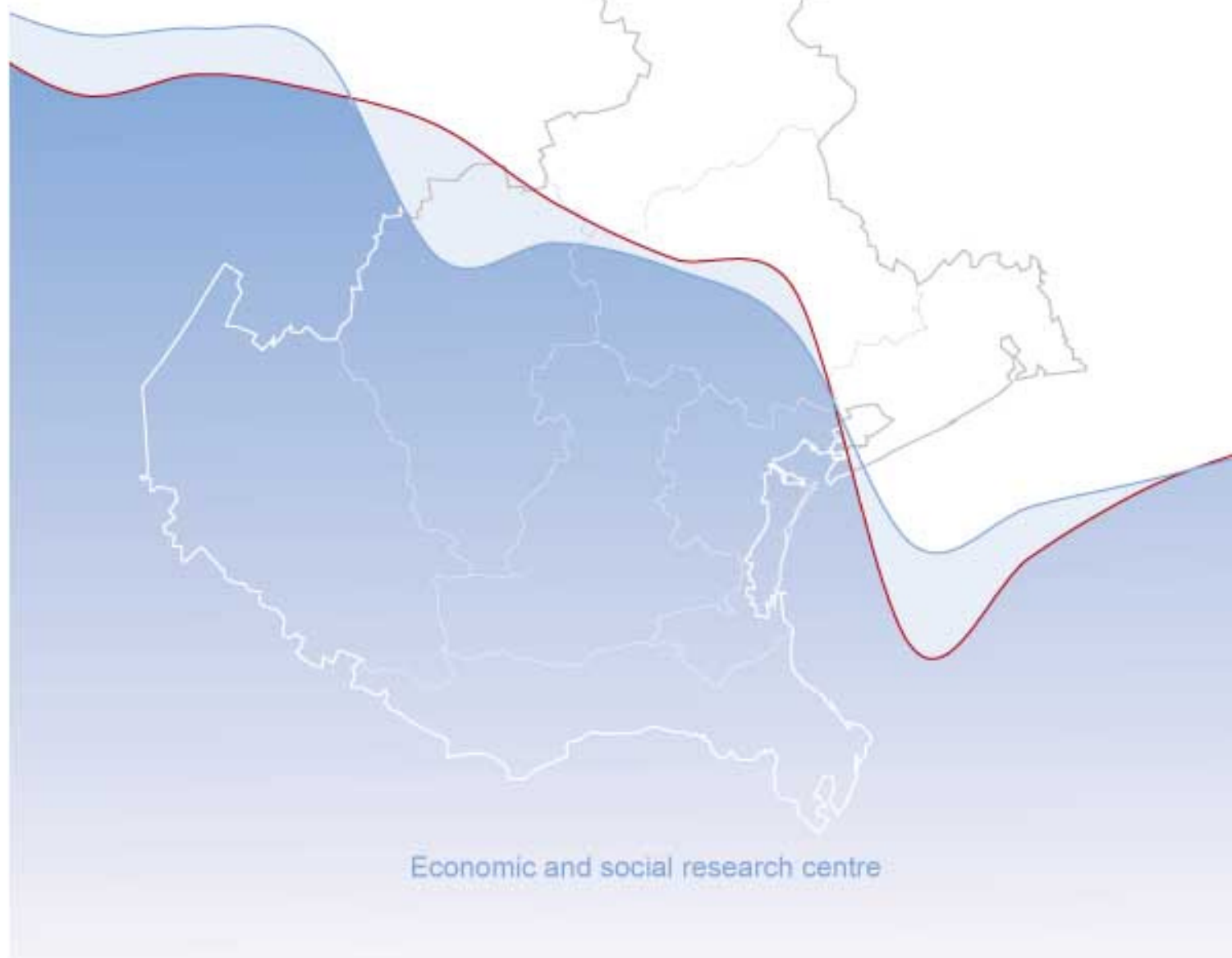




unioncamere
del veneto

Veneto 2006

Economic report



All ahead slow. Following the modest rebound recorded in 2003 (+0.4%) and acceleration in 2004 (+1.4%), the regional economy has wound up 2005 with 0.1% growth. There is a downturn in agriculture, whilst manufacturing is holding up, tourism is doing well, and business and services are growing. And for 2006, the chances of reviving the economy are looking good, with growth estimates oscillating between 1.4% and 1.5%.

This is the picture painted by the initial data released on the Veneto's economic situation in 2005, which are collected together in this file, namely the Preview of the 2006 Annual Report, which will actually be out at the end of June.

The presentation of the initial data on the Veneto region's economy is now in its seventh edition and is an important information-sharing event on the regional economic calendar. And for the first time, I am the one to have the honour of presenting the preview in my capacity as Chairman of Unioncamere del Veneto, the Union of Italian Chambers of Commerce in the Veneto region.

Again this year, the Preview takes a short, in-depth look at the economy. In addition to the summarized review of the main economic indicators, a small contribution has been added on the Veneto's service industry expansion process in relation to the European scene. The aim is to attempt to broaden the traditional analysis horizon, which has thus far been limited to the main Italian regions, and instead give a comparison with other European regions.

The data reveal that the Veneto is one of the strongest regions in Europe, economically speaking, despite its somewhat belated progress in expanding the service industry, being one of the European regions with the lowest level of expansion in this sense.

As the Veneto region's Unioncamere enters its next three-year business period, the Research Centre continues to play an important role in the production and publishing of statistical and economic information at a regional level, and is indeed strengthening this role.

Venice, March 2006

FEDERICO TESSARI
*President of the Union of the
Chambers of Commerce of Veneto*

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Introduction

Apparent stagnancy belies actual progress... For the Veneto region, 2005 was a year of weak growth if we look at the trend of the main economic indicators, whose pattern reveals a still uncertain situation for the fourth year running following a lengthy period of growth.

And the economic scenario that opens up with the start of 2006 is certainly one of the most complex for the Veneto production system. The effects of profound internal structural transformations are increasingly evident, and the pace of change is speeding up all the time (the demographic trend, the evolution of the labour market, the metamorphosis of the economic structure). And even external transformations (such as the widespread globalization of the economy and the emergence of new markets) are making their presence felt.

