services firms amounted to 10 and 5, respectively). By contrast, with regard to financial services, the reported figure (3) indicated deterioration in confidence with respect to both the previous month (15) and July 2005 (when the indicator was equal to 20).

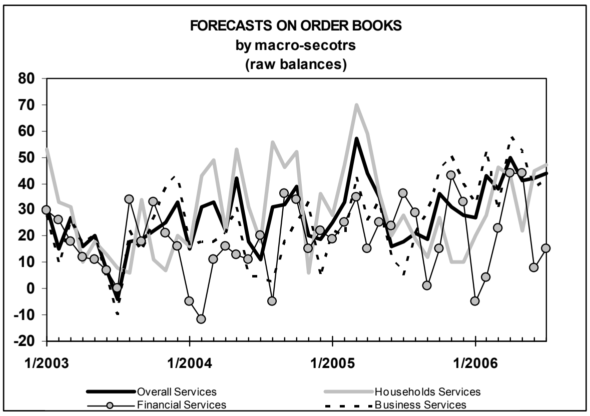
Improvement in confidence was evenly spread across regions: the indicator rose to 33 (from 31) in the North West, to 19 (from 15) in the North East, to 45 (from 40) in the Centre and to 32 (from 1) in the South. In July 2005, the confidence indicator in the North West, the North East, the Centre and the South amounted, in the order, to 20, 35, -6 and -12.

According to the traditional ISAE quarterly survey, in the second quarter of 2006 the percentage of firms perceiving obstacles to production increased to 33% (from 32% in the previous quarter). However, at the industry level obstacles were increasing only according financial and business services firms.







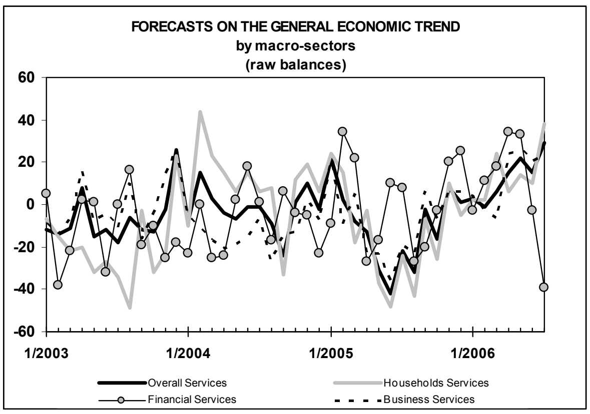


Situation in the reference period

In July, market services operators gave an optimistic appraisal of turnover and employment (the raw balances rose to 34 and 15 from 23 and 7, respectively). The balance for the assessment on orders posted a decline instead (to 32 from 35).

Nevertheless, the industry breakdown portrayed a mixed picture. In the household services sector, the balances for orders and employment improved, while the balance for turnover worsened. High optimism characterized hotel and restaurant operators (probably due to seasonal factors). In the financial services sector, the balances for orders, turnover and employment deteriorated. Operators in business services were especially optimistic about turnover, while the balances for orders and employment decreased.

On a regional basis, also in July firms in the Centre were optimistic with regard to all the surveyed variables. In the North West, respondents expressed a favourable evaluation of turnover, but the balances for orders and employment decreased. In the North East, in July as well, firms were pessimistic about orders and turnover, whereas the balance for employment increased. Finally, in the South the assessment on orders improved, the balance for employment remained stable, while that for turnover declined.



Outlook for the next three months

Surveyed firms expressed favourable expectations for orders (the balance rose to 44 from 42), turnover (to 41 from 38), employment (to 9 from 8) and the economic trend (to 29 from 15). Particularly, the latter variable reached the highest level since January 2003. As for prices, slight inflationary pressures were recorded. Nevertheless, the intention of raising selling prices characterized only household services firms.

At the industry level, operators in the household services sector were optimistic with regard to both company variables (orders, turnover and employment), and the country's overall economy. For financial services, the balance for company variables increased while that for the Italian economy sharply deteriorated. Business services operators were optimistic about orders, turnover and the economy. The balance for employment declined instead.

The geographical breakdown showed that operators in the North East and the South were optimistic with respect to all surveyed variables. In the Centre, expectations on company variables improved and the balance for the economy declined, remaining, nevertheless, in positive territory. In the North West, on the contrary, the balances for company variables worsened. However, also in this region operators were optimistic about the economic trend.

Quarterly survey results (second quarter 2006)

According to the traditional ISAE quarterly survey, in the second quarter of 2006, the percentage of firms recording the existence of factors limiting production slightly increased (to 33%, from 32% in the first quarter).

Among the main obstacles to production, also in this quarter, financial constraints and insufficient demand were cited (their share amounted to 34%, and 13% respectively, down from 48% and 15% in the first quarter). The percentage of firms quoting the shortage of labour force increased, instead, from 1% to 5%.

At the industry level, obstacles increased only for financial and business services operators (to 18% from 10%, and to 23% from 16%, respectively). On the contrary, in the household services sector the percentage of firms that declared meeting production constraints declined to 46% (from 49% in the first quarter). Some important sectorial differences also characterized factors limiting production. Particularly, in the second quarter as well, insufficient demand was perceived as an obstacle mainly by financial and business services operators (44% and 19% of the answers). Nevertheless, in both sectors the percentage is clearly lower than in the first quarter (respectively 56% for financial services and 39% for business services). For household services, instead, financial constraints prevailed (52% of the answers, compared to 62%), and only 9% of the respondents signalled insufficient demand as a possible constraint (compared to 7% in the previous survey).