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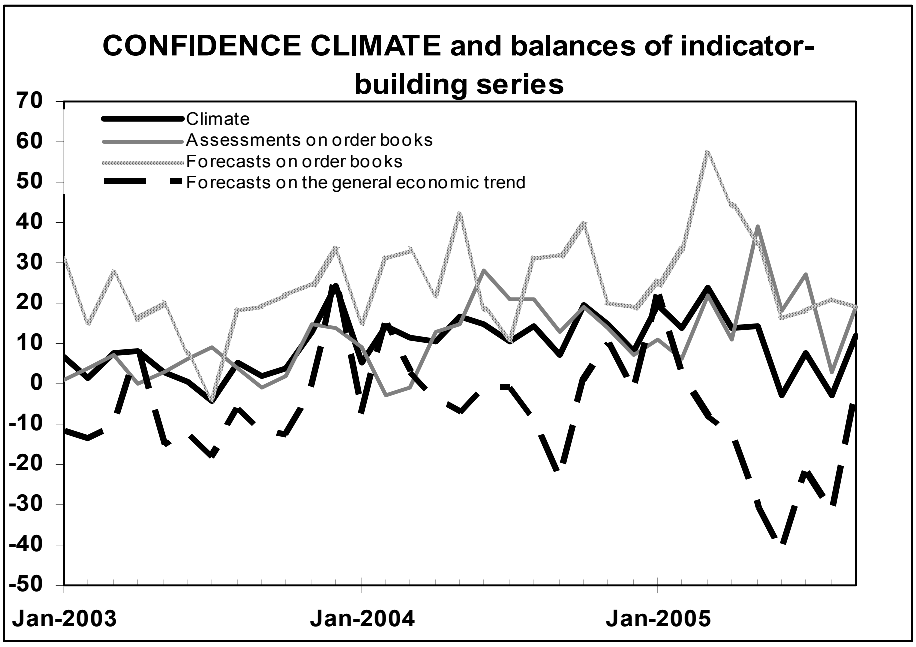
AFTER THE AUGUST CONTRACTION, THE CONFIDENCE CLIMATE GROWS AGAIN IN THE MARKET SERVICE SECTOR

- **In the two-month period August-September, the confidence climate shows a swinging trend. The raw falls from 8 in July to -3 in August, owing to the deteriorating confidence in households services, and then grows again up to 12 in September. The y/y comparison (in September 2004 the index equalled 7) shows a clear confidence improvement**
- **Breaking down data by sector, a constant confidence growth is observed in business services, where the index rises from 5 in July to 7 in August to 14 in September, which is one of the hikes ever registered since March. That trend is in keeping with the signals of recovery emerged in the latest ISAE Surveys on Manufacturing Firms. In households services, the index falls from 10 in July to -15 in August and then reaches 11 in September, which is also consistent with the consumers' confidence recovery highlighted by the September ISAE Survey**
- **Looking at geographical partitions, confidence deteriorates in the North-west (from 20 in July to 15 in September) and in the North-east (from 35 to 17). However, in both partitions, the index improves compared to the August figures (which were worth 13 and 10 respectively). Conversely, the indicator definitely recovers in the Centre (from -6 in July to 11 September) and in the South (from -28 to 2)**
- **Favourable signals come from non confidence-building variables: a strong recovery is observed in both assessments and forecasts on turnover (in spite of the August contraction) and in forecasts on the general economic situation, as the balance gets close to the March peaks**
- **Turning to prices, an inflation rekindling is emerging, probably due to the energy price rises as well as to the growing cost of transport. Indeed, the price rise is particularly intense in tourism-related sectors, in rail and road transport and in waste disposal**



*Data on October shall be diffused on **October 31, 2005***

Next ISAE Surveys are scheduled as follows:
October 3, 2005: *Comparative Business Surveys for Italy, Germany and France (Reference months: August-September)*

