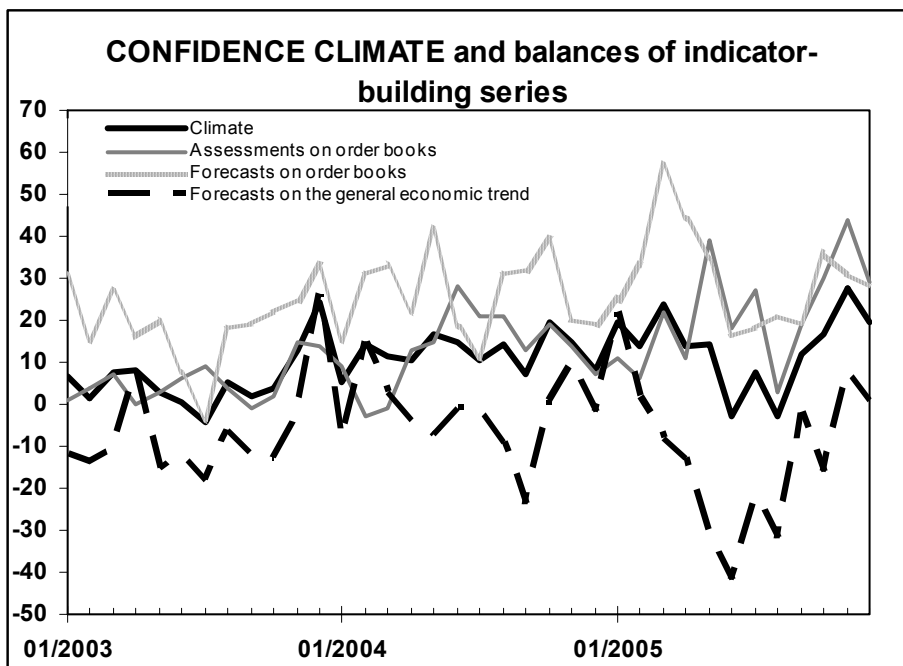




CONFIDENCE DETERIORATES IN DECEMBER AMONG MARKET SERVICES FIRMS

- The raw index decreased in December from 28 to 19, in the wake of a worsening of all its components. Nevertheless, the year-on-year change in confidence, which is not affected by seasonal factors, was positive (the indicator amounted to 8 in December 2004)
- Among the variables excluded from the confidence index, negative developments were reflected in turnover and employment assessments. While respondents were more optimistic on hiring plans in the near future
- Nevertheless, the industry breakdown recorded significant disparities among macro sectors: in December, confidence fell mainly in household services (from 27 to 7, in line with the latest ISAE Consumer Confidence Survey). The index edged down in financial services (from 30 to 28), while it remained stable, at 28, in business services. In December 2004, the confidence in household, financial and business services was equal to 19, 9 and -1 respectively
- On a regional basis, data showed an increase in confidence in the North West (from 21 to 29) and a fall in all other regions: the confidence indicator decreased from 20 to 4 in the North East, from 37 to 8 in the Centre, and from 31 to 22 in the South
- According to traditional yearly structural questions, most of the survey participants claimed to have increased investments (41% of the total) or at least to have maintained them unchanged (50%) during 2005, with the view of raising them (35%) or leaving them constant (57%) over the course of 2006
- Respondents indicated a decrease in competitive pressures with respect to 2004 in domestic and, mainly, foreign markets. Most firms considered competition on foreign markets to be at “average” level (81% of total respondents, as opposed to 45% in 2004), while 16% believed competition to be “high” (with respect to 45% in 2004)
- Also in 2005, most firms reported that they did not plan to increase their activity in the following year (58%, as compared to 55% recorded in 2004). Nevertheless, 54% of total respondents held that they intended to hire new workers in 2006, mainly high-skilled and full-time ones



Data on January shall be diffused on January 31, 2006

Next ISAE Surveys are scheduled as follows:

January 4, 2006: Comparative Business Surveys for Italy, Germany and France (Reference month: December)