The Veneto continues to stand out as one of the most lively economic environments in Europe, though it has experienced some slackening in recent years. Between 1999 and 2004, average regional GDP growth was 1.2%, which placed the Veneto 185th on the standings list of the 216 regions in the 15-member European Union. Growth in employment was also modest, showing a 1.2% increase (74th on the standings list) over the five-year period in question, leaving the level of productivity unaltered. And the trend appears to be continuing.

Last year's expectations forecasting a growth rate in 2005 of around 2% for the Veneto region have essentially been disappointed. The year actually ended with a "flat" trend for regional GDP (+0.1%) despite signs of recovery, which seem to set the Veneto positively apart from Italy, whose levels of industrial output since 2000 still appear to be on a downslide.

2005 was another year of considerable expansion in world economy, which is reflected in a 4.5% increase in the gross domestic product, thanks to the driving force of two of the world economy's main engines, the United States and China.

Even the Eurozone has taken off again, but Italy has remained stagnant. Italian exports were back on an upswing in 2005 (+4%), though failed to keep pace with the development of world trade, consequently losing shares of the foreign markets around the world. Exports in the Veneto instead experienced a drop (-1.5%), especially in the sectors producing the more traditional products bearing the 'made in Italy' label.

So in the end, there was no real recovery, probably due to the continued presence and concatenation of many economic factors but, above all, owing to the constant loss of competitiveness by the "Sistema Italia", a network promoting Italian-made products, and by its regional counterpart, "Sistema Veneto".

The loss of competitiveness is widespread and attests to the ineffectiveness

of simple marginal adjustments of individual factors and to the need for competitive repositioning, which entails taking tough measures of a structural nature to produce medium- and long-term results.

Of course, all those short-term measures have to be dealt with to give enterprises and the regional economy the immediate defence and support they need. We need to be aware, though, that it will be hard to unleash competitiveness without taking significant structural action of strategic scope at the same time.

In the Veneto, too, one of the regions most affected by the loss of competitiveness, there is a question mark hanging over the future of “Sistema Veneto”. While, on the one hand, it has been showing its limitations, on the other it seems to be transforming, following paths that sometimes go unnoticed by the traditional statistical analyses.

Today the situation is different than in the past. Because the context has changed, and with it the way we produce is also expected to change. In the centre of the debate, scholars and analysts question each other and compare notes on possible solutions. Should we be correcting the previous model or does it need changing? The small and very small enterprises doing business in niche markets could probably cope, but to survive companies will increasingly need to grow to a medium size.

There are those who think we need to make the transition from the district concept to a logic based on a wider reach that differs from the traditional district approach: the “macro-district” or “production chain” logic, where each company has its own role and together companies manage to form production and business relationships with foreign markets.

In a globalized economy, the strength of a production system is assessed above all based on its ability to establish relations with foreign partners, to attract investments from abroad and to build the popularity of its products and services in foreign countries.

If we consider the drop in exports as an indicator of economic development, the resulting picture is by no means comforting for the Veneto. But perhaps the reality is different to the picture painted by the statistics, revealing instead some signs of a more modern approach. “If exports shrink - states economist Rullani - it means enterprises in the Veneto have already swallowed the bitter pill of globalization, whilst other regions have not yet done so. And the cure will have its beneficial effects while many companies in the rest of the country are likely to become sick”.

In a context marked by low growth and competitive crisis in the Veneto, the need for policies and measures intended to encourage the strategic repositioning of the regional economic and business system appears to be ever more urgent. Repositioning that certainly appears complex to bring about and that prompts

the chamber of commerce system - as an institutional player appointed to address the issue of local economic development - to adopt behaviour and measures that will support the enterprises, sharing strategic priorities with the world of associations and institutional bodies.

The scenario outlined by Eurochambres shows how the majority of Italian entrepreneurs is convinced that 2006 will be a better year than 2005. According to the annual survey to gauge European business confidence, the balance of expectations (expecting improvement vs. expecting deterioration) came to +20.6 for Italy (previously +17 in 2005) and to +19.9 in the Northeast (previously +14.6 in 2005).

Under this auspice, the regional economic system has to be future oriented, focussing on supporting the Veneto's enterprises that have never given up in all these years and, despite the slump, have continued to invest and believe in the 'made in Italy' product.

Again this year, the Veneto *Unioncamere* Studies Centre has produced this paper, based as usual on analyses and data.

The coming pages contain a summarized examination of the structural and business trends in the regional economy that have characterized 2005, attempting to determine where the strengths and weaknesses affecting the Veneto's growth actually lie.

1. The international economic context

Following the economic boom in 2004, 2005 was another favourable year for the global economy, thanks to the driving force of the world's two main engines, the United States and China. In point of fact, the gross domestic product grew by 4.5% over the last year despite building tensions on the energy front (the price of petroleum has reached the 70 dollar mark) and the intensifying of local imbalance (the US foreign deficit is close to 6% of national GDP).

In an apparently settled geopolitical situation, with world trade expanding fast (annual mean growth is +7%) and the world stock market strengthening (+7.6% annual increase according to the MSCI World Index¹), the world economy registered steady growth in 2005, with rates over 3% for the industrialized countries as a whole and over 10% in the emerging countries. Consequently, despite the pause in growth observed in the spring, the world economic system has been extremely successful in absorbing the shock of increased raw material prices, thus imitating the period of development recorded between late 2003 and 2004.

During the course of 2005, the United States completed its fourth year of

In 2005, world GDP grew by 4.5%

Table 1 - Real GDP trend in a number of countries (% change on prev. year).
Years 2003-2005

	2003	2004	2005	% GDP	% POP	% EXP
World	4,0	5,1	4,5	100,0	100,0	100,0
United states	2,7	4,2	3,5	20,9	4,7	10,3
Euro area	0,7	2,0	1,3	15,3	4,9	31,3
Japan	1,4	2,7	3,0	6,9	2,0	5,7
China	9,5	9,5	9,9	13,2	20,7	5,9
India	7,4	7,3	7,1	5,9	17,0	1,1
Russia	7,3	7,2	5,5	2,6	2,3	1,8
Germany	-0,2	1,6	0,9	4,3	1,3	9,5
France	0,9	2,0	1,4	3,1	1,0	4,8
United Kingdom	2,5	3,2	1,8	3,1	1,0	4,8
Italy	0,3	1,2	0,0	2,9	0,9	6,0
Spain	2,9	3,1	3,4	1,7	0,7	4,3

Source: IMF

growth: despite slackening in the fourth quarter, the US GDP showed an average annual 3.5% increase, fostered by the growth in private consumption and employment. Steady growth was also experienced by the Chinese economy, which, in 2005, expanded at a rate of 9.9%, surpassing the market forecasts and stealing fifth place from France on the world list of economic powers.

