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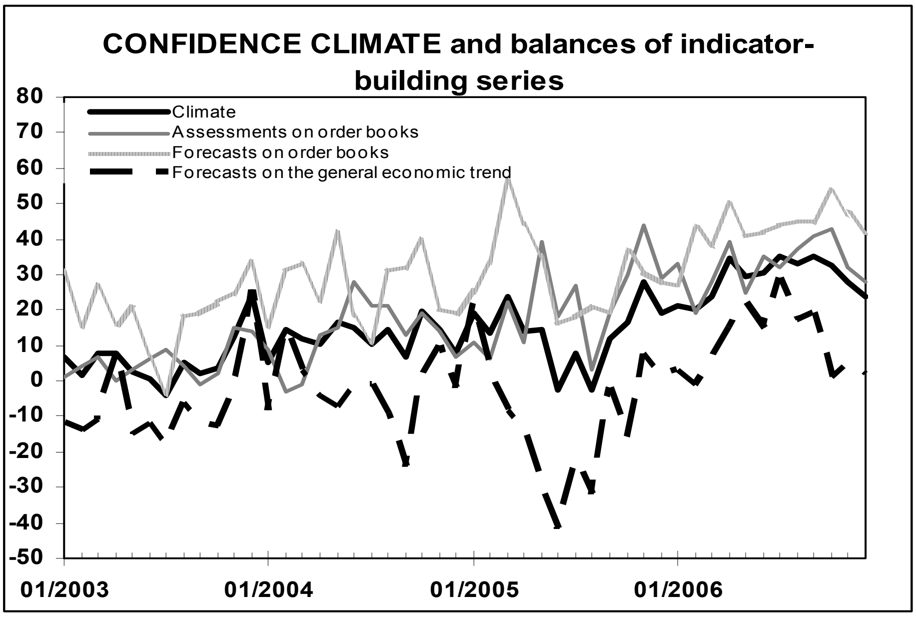
IN DECEMBER CONFIDENCE AMONG MARKET SERVICES FIRMS DECLINES

- **The raw index lowered to 24 (from 28 in the previous month) prompted by the deterioration in all its underlying components. Some important differences emerged, nevertheless, at the industry and the regional levels**
- **As for macro sectors, in line with the results of the ISAE consumer survey, confidence strongly increased for household services (to 26 from 18). The index declined, instead, for business and financial services (to 22 from 36 and to -15 from -8, respectively)**
- **On a regional basis, confidence worsened in the North West (to 22 from 31) and the Centre (to 25 from 29), whereas the indicator clearly improved in the North East (to 28 from 12) and the South (to 29 from 16)**
- **Among the variables not included in the confidence indicator, assessments on turnover and employment declined. Firms, instead, improved their assessments for the following quarter, especially with regard to employment**
- **According to the ISAE traditional yearly structural questions, around 80% of the surveyed firms claimed to have increased investments or at least to have maintained them unchanged during 2006, with the view of raising them or leaving them constant also over the course of 2007**
- **Respondents reported a decrease in competitive pressures, for the second straight year, in domestic and, mainly, foreign markets. Most firms actually considered that competition in foreign markets was "rather low" (48% of total respondents, as against to 3% in 2005)**
- **Accordingly, operators indicated that they planned to increase their activity in 2007 (63%, as opposed to 42% in 2005). Furthermore, 60% of the respondents held that they intended to hire new workers, mainly high-skilled and full-time ones, notwithstanding some recruitment difficulties**



Data on January shall be released on January 30, 2007
The next ISAE surveys are scheduled as follows:
January 10, 2007: *ISAE International Comparison of Consumer and Business Surveys (reference period: December)*

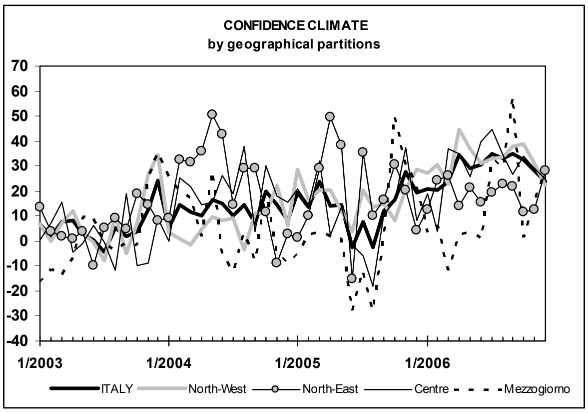
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

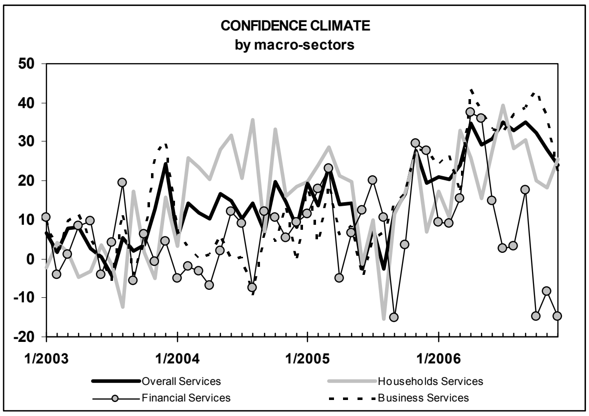
General results

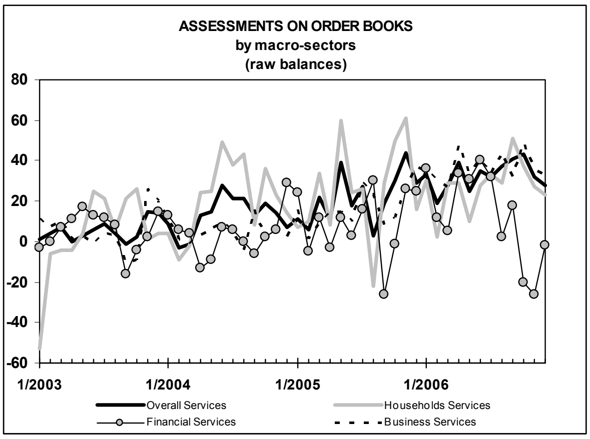
The ISAE Survey, carried out on a panel of around 2,000 firms between December 2 and December 20, showed a decline in confidence for the market services sector also in December. The raw indicator actually lowered to 24 (from 28), due to the worsening in all its underlying components.