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

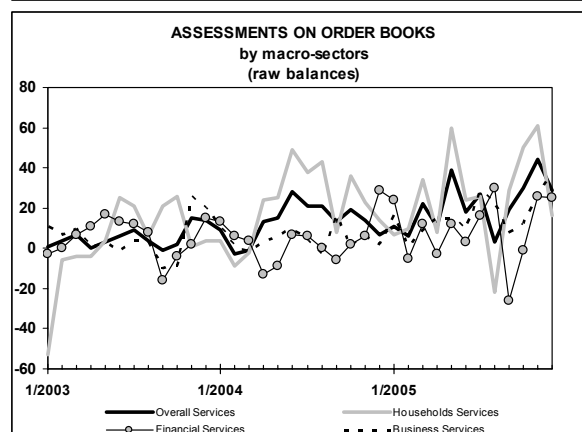
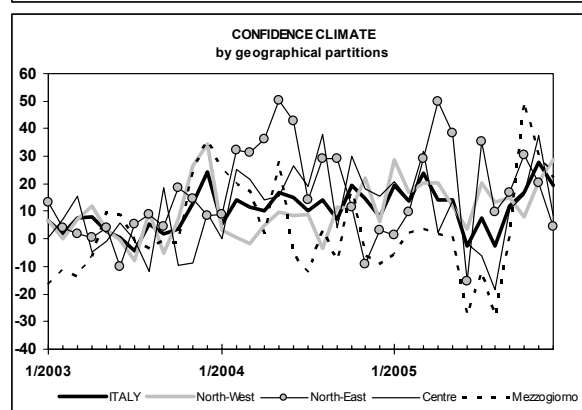
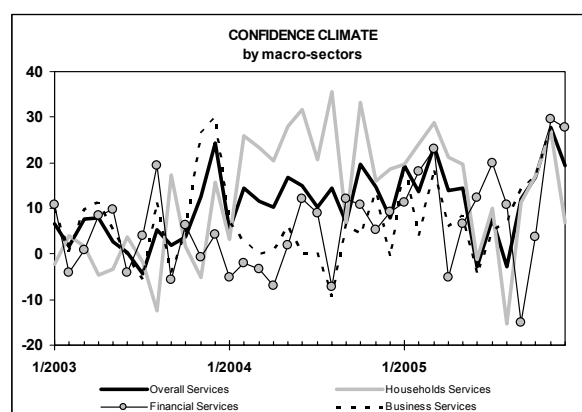
The ISAE survey, carried out on a sample of 2,000 respondents between December 1 and December 19, pointed to a worsening of confidence in the market services sector. The raw index fell in December from 28 to 19, due to a decline in all its components. Nevertheless, the year-on-year change in confidence, which is not affected by seasonal factors, was positive (the indicator amounted to 8 in December 2004).

Data were not homogenous across sectors. Along with the results of the latest ISAE Consumer Survey, the fall in confidence was mainly reflected in household services (to 7, as against 27 in November). The index edged down for financial services (from 30 to 28), while it remained unchanged (at 28) for business services. The more positive assessment on demand of business services firms, which was at odds with the national average trend, mirrored the favourable results of the ISAE Survey of Manufacturing firms. In December 2004, the confidence in household, financial and business services amounted to 19, 9 and -1 respectively.

On a regional basis, confidence increased in the North West (from 21 to 29), while it headed lower in the other regions: to 4 in the North East (compared with 20 in November), 8 (from 37) in the Centre and 22 (from 31) in the South.

According to traditional yearly structural questions, most responding firms (41% of the total) acknowledged to have increased investments or at least to have maintained them unchanged (50%) during 2005, with the view of raising them (35%) or leaving them unchanged (57%) also in the following twelve months. The survey participants recorded a fall, with respect to 2004, in competitive pressures in domestic markets and, mainly, in foreign markets.

Most firms, indeed, considered competition on foreign markets to be on “average” (81%, as compared to 45% the previous year), while 16% of respondents believed it to be “high” (45% in 2004). Also in 2005, most firms indicated that they did not plan to increase their activity the following year (58%, in comparison to 55% in 2004). Nevertheless, 54% of total respondents said that they intended to hire more workers, mainly high-skilled and full-time ones.



Situation in the reference period

In December, market services operators negatively appraised current orders (the balance lowered to 29 from 44), turnover (down from 42 to 15) and employment (from 15 to 13).

On a industry basis, the assessment within the household services sector was pessimistic for all the considered variables. For financial services the balance of orders remained about stable, turnover decreased, while employment recovered. The business services sector made a positive assessment on new orders and employment, and a negative one on turnover.

According to the geographical breakdown, in the North West orders and employment, on balance, improved while turnover headed lower. In the North East, firms posted a positive evaluation for orders and turnover, while the balance for employment recovered. Ultimately, firms in the Centre and the South gave a pessimistic assessment on all variables.

