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

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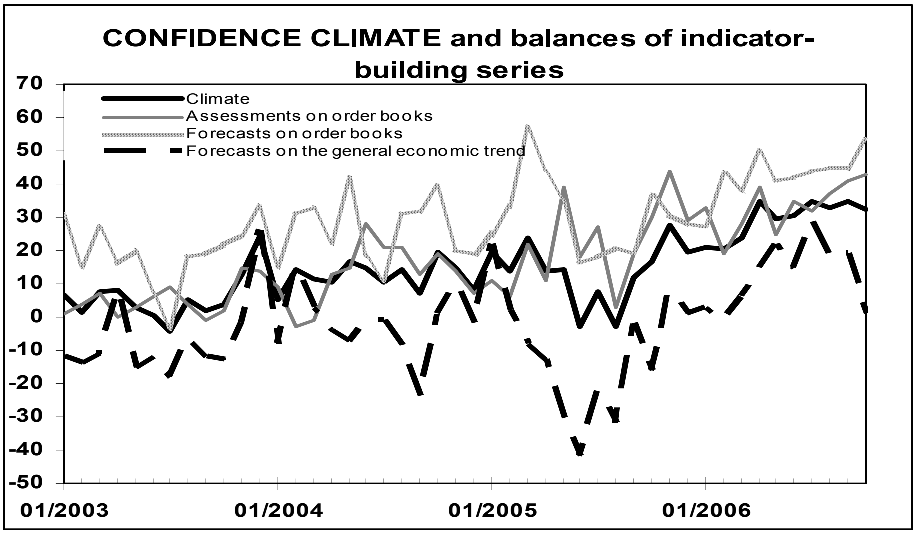
TEL.: **06/444821**

IN OCTOBER CONFIDENCE AMONG MARKET SERVICES FIRMS EDGES DOWN SLIGHTLY

- **The confidence climate came in at 32 (from 35) because of the worsening in short-term expectations for the general economic trend. The year-on-year change in confidence – which is not affected by seasonal factors – continued, nevertheless, to show a sharp improvement (in October 2005, the indicator stood at 17)**
- **The fall in the indicator was entirely due to less favourable expectations for the country's economic situation. Both opinions and forecasts for the trend in orders improved instead**
- **Some important differences emerged at the industry level: the indicator declined to -15 (from 18) for financial services and to 20 (from 30) for household services, in line with the results of the ISAE Consumer Survey. In contrast, for business services, confidence regained the record high posted in April (rising to 43 from 39). In October 2005, the confidence climate for household, financial and business services came in at 17, 4 and 17, respectively**
- **The regional breakdown also showed patchy results: confidence rose in the North West (to 39 from 38) and the Centre (to 34 from 27), but declined in the North East (to 12 from 22) and the South (to 1 from 58). In October 2005, the confidence climate in the North West, the North East, the Centre and the South stood, in the order, at 8, 31, 16 and 50**

IN THE THIRD QUARTER, THE PERCENTAGE OF FIRMS PERCEIVING THE EXISTENCE OF FACTORS LIMITING BUSINESS ACTIVITY RISES

- **At the industry level, obstacles increased strongly according to the operators in the financial and business services sectors (to 40% from 18% and to 54% from 23%, respectively), whereas for household services the percentage remained virtually unchanged with regard to the previous quarter (at 47%, compared to 46%)**
- **Among the factors limiting production, there was an increase in the role of financial obstacles (indicated by 37% of the respondents, compared to 34% in the second quarter) and of insufficient demand (reported by 26% of the sample as against 13%). On the contrary, the proportion of respondents that mentioned the shortage of labour force and "other unspecified factors" declined (to 4% from 5% and to 35% from 54%, respectively)**



Data on November shall be released on November 28, 2006
The next ISAE surveys are scheduled as follows:
November 7, 2006: *ISAE International Comparison of Consumer and Business Surveys (reference period: October)*

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)