As far as the other economies are concerned, Japan's economic picture strengthened in 2005: a solid recovery in domestic demand has allowed the country to notch up 3% growth, putting the lengthy period of stagnation behind it for good.

Going against the world economic trend, 2005 was not a particularly successful year for growth in the Eurozone. According to the latest Eurostat estimates, the year ended with a 1.3% increase, compared to the 2.1% progress registered in 2004, whilst for the European Union as a whole, annual growth was 1.6%. Nonetheless, the latest economic data show a progressive upturn in the economy, thanks to the contribution made by exports, promoted by the more favourable euro/dollar exchange rates.

2. The national economic context

While the European economy has been kick-started, the Italian economy in 2005 has marked time again, for the fifth year running. Since 2001, our economy has made sluggish progress, resulting in essentially flatlining production activity, owing to the weak levels of domestic and foreign demand, which have failed to pick up following the prolonged periods of decline.

Following the forecasts of last Spring formulated by the leading research institutes, which predicted a real growth in GDP of around 1.2%, by the second half of the year there had been a considerable downward revision. In late May, the OECD slashed the growth estimates, forecasting a 0.2% increase in GDP for the Italian economy. The IMF's forecasts are less encouraging: following a number of unconfirmed reports of a downtrend (-0.3%), in autumn it predicted zero growth for Italy, in line with the Government's estimates. And that was indeed the case.

According to ISTAT, GDP remained unchanged in 2005

According to the final data, published by ISTAT (Italy's national statistical institute) on the 1st of March, average growth in GDP in 2005 was 0.0%, suffering a sharp slowdown compared to the previous year's performance (+1.1%)². After an initial negative quarter (down 0.3% on the same period in 2004) and an encouraging second quarter (+0.2%), GDP weakened once again in the third quarter (+0.1%) and the end-of-year rebound failed to boost the Italian economy back above zero growth, revealing a +0.6% in trend terms³.

Table 2 - Main economic indicators in a number of Italian regions. Year 2005

	% change 2005/2004					% rate 2004	
	GDP	Domestic demand	Household consumption	Gross Fixed	Exports	Employment 15-64 years	Unemployment 15-64 years
Piedmont	-0,1	0,8	0,7	0,4	1,6	64,0	4,7
Lombardy	-0,1	0,4	1,1	-2,5	6,6	65,5	4,1
Veneto	0,1	0,4	1,0	-1,9	-1,5	64,6	4,2
Emilia Romagna	0,6	0,7	1,1	-1,3	7,7	68,4	3,8
Tuscany	0,6	0,6	0,7	-0,9	-1,2	63,7	5,3
North-west	-0,1	0,6	0,9	-1,3	5,6	64,6	4,4
North-east	0,5	0,7	1,0	-0,9	2,3	66,0	4,0
Centre	0,3	0,4	0,9	-2,3	0,0	61,0	6,4
South	0,0	0,8	0,7	0,5	3,2	45,8	14,3
Italy	0,0	0,3	0,1	-0,6	4,0	57,5	7,7

Source: Istat, Prometeia, (forecast association)

So Italy is not growing and, more to the point, is growing less than other countries in Euroland, which have again started to show signs of revival in recent months. Data available to date show a 3.4% increase for Spain, 1.4% for France and +0.9% for Germany, whilst outside the Euro area, the United Kingdom has gained +1.8%. The favourable economic situation has not affected just the main European economies, but even their lesser counterparts, like the economies of Holland, Belgium and Austria, with the only partial exception being Portugal. All these comparisons do is highlight the already disappointing performance of the Italian economy, which has thus scored its worst result since 1993.

In 2005, the increase in national GDP was accompanied by an 8.9% growth in imports of goods and services, which has led to a 1.7% increase in available resources.

In 2005, the construction and service sectors sustained GDP growth

On the employment front, growth in real terms was 0.3% for domestic demand. Household consumption, above all, increased by 0.1% while the Public Administration spending grew by 1.2%. The negative trend of gross fixed capital formation, which shrank by 0.6% in 2005 compared to 2004, is the combined result of an increase in investments in construction (+0.5%) and a decrease in the purchase of machinery (-0.8%). There was a sharp decrease in investments in transport equipment and in intangible assets, which registered a downtrend of 4.6% and 2.5% respectively. Despite the reverse trend registered in the last months of the year, total increase in exports was 7.6%.

In terms of product make-up, the sectors sustaining GDP growth in real terms in 2005 were construction (+0.6%) and services (+0.7%). The added value of agriculture made a negative contribution (-2.2%) whilst industry in the strict sense registered a 2% downswing.

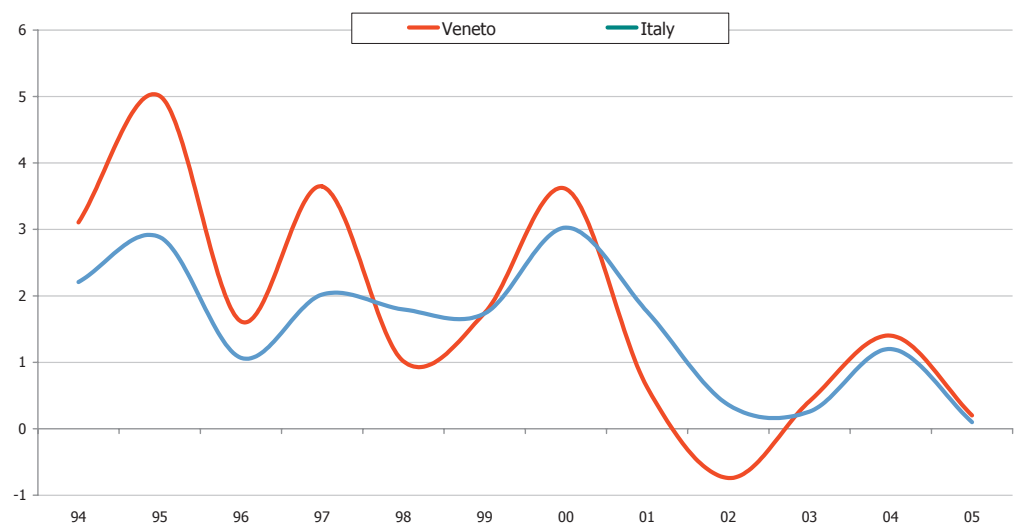
The labour market was also sending critical signals. Total employment (expressed as net labour units not counting people in the CIG redundancy scheme) fell in 2005 by 0.4% owing to the drop in the self-employed component (-4.5%), which has counterbalanced the positive performance recorded by the employed component (+1.3%). If we look at results by sector, we see that employment has decreased in agriculture (-8%) and in industry in the strict sense (-1.6%), while positive results have been recorded for the construction industry (+2.3%) and for services as a whole (0.3%).