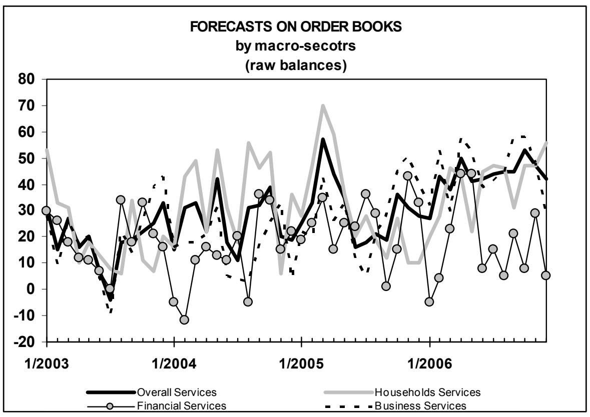
Some important differences emerged, nevertheless, at the industry and the regional levels. For the macro sectors, in line with the results of the ISAE consumer survey, confidence strongly increased for household services (to 26 from 18), whereas the indicator worsened for business and financial services (to 22 from 36 and to -15 from -8, respectively). On a regional basis, confidence deteriorated in the North West (to 22 from 31) and the Centre (to 25 from 29), while the indicator sharply increased in the North East (to 28 from 12) and the South (to 29 from 16).

The traditional ISAE yearly structural questions sent favourable signals. In detail, around 80% of the responding firms acknowledged to have increased investments or at least to have maintained them unchanged during 2006, with the view of raising them or leaving them stable also in 2007. Survey participants recorded a decline, for the second year running, for competitive pressures in domestic and, mainly, foreign markets. Most firms, indeed, considered competition in foreign markets to be “rather low” (48%, as against 3% the previous year). Consequently, operators indicated that they intended to increase their activity in 2007 (63%, compared to 42% in 2005). Furthermore, 60% of the respondents held they wanted to hire new workers, mainly high-skilled and full-time ones, notwithstanding some recruitment difficulties.









Situation in the reference period

In December, market services operators gave in general a negative appraisal of all surveyed variables. In detail, the balances for orders, turnover and employment lowered to 28, 20 and 1 (from 32, 24 and 13).

Assessments on the current situation were patchy at both the industry and the regional levels. In the household services sector, assessments on orders and turnover worsened, and those on employment turned negative, following the improvement posted in November. For financial services, the balance for orders recovered, the one for employment went back in positive territory, and the balance for turnover sharply lowered instead. Business services operators became more pessimistic with respect to the previous month about orders and employment. Nevertheless, the raw balance for turnover markedly improved.

On a regional basis, in the North West firms viewed orders and turnover positively, whereas the balance for employment declined. In the North East and the Centre, operators gave negative assessments on all surveyed variables. In the South, the sharp worsening in the evaluation of orders and turnover contrasted with the slight improvement in the balance for employment.

Outlook for the next three months

According to surveyed firms, short-term prospects became less favourable with respect to the previous month. The balances for orders, turnover and the economic trend actually declined to 42, 39 and 2 respectively (from 47, 40 and 5), in a situation characterized by a new, moderate rise in inflationary pressures (the related balance went up to 7 from 0). In contrast, the balance for employment improved (to 16 from 9).

Also with regard to prospects, the situation was rather mixed at the industry and the regional levels. On an industry basis, operators in the household services sector made optimistic forecasts for company variables (orders, turnover and employment); the balance for the economy also recovered, though remaining negative. For financial services, the balances for orders, turnover and the economic trend worsened, whereas that for employment slightly improved. Business services sent negative signals as well: the balances for both company variables and the Italian economy declined.

At the regional level, in the North West, the balances for orders, turnover and the economy decreased, while the one for employment rose, though very moderately. In the North East and the Centre, expectations for both company variables and the economy in general improved instead with respect to November. Finally, in the *Mezzogiorno*, the balances for orders, turnover and employment remained virtually stable, while that for the economy improved.

Yearly Survey: 2006 final results and 2007 forecasts

The traditional structural questions, addressed each December by ISAE to the same sample of firms surveyed on a monthly basis, gave favourable indications. Most responding firms, in fact, claimed to have increased investments (38%) or at least to have maintained them unchanged (45%) during 2006. They planned to raise them (35%) or to leave them constant (46%) also over the course of 2007.

Respondents indicated a reduction, for the second consecutive year, in competitive pressures in domestic and, mainly, foreign markets. Most firms perceived competition in foreign markets to be “rather low” (48%, as against 3% in 2005), while 13% (compared to 16%) believed it was “very high” and 39% considered it to be (81% in 2005) “average”. Accordingly, operators reported they planned to raise their activity in 2007 (63%, compared to 42% in 2005). Furthermore, most surveyed firms stated they wanted to increase jobs, notwithstanding some recruitment difficulties (25% of the respondents considered that such difficulties were “high” and 65% that they were “average”). In more detail, 29% of the surveyed firms stated they will “surely” hire new workers in 2007, 31% said they will “probably” do so. Hiring may be mainly oriented toward high-skilled and full-time workers.