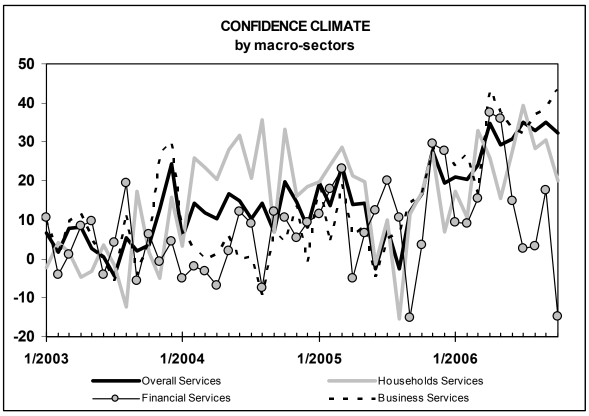
General results

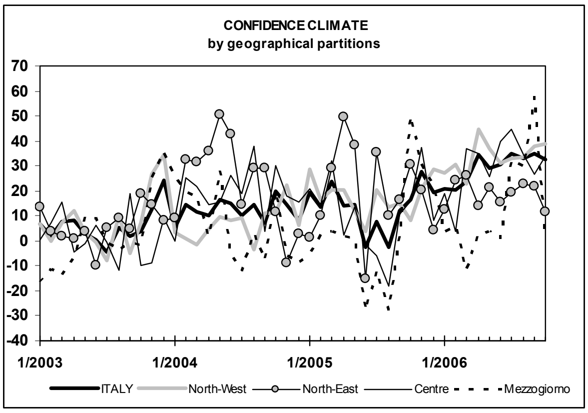
The ISAE Survey, carried out on a panel of around 2,000 firms between October 2 and October 20, showed a slight decline in confidence for the market services sector in October. The indicator lowered to 32 (from 35), due to the worsening in expectations for the Italian general economic situation. The year-on-year change in sentiment – which is not affected by seasonal factors – pointed, nevertheless, to an improvement in confidence on an annual basis (in October 2005, the indicator stood at 17).

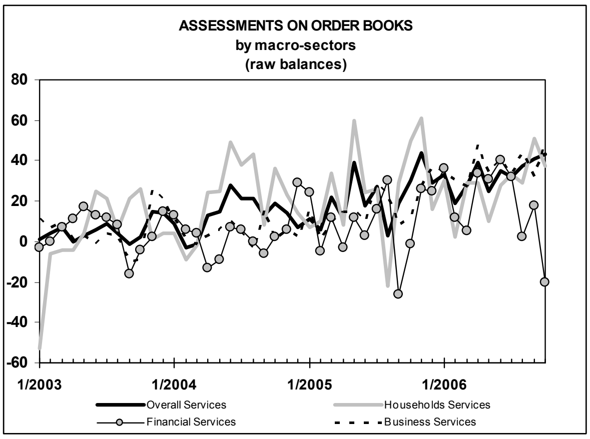
Some important differences were recorded at the industry level: the indicator declined to 20 (from 30) for household services, probably also because of seasonal factors, and to -15 (from 18) for financial services. On the contrary, for business services the indicator reached anew its highest level since April (43, compared to 39). In October 2005, the confidence climate for household, financial and business services came in at 17, 4 and 17, respectively.

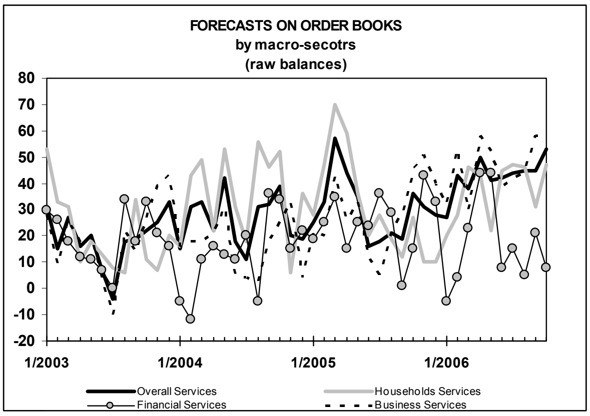
The regional breakdown also showed patchy results: confidence rose in the North West (to 39 from 38) and the Centre (to 34 from 27), and declined, instead, in the North East (to 12 from 22) and the South (to 1 from 58). In October 2005, the confidence climate in the North West, the North East, the Centre and the South stood, in the order, at 8, 31, 16 and 50.

According to the traditional ISAE quarterly survey, in the third quarter of 2006, the percentage of firms perceiving the existence of factors limiting business activity rose to 51% (from 33% in the previous quarter). Among the main obstacles to production, the importance of financial constraints and insufficient demand increased with regard to the previous quarter (to 37% of the sample from 34% and to 26% from 13%, respectively). In contrast, the share of firms citing labour shortages and "other unspecified factors" declined (to 4% from 5% and to 35% from 54%).