3. The Veneto economy in 2005

According to Prometeia, the Veneto's GDP has increased by 0.1%

Italy is not growing whereas the Veneto is growing, just slightly. According to the forecasts produced by the Italian Union of Chambers of Commerce, regional GDP at constant prices should show a 0.3% increase in 2005 compared to 2004. Following the modest rebound recorded in 2003 (+0.4%) and acceleration in 2004 (+1.4%), the initially optimistic forecasts have been on a downtrend over the last year, finally settling at just over zero in December. The recent estimates compiled by Prometeia are less encouraging: for 2005, the forecast association predicted 0.1% growth, more or less in line with the national average (0.0%) but lower than the average for the Northeast regions (+0.5%). These assessments are coherent with the overall trend of the regional economy, which in 2005 again felt the effects of negative results in the agricultural sector and the not entirely positive results in the manufacturing industry, which is particularly exposed to international competition.

Graph 1– Ten years of GDP in Veneto and in Italy (% change on prev. year)
Years 1995-2005.



Source: ISTAT data processed by Unioncamere of Veneto

According to the forecasts, however, the regional growth rate should be just slightly higher than Lombardy's and Piedmont's (both -0.1%), but decidedly lower than that of Emilia-Romagna and Tuscany (both +0.6%).

If we look at the components of the aggregate demand, regional GDP growth in 2005 was sustained by domestic demand (+0.4%), especially household spending, which increased by 1% in actual value. On the other hand, the investment trend (-1.9%) weighed down negatively owing to the sharp downside experienced in the purchase of machinery and systems (-3.3%) and the slight decrease in investments in construction and buildings (-0.3%).

Table 3 - GDP, employment and productivity: comparison between Veneto and Italy. Years 2001-2005

	2001	2002	2003	2004	2005
<i>absolute values</i>					
VENETO					
GDP (millions euros)*	94.743	94.067	94.429	95.787	95.987
Labor until (000)	2.186	2.199	2.198	2.212	2.216
GDP per labor until (000 of euros)	43,3	42,8	43,0	43,3	43,3
ITALY					
GDP (millions euros)*	1.032.985	1.036.945	1.039.581	1.052.308	1.053.880
Labor until (000)	23.829	24.132	24.283	24.294	24.192
GDP per labor until (000 of euros)	43,4	43,0	42,8	43,3	43,6
<i>% change on previous year</i>					
VENETO					
GDP (millions euros)*	0,6	-0,7	0,4	1,4	0,1
Labor until (000)	0,8	0,6	-0,1	0,7	0,2
GDP per labor until (000 of euros)	-0,2	-1,3	0,5	0,8	0,1
ITALY					
GDP (millions euros)*	1,8	0,4	0,3	1,2	0,2
Labor until (000)	1,6	1,3	0,6	0,1	-0,4
GDP per labor until (000 of euros)	0,2	-0,9	-0,4	1,2	0,6

* 1995 costant-price values; Prometeia estimates for year 2005 (january 2006)

Source: Istat, Prometeia

The service sector alone helped sustain lower growth in 2005

Following the slowdown in the two-year period 2003-2004, exports of goods made up lost ground in 2005 though without changing sign, which was still negative (-0.4%). On the import of goods front, 2005 confirmed the growth trend revealed in 2004: foreign trade to the Veneto was estimated to be on a 1.6% increase.

As regards the make-up of added value, the regional economy's growth is sustained by the service sector (+1.2%), the only area of the Veneto production system to feature a positive sign in 2005. The agricultural sector made a decidedly negative contribution (-4.8%), as did industry, and not just the manufacturing component (-1.1%) but even construction (-0.6%), a sector that has experienced a sudden slowdown following a lengthy period of growth.

According to the initial data available, 2005 can be filed away as a year of low growth for the Veneto, characterized by an upturn in domestic demand but with indicators that are hardly encouraging, either in terms of investments or trade to foreign countries.

Labour market

In 2005, the labour market in the Veneto registered practically no change, with results that were nonetheless more favourable than the results that came out in 2004.

According to the data published by ISTAT, which were drawn from the new workforce survey, the number of employed in 2005 was up 1% on the previous year, with an increase amounting to approx. 20 thousand units. This result is in line with that recorded for Lombardy, but is lower than Piedmont's (+1.8%), Tuscany's (+1.5%) and Emilia-Romagna's (+1.4%). Performance registered in the Veneto was found to be better than the result recorded in the rest of the country (+0.7%) and in line with the figures recorded in the geographical area of the Northeast, where employment has grown by 1.1%. It should be noted that the widespread increase in employment has been largely influenced by the legalization of foreign nationals, during the course of 2005, which has resulted in non-EC workers progressively registering with the local registry offices. Of course, this effect proved most evident in the regions where recourse to foreign labour is commonly known to be more marked, such as in the northern regions of the country.

Table 4 – Veneto. Main labour market groups per sector of business (thousands). Years 2004-2005. Years 2004-2005

	VENETO			NORTH-EAST			ITALY		
	2004	2005	%	2004	2005	%	2004	2005	%
Labour force	2.133	2.155	1,0	5.021	5.081	1,2	24.365	24.451	0,4
Total number of people in employment	2.042	2.063	1,0	4.827	4.879	1,1	22.404	22.563	0,7
- agriculture	86	75	-12,8	219	200	-8,7	990	947	-4,3
- industry	800	809	1,1	1.729	1.764	2,0	6.868	6.940	1,1
- services	1.156	1.179	2,0	2.878	2.915	1,3	14.546	14.675	0,9
Jobseekers	90	91	1,1	195	202	3,6	1.960	1.889	-3,6

Source: ISTAT data processed by Unioncamere of Veneto

The growth trend in employment concerned the employee component, which grew by 2.4% (+36 thousand units), and female component, which was up 1.9% (+15 thousand units). The self-employed component, on the other hand, proved to be on a 2.8% decrease (-16 thousand units), while the male component registered a 0.5% increase (+6 thousand units).