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

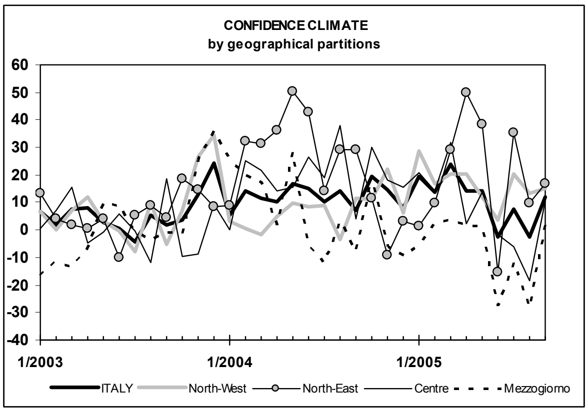
General results

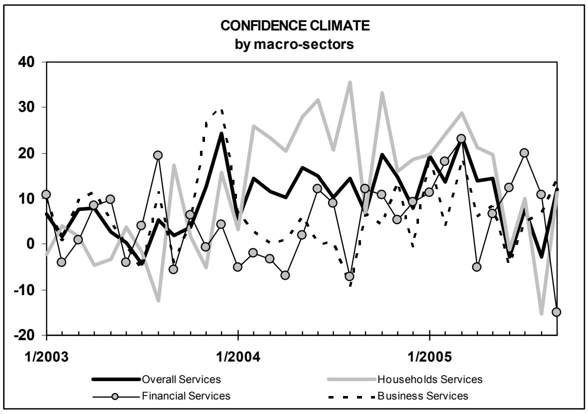
According to the ISAE Survey on Market Services carried out in August and September on a panel of about 2,000 firms, the confidence climate shows a swinging trend. The raw balance falls from 8 in July to -3 in August, owing to the deteriorating confidence in households services, and then grows again up to 12 in September. The y/y comparison (in September 2004 the index equalled 7) shows a clear confidence improvement.

Breaking down data by sector, a constant confidence growth is observed in business services, where the index rises from 5 in July to 7 in August to 14 in September, which is one of the hikes ever registered since March. That trend is in keeping with the signals of recovery emerged in the latest ISAE Surveys on Manufacturing Firms; in September 2004 the business service confidence climate equalled 12.

In households services, the index falls from 10 in July to -15 in August, owing to negative assessments on order books and to unfavourable forecasts on the general economic situation (particularly in tourism-related sectors). In September, the balance is worth 11, which is also consistent with the consumers' confidence recovery highlighted by the September ISAE Survey. Indeed the September 2004 figure was 7.

Looking at geographical partitions, confidence deteriorates in the North-west (from 20 in July to 15 in September) and in the North-east (from 35 to 17). However, in both partitions, the index improves compared to the August figures (which were worth 13 and 10 respectively). Conversely, the indicator definitely recovers in the Centre (from -6 in July to 11 September) and in the South (from -28 to 2).





Situation in the reference period

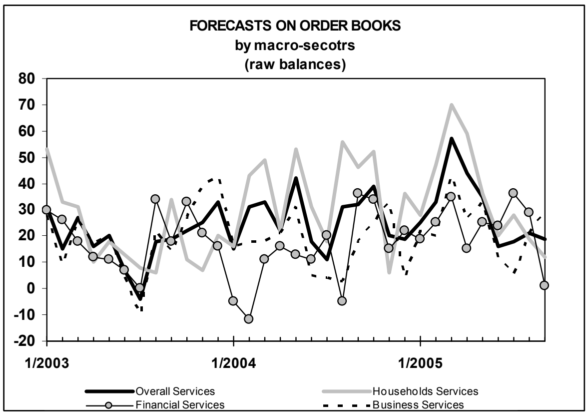
Between July and September, assessments on order books deteriorate, while those on turnover improve, as do (to a lesser extent) those on employment. Looking at details, the order-book balance falls from 27 in July to 3 in August and then goes up to 19 in September. The turnover balance falls from 16 to -3 in August and grows to 24 in September. The employment balance rises from -3 to -1 in August and is null in September.