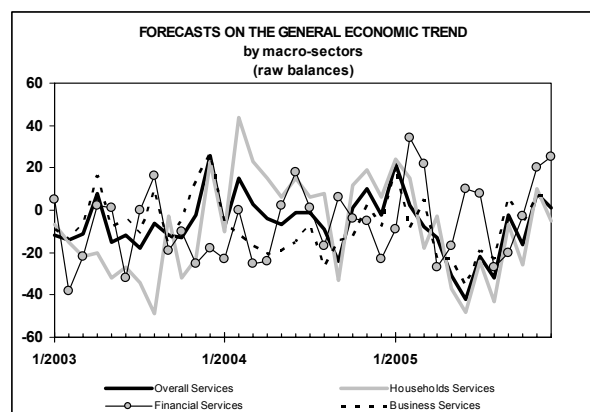
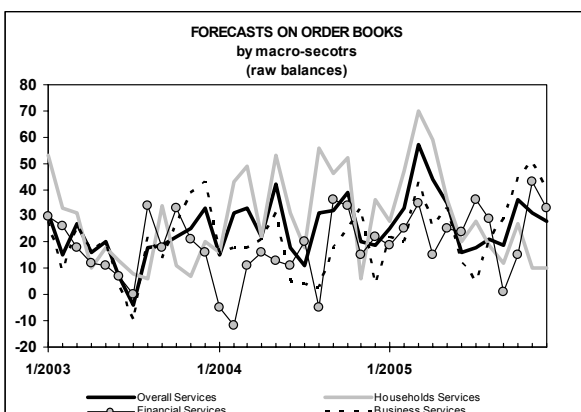
Outlook for the next three months

Firms posted a more gloomy outlook for future orders (the balance lowered from 31 to 28), turnover (from 32 to 25) and the overall economy (down from 8 to 2). Prospects for employment, instead,

improved on balance from 0 to 15, while inflationary pressures were expected to reappear (the balance moved from -6 to 15).

The industry classification confirmed that prospects for new orders remained positive in household services, while they recovered for employment and worsened for turnover and for the entire economy. In financial services, the balance of new orders, turnover and employment deteriorated, while, as opposed to the forecast of the overall services sector, on balance, the general economic trend ameliorated. The business services sector operators showed optimism for new orders and employment. Nevertheless, the balance on turnover dropped and that on the economic trend remained steady.

Looking at the geographical breakdown, the services sector firms in the North East were again optimistic both on company variables (orders, turnover and employment) and on the general economic trend. In the North East, instead, the balance for orders, turnover and the economic trend worsened and the one for employment remained unchanged. In the Centre, operators were more pessimistic with respect to November on company variables and on the economic trend likewise. Finally, in the South,



expectations on orders and turnover improved significantly, those on employment recovered, while prospects on the entire economy remained only mildly favourable.

Yearly Survey: 2005 final results and 2006 forecasts

At the end of each year, ISAE adds, for the same sample of firms which are surveyed on a monthly basis, extra questions which deal with their view on investment trends and competition, and with their forecasts for the following year on investments, the business activity and employment. According to 50% of the respondents, in 2005 investments in the market services remained unchanged, they increased for 41% of them, while they decreased for the remaining 9%. Regarding 2006 forecasts, most firms (57%) planned to leave investments unchanged with respect to the previous year, while 35% expected an increase in investment spending and 8% viewed a decrease.

Respondents indicated a reduction, with respect to 2004, in competitive pressures in domestic markets (considered on “average” by 58% of the firms, as against 42% in 2004) and, mainly in foreign markets. Most survey participants maintained that competitiveness in foreign markets was about “average” (81% of the total, as compared to 45% in 2004), while 16% of the surveyed firms believed that competitiveness was “high” and 3% “low”.

Most firms of the ISAE sample reported that they did not plan to increase business activity in 2006 (58%, compared with 55% in 2004). Among the firms that stated that they will raise activity in 2006, 75% declared that they wanted to invest in Italy, 30% in the European Union countries, 21% in Eastern Europe, and 37% in non-European markets.

Notwithstanding cautious prospects for business services activity, 54% of the surveyed firms stated that they wanted to increase jobs, mainly for high-skilled workers, part-time (41%) and full-time (81%), while recognising some difficulties in hiring (“sharp difficulties” for 39% of the sample, and “average” ones for 45%).