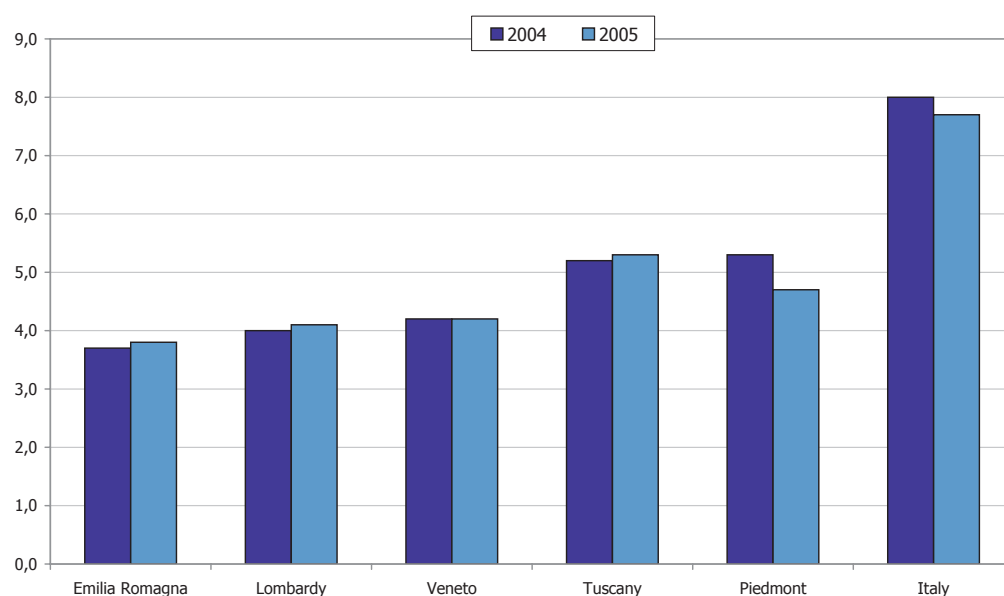
In terms of areas of employment, the greatest contributions to employment growth were made by the service sector (+1.5%) and, above all, by the construction industry, where the number of employed rose by 4.3%. Employment in the agricultural sector is on a downslide (-8.5%) whilst as far

The number of employed in the Veneto has grown by 1.0%

as the processing industry is concerned, the number of employed remained basically constant (+0.4%). To get a full picture of trends in the industrial sector, we nonetheless have to consider other indicators, including the results of the quarterly survey of small and medium manufacturing enterprises, conducted by *Unioncamere Veneto*, and data from INPS (Italy's National Social Security Institute) relating to the CIG wages guarantee redundancy scheme. Based on the *VenetoCongiuntura* economic survey, the average annual change in employment in 2005 was actually -0.6%, with the textile, apparel and footwear and timber and furniture industries making painful sacrifices.

This trend is further confirmed by the CIG redundancy scheme data: in 2005, the manufacturing industry showed a further increase in the number of hours (+24%) against a smaller increase in construction firms (+15%).

Graph 2– Unemployment rate in a number of Italian regions. Years 2004-2005.



The number of jobseekers has increased by 1.1% and the unemployment rate has not moved from 4.2%

Source: ISTAT data processed by Unioncamere of Veneto

The growth trend in the number of employed has had positive repercussions on the employment rate. In 2005, the ratio between the number of employed in the 15-64 age bracket and the corresponding population came to 64.6%, with the male component showing a slight decrease (now 75.8%) and the female component a significant increase (now 53%).

In 2005, the labour supply in the Veneto registered a slight increase. According to ISTAT, jobseekers increased by 1.1%, amounting to 91 thousand units. This trend nonetheless has had no effect on the unemployment rate, which, in 2005, according to values not yet brought up to date, has not moved from the old 2004 value of 4.2%. This value is higher than the average recorded for the Northeast (4%), which can be attributed to the lower rates recorded in Emilia-Romagna (3.8%) and Friuli-Venezia-Giulia (4.1%).

Agriculture

According to the initial estimates issued by INEA, Italy's National Institute of Agricultural Economics, 2005 was a year marked by a dip in production in many areas, which can be explained only in part by the adverse weather. Reduction in supply affected mainly the wood plantation sector and, above all, the vine-growing and winemaking products (approx. -20%), olives (-4%) and fruit trees (-10%). Production in the livestock sector remained essentially unchanged, while herbaceous crops showed modest growth (approx. +1%). Production at basic prices, expressed in real terms, has decreased by about 2% compared to the previous year.

Table 5 – Veneto. Gross agricultural production trend (% change on prev. year). Year 2005

	<i>at constant price</i>
Herbaceous crop	0%; +2%
Wood plantations	-12%; -14%
Livestock products	-1; +1%
Gross output	-1%; -3%

Source: INEA estimates

Gross output at basic prices has fallen by a couple of percentage points

The overall result for farms was again, in 2005, affected to a decisive degree by the increase in production costs. According to the surveys conducted by ISMEA (institute providing services to the food and agriculture market) in the January-November 2005 period, production costs increased by about 1.5% overall compared to the same period the year before. More specifically, the most substantial increases concerned fertilizers (+3%), labour (+4%) and, above all, energy spending (+12%).

The herbaceous crop sector showed modest growth in output (+1%), which, however, followed the sizeable increase in production recorded in 2004. The cereal-growing land area has decreased (-5%) in favour, above all, of industrial crops. Maize is still the crop that absorbs most investments, with over 300,000 hectares planted with the crop: however, the increase in production costs and drop in prices during the previous production campaign have steered part of the farmers towards other crops (land area has dropped by 6%). As a whole, this crop has also been penalized by a decrease in yield (-4%) similar to that experienced by barley.

For sugarbeet, the 2005 campaign will be remembered as one of the best from a production point of view.