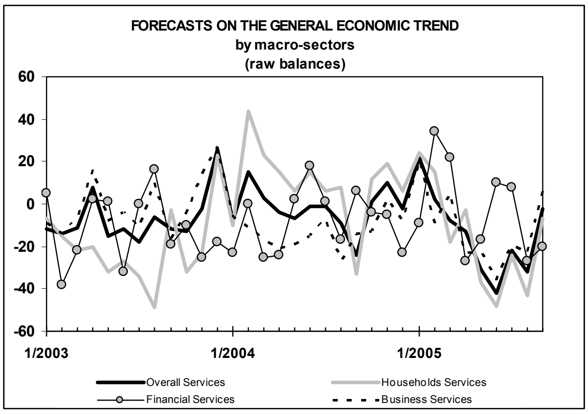
Looking at single sectors, assessments on order books and turnover definitely worsen in August in households services, but they grow up again in September, more than offsetting the previous contraction. Conversely, employment assessments improve both in August and in September. In financial services, operators are pessimistic on all the surveyed variables. Indeed, the order-book balance rises in August but suddenly decreases in September, while the turnover balance remains stable in August and falls in September. In business services too, the order-book, turnover and employment balances deteriorate in both months.

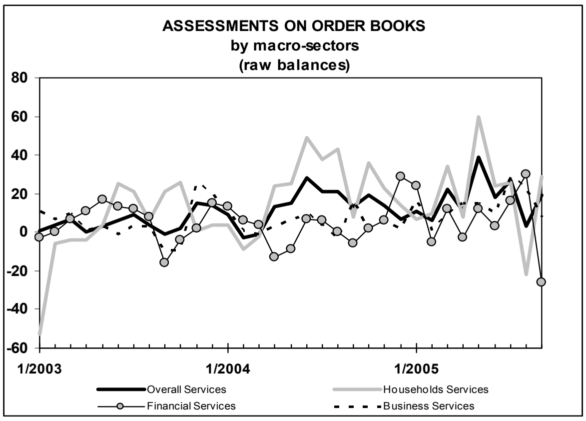
Breaking down data by geographical partition, favourable signals emerge in the North-west with reference to employment, while the order-book balance decreases in both months and the turnover balances considerably worsens in August and partially recovers in September. North-eastern operators are more pessimistic on the current situation in both Summer months. Operators from the Centre express strongly negative assessments on all variables in August, though their September order-book and employment balances go far beyond the July levels and a slight employment balance recovery is observed. Finally, in the South, the order-book balance slightly worsens, while the one on turnover clearly improves. The employment balance shows a strong improvement in August, followed by a small deterioration in September.

Forecasts for next quarter

The entrepreneurs' expectations on order books are moderately positive (the balances passing from 18 in July to 21 in August to 19 in September). The turnover balance, which was substantially stable in July and in August (from 13 to 11) grows up to 34 in September. Conversely, forecasts on employment improve in August (passing from -5 to 9) and then worsen again in September (-1). Besides, a strong improvement emerges in forecasts on the general economic trend between July (-22) and September (-2), even though expectations deteriorate in August (-32). With reference to prices, although in August firms had expressed their intentions to further reduce selling prices (the balance passing from -3 to -9), inflationary tensions emerge in September (the balance equalling 7), probably because energy tariffs and transport costs are expected to grow.







Turning to single sectors, the order-book balance worsens in households services, while the one on employment and on the general economic situation recover and the turnover balance clearly improves. In financial services, operators are pessimistic on order books, turnover and the general economic situation, while their employment balance is recovering. Moderately optimistic expectations on order books, turnover and the general economic situation prevail in business services, though the balance on employment is worsening.

Looking at geographical partitions, expectations on order books and turnover improve in the North-west; forecasts on employment grow in August but are again negative in September, while those on the general economic trend worsen in August but improve in September. Balances on order books and turnover decrease in the North-east, while the employment balance diminishes in August, but is again on the July levels in September; besides, favourable signals emerge with reference to the general economic trend. In the Centre, forecasts on order books remain substantially stable between July and August, but they decrease in September. Conversely, forecasts on turnover, employment and the general economic trend are rosier. Finally, Southern entrepreneurs express favourable forecasts on turnover and the overall economic situation, while the employment balance remain stable and the one on order books is worsening.