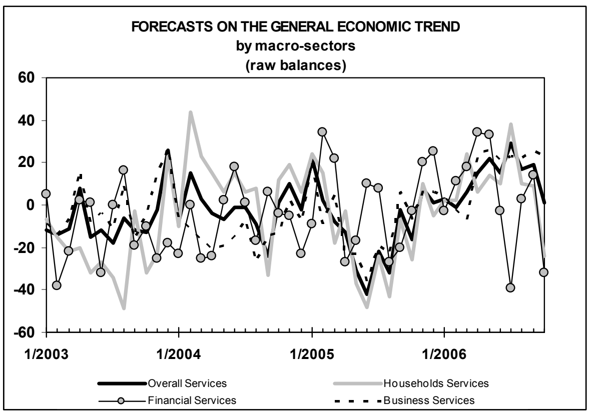


Situation in the reference period

In October, market services operators gave a slightly more optimistic appraisal of orders (the related balance grew to 43, from 41) and employment (to 7 from -7). On the contrary, the balance for turnover clearly worsened (to 15 from 37).

The assessment on the current situation was patchy both at the industry and at the regional level. In the household services sector, the balances for orders and turnover declined – probably also because of seasonal factors – and the one for employment stayed the same, remaining in negative territory. Financial services operators were pessimistic about all surveyed variables. In the business services sector, the negative opinions, emerged the previous month, eased and the balances for orders and employment increased, but the evaluation of turnover deteriorated.

On a regional basis, in the North West the balance for the assessment on orders improved also in October, and the one for employment turned positive once more, following the sharp deterioration posted the previous month. Yet the balance for turnover markedly worsened. In the North East, operators were more optimistic about orders with respect to September. Nevertheless, the balances for turnover and employment declined. In the Centre, operators expressed favourable evaluations for all recorded variables. Lastly, in the South the balances for orders, turnover and employment noticeably declined.



Outlook for the next three months

In October, firms were more optimistic about the trend in orders (the balance increased to 53 from 45), but they scaled down their expectations for turnover (to 48 from 52) and, above all, for the economic trend (to 1 from 19). Finally, the indicator for employment remained stable (at 13) in a situation characterized by the comeback of some inflationary pressures (the related balance rose to 3 from -3).

At the industry level, in the household services sector the balances for orders and employment improved, whereas those for turnover and the economic trend deteriorated. In particular, the balance for the Italian economy tuned negative again for the first time since December 2005. In the financial services sector, operators were markedly pessimistic about all the surveyed variables. Business services firms continued to give a positive appraisal of prospects for orders and turnover. The balances for employment and the economic trend posted, instead, a slight decline.

The picture was mixed also at the regional level. In the North West, the balance for expected orders remained practically unchanged, but those for turnover, employment and the economic trend lowered. In the North East, the balances for orders, turnover and the economic situation markedly deteriorated, while the one for employment reverted to positive territory. In the Centre, firms were optimistic about orders and turnover. The balance for employment remained stable and the one for the Italian economy drastically declined. Finally, in the *Mezzogiorno,* the balances for orders and turnover slightly lowered (remaining however at very high levels), the one for employment improved, while the balance for the economy notably worsened.

Quarterly survey results (third quarter 2006)

According to the traditional ISAE quarterly survey, in the third quarter of 2006, the percentage of firms perceiving the existence of factors limiting production increased to 51% (from 33%). However, some important differences were evident at the industry level. Obstacles sharply increased according to financial and business services operators (the share rose to 40% from 18%, and to 54% from 23%, respectively), whereas in the household services sector the proportion remained virtually stable with respect to the previous quarter (at 47%, compared to 46%).

Among the main obstacles to production, operators increasingly cited financial constraints and insufficient demand compared to the previous quarter (the share of respondents rose to 37% and 26%, respectively, up from 34% and 13% in the second quarter). In contrast, the percentage of firms quoting the shortage of labour force and "other unspecified factors" declined to 4% from 5% and to 35% from 54%.

Some important sectorial differences also characterized the factors limiting production. Particularly, household services operators were mainly hindered by financial constraints (the percentage of the respondents rose to 58%, compared to 52% in the previous quarter), whereas factors limiting demand were important for only 8% of the firms (9% in the second quarter). For business services, insufficient demand was perceived as an obstacle to activity by 44% of the operators (compared to 19% in the last survey). However, also in this macro sector, the share of operators citing financial constraints increased (to 15% from 5%) and the percentage of those mentioning labour shortages declined (to 7% from 13%). In the financial services sector, the role of "other unspecified factors" was more important (for 65% of the operators, as against 55% in the previous quarter), followed by insufficient demand (for 30%, compared to 44%).