The increase in the land area under soya cultivation continued in 2005. Furthermore, this crop demonstrated excellent production performance, and did so well in fact that yields were back up at the same levels reached in the late nineties. The new marketing campaign opened with prices higher than 2004, though those prices were themselves barely acceptable.

The horticultural sector showed a modest increase in output, whose levels were down 1% on 2004. Performance for chicory, on the other hand, was essentially positive, especially for chicory grown in the “IGP”, or Protected Geographical Indication, areas.

Fruit production overall showed a slight dip (-1%). The peach-growing sector appeared to be in serious trouble still: a decrease in supply was actually compounded by a negative market trend. Even the apple-growing sector experienced some marketing difficulties mainly related to the stock left over from the previous campaign, which contributed to bringing prices down. All in all, therefore, the fruit-growing sector can be assessed as having suffered a decrease in turnover.

The changing climatic conditions experienced during the harvest were partly responsible for a considerable reduction in the production of grapes and wine at a regional level. Overall, the sector’s turnover is expected to drop following the substantial increases recorded over the previous two-year period. Flows of Italian wine abroad have increased further, though the increase in value (approx. +2%) was lower than the increase in volume (+10%).

Again this year, economic results in the livestock sector were influenced by health emergencies. The progressive spread of bird flu in the Asian countries and Eastern Europe has created widespread alarmism amongst consumers. Oversupply on markets has resulted in an inevitable reduction in prices, which, for poultry raised for meat, were as much as 40% lower than the previous year.

In the cattle sector, both beef and dairy, there was a further reduction in the number of farms and stocking density, continuing the trend experienced in previous years. Furthermore, the dairy industry has had to cope with the problem of milk quotas, which has become a structural imposition. As a matter of fact, for the 2005/06 campaign, Veneto farmers are again expected to exceed their assigned quota.

According to data recorded by the Chambers of Commerce in the Trade Register, agricultural concerns have further decreased in 2005, though the drop is not as big as in recent years. By the end of the year, there were 91,364 agricultural concerns registered, which was down by about 1.9% on the previous year.

In 2005, the number of agricultural concerns fell by 1.9%

Industry

The industrial sector has registered a 1.4% increase in the number of active enterprises

For the industrial sector on the whole (manufacturing and the construction industry) 2005 was not a positive year. In terms of enterprises, overall growth was 1.4% compared to 2004. The total number of enterprises has increased by over 1,800 units, topping the 135 thousand mark. As predicted, 2005 was the “overtaking” year: with almost 68 thousand enterprises, the construction industry overtook the manufacturing sector, which dropped to 66,700 units. In terms of added value, too, the industrial sector’s contribution to regional GDP decreased, sliding from 34.4% to 33.9%, a clear sign of the service industry expansion process currently under way in our region (services account for 63% of regional GDP).

Table 6 – Veneto. Registered and active enterprises by sector and legal status. Years 2004-05

	Registered		Active		Registered %	Active %
	2004	2005	2004	2005	change 05/04	change 05/04
Field of business						
Agriculture, hunting and forestry	93.817	91.972	93.180	91.364	-2,0	-1,9
Fishing, fish farming and associated services	2.689	2.741	2.620	2.677	1,9	2,2
Mining	371	374	302	305	0,8	1,0
Manufacturing	76.704	76.342	67.413	66.776	-0,5	-0,9
Electricity, gas and water prod. and distrib.	187	205	161	180	9,6	11,8
Construction industry	68.735	71.288	65.515	67.939	3,7	3,7
Retail and wholesale; rep. pers. and home care goods	114.804	115.165	105.843	105.907	0,3	0,1
Hotels and restaurants	25.353	25.902	22.062	22.416	2,2	1,6
Transport, storage and communication	18.823	19.003	17.668	17.742	1,0	0,4
Money and financial brokerage	8.676	8.775	8.142	8.243	1,1	1,2
Real estate, rental, IT, research	55.533	58.462	49.709	52.644	5,3	5,9
Education	1.364	1.405	1.253	1.305	3,0	4,2
Health and othe social services	1.323	1.404	1.178	1.244	6,1	5,6
Other public, social and personal services	18.050	18.340	17.185	17.460	1,6	1,6
Housekeeping and life-in-care	0	0	0	0
Non classified businesses	20.162	19.538	1.763	676	-3,1	-61,7
Legal status						
Joint-stock companies	86.434	90.714	61.808	65.092	5,0	5,3
Partnerships	118.158	118.530	96.076	95.990	0,3	-0,1
One-man businesses	293.073	292.708	290.330	289.942	-0,1	-0,1
Other statuses	8.926	8.964	5.780	5.854	0,4	1,3
TOTAL	506.591	510.916	453.994	456.878	0,9	0,6
TOTAL without agriculture and fishing	410.085	416.203	358.194	362.837	1,5	1,3

Source: Infocamere (Italian Chambers of Commerce IT consortium) data processed by Unioncamere of Veneto

Manufacturing

Following a 2004 marked by recovery, 2005 was a year of low growth for the Veneto's manufacturing industry, proving wrong the forecasts made on the eve of the year, which had predicted that production activity would strengthen. The industrial sector registered slightly better performance than the national average, which confirmed a new slowdown in Italian industry.

According to the results of *VenetoCongiuntura* - the new economic survey conducted by *Unioncamere Veneto* on a sample of about 1,500 manufacturing concerns with a staff of 10 or more - 2005 started with an uphill struggle, with industrial production down in both the first and second quarter of the year, though this was followed by a reversal in the third quarter and consolidation in the fourth quarter of the year. In 2005, the size of the enterprise was again a decisive factor: the best performance was achieved by the medium (50-249 employees) and large enterprises (250 and over), though it should be pointed out that the best result of the year (fourth quarter) can be attributed to the recovery of the small enterprises (10-49 employees) following a lengthy period of treading water.

Table 7 – Veneto. Main economic indicators for the manufacturing industry (% change on same quarter of prev. year). Year 2005

	I st quart. '05	II st quart. '05	III st quart. '05	IV st quart. '05
Output	-1,6	-0,2	1,3	2,7
Total turnover	-0,4	1,1	2,7	4,7
Foreign turnover	0,9	4,2	6,4	9,1
Domestic demand	-2,3	-0,2	0,7	3,0
Foreign demand	1,6	2,6	4,8	5,6
Total employment	-0,0	-0,3	-1,3	-0,7
Non-EU employment	12,1	-1,6	0,7	2,9
% foreign sales	43,8	42,6	43,5	42,0
% plant use	73,0	74,9	75,1	75,4

Source: Unioncamere of Veneto - VenetoCongiuntura economic survey

Production, turnover and demand have revealed a growth trend

As the industrial production graph reveals, following the difficulties encountered in the first half of the year (-1.6% in the first quarter of 2005, -0.2% in the second) and signs of recovery in the summer months (+1.3%), industrial production in the fourth quarter of 2005 registered a 2.7% increase on the same period in 2004. This result has enabled Veneto's industry to end 2005 with positive performance, with average annual growth amounting to +0.6%, compared to the -1.8% calculated for the nation as a whole (source: ISTAT).

Industrial production's positive trend is confirmed by the indicator regarding the level of plant use, which, during the course of 2005, revealed a steady rise from 73% to 75.4% of full operational capacity.

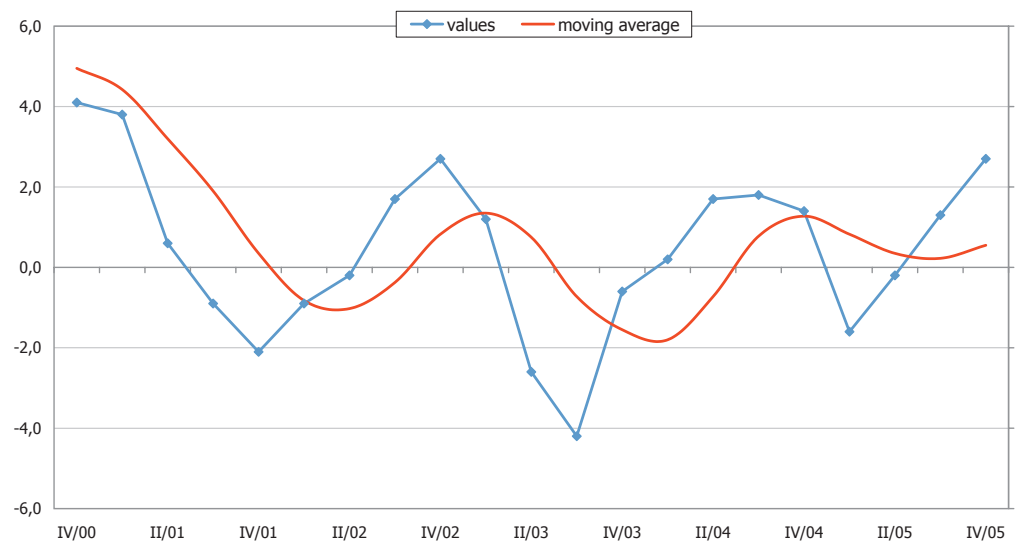
The Veneto companies' turnover has also increased, as revealed by the trend of the moving average calculated based on the values of the changes recorded: following a struggling first quarter (-0.4%), total turnover increased by 1.1% in the second quarter, consolidating growth in the third (+2.7%) and in the fourth quarter (+4.7%).

Orders also registered progressive growth during the course of the year, affecting both the domestic and foreign component. In 2005, orders from the domestic market made an about-turn, going from -2.3% to +3%, whilst orders from the foreign market during the year swelled from 1.6% to 5.6%. There was also a positive trend in exports, which demonstrated a progressive growth trend (from 0.9% to 9.1%), whilst the percentage of foreign turnover remained stationary, oscillating around 42-43% of total turnover.

In an all-in-all positive context, the only negative notes concern employment and production structure. During the course of 2005, the number of employed has dropped sharply: if we discount the first quarter, the trends are all negative (-0.3% in the second, -1.3% in the third and -0.7% in the fourth quarter). The number of non-EC workers, on the other hand, has grown, with peaks in the first (+12%) and last quarter (+2.9%).

In 2005, employment in manufacturing concerns has remained stable

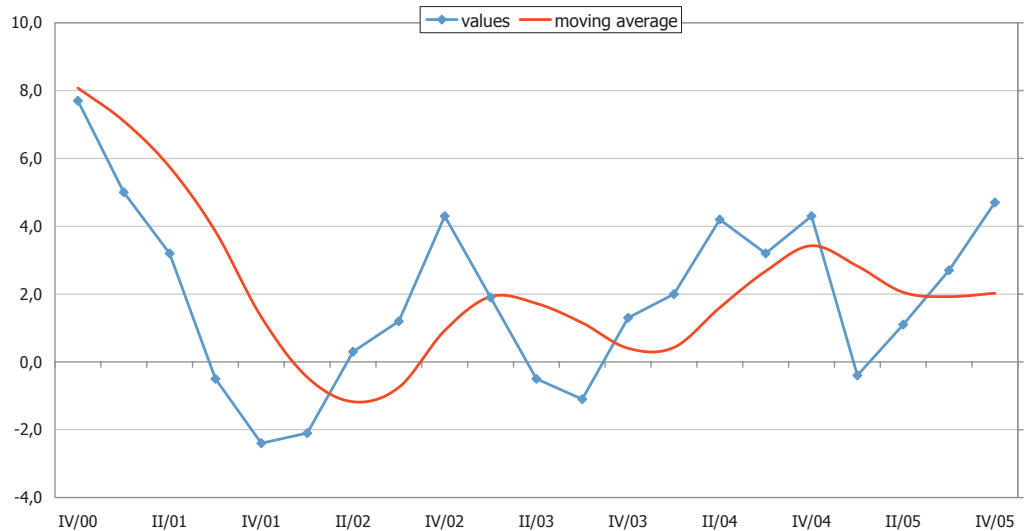
Graph 3– Veneto. Industrial production trend (% change on quarter of prev. year and moving averages). Year 2000-2005.



Source: processing by Unioncamere of Veneto - VenetoCongiuntura economic survey

The second negative note emerges if we take a look at the production structure. In 2005, the number of manufacturing concerns fell again, this time by -0.9% (-637 units), which brought the final number of active units at the end of the year to less than 67 thousand.

Graph 4– Veneto. Industrial turnover trend (% change on quarter of previous year and moving averages). Year 2005.



Source: processing by Unioncamere of Veneto - VenetoCongiuntura economic survey

Construction

Following a lengthy period of growth, the construction sector again showed signs of difficulty in 2005. The downswing in the expansion cycle being experienced by the sector nationwide has had some serious repercussions on the Veneto, too, especially in terms of its contribution to regional GDP. It is in danger of also having a negative effect on the employment picture, which has greatly benefited from growth in the number of jobs over the last five-year period.

The construction sector had sustained Veneto GDP growth practically single-handedly in the 2001-2004 period, while it wrapped up 2005 with a decrease in turnover. According to estimates released by CRESME (the Italian economic, sociologic and market research centre), the volume of production in the construction sector in the last year has fallen by 1.7% compared to 2004.

The negative trend is confirmed by Prometeia's estimates, which indicate a 0.6% drop in the sector's added value between 2004 and 2005.

The stock of active enterprises is approaching 68 thousand units, "overtaking" the manufacturing concerns

Table 8 – Veneto. Value of production in the construction sector (% change on prev. year and % influence on regional GDP). Years 2000-2005

Years*	GDP	GDP % change	PV**	PV % change	% incidence
2000	94.153	3,6	12.895	5,4	13,7
2001	94.743	0,6	14.026	8,8	14,8
2002	94.067	-0,7	14.581	4,0	15,5
2003	94.429	0,4	14.504	-0,5	15,4
2004	95.562	1,2	14.350	-1,1	15,0
2005	96.804	1,3	14.100	-1,7	14,6

* estimates for years 2004 and 2005

** production volume of construction industry

Source: CRESME estimates and processing based on ISTAT, Unioncamere data

On the employment front, too, 2005 revealed a slowdown, interrupting the growth trend achieved in the last five-year period. Whereas the construction sector actually saw employment grow in the 2000-2004 period by almost 30% (just 3.5% in the whole of the Veneto), the percentage change in 2005 was 2.3%. These data are confirmed by another indicator that is crucial to our understanding of the employment trend in the sectors, and is the indicator provided by INPS data on the CIG wages guarantee redundancy scheme. In 2005, the number of people enrolling on the CIG scheme grew by 15% in terms of hours granted, compared to an 11% increase registered in 2004.

With regard to structure, however, industries in the sector are becoming more and more numerous. In 2005, the increase in the production base came to 3.7%,

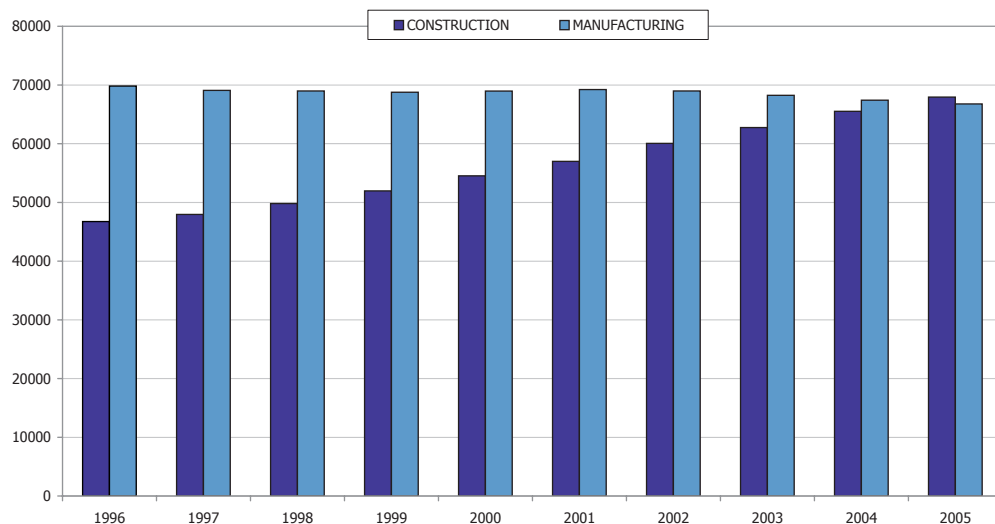
which is equivalent to over 2,400 companies more than in 2004. This increase has brought the number of active enterprises close to the 68,000 unit mark, “overtaking” the manufacturing concerns (less than 67 thousand units) as predicted.

Table 9 – Veneto. Hours of wage supplement per sector of business.
Years 2003-2005

Business	2003	2004	2005	% change 2005/2004
Fields of bus. Related to agriculture	45.518	20.112	0	...
Mining (metal and other minerals)	0	1.720	0	...
Timber	207.464	250.845	293.555	17,0
Food	34.889	59.552	240.965	304,6
Metallurgical	651.910	272.154	105.145	-61,4
Machanical	2.616.612	3.090.363	4.347.820	40,7
Textiles	825.588	1.975.318	2.227.897	12,8
Clothing and furniture	1.021.456	1.278.143	1.288.225	0,8
Chemicals	170.905	227.818	372.695	63,6
Skins and leather	558.268	739.770	632.024	-14,6
Mineral processing	209.624	511.333	419.390	-18,0
Paper and printing	65.867	110.758	233.246	110,6
Building (brick)	308.585	508.093	317.123	-37,6
Electricity and gas	0	0	0	...
Transport and communications	54.710	92.003	110.578	20,2
Miscellaneous	14.423	27.429	86.131	214,0
Tobacco-growing	0	0	0	...
Sales	159.662	273.242	28.439	-89,6
Building total	2.298.015	2.517.622	2.907.062	15,5
TOTAL	9.243.496	11.956.275	13.610.295	13,8

Source: INPS data processed by Unioncamere of Veneto

Graph 5– Veneto. Active enterprises in the manufacturing and construction sector (absolute values). Years 1996-2005.



Source: Infocamere data processed by Unioncamere of Veneto

SMEs and craftsmanship

The state of health of the production system in the Veneto cannot be fully understood without a look at the performance of the artisan businesses, which - if we don't count agriculture - account for 40% of the production units in business in the region.

Table 10 - Veneto. Registered and active artisan businesses by sector and legal status. Years 2004-05

	Registered		Active		Registered	Active
	2004	2005	2004	2005	% change 05/04	% change 05/04
Attività economica						
Fishing, fish farming and associated services	0	0	0	0
Mining	85	91	85	91	7,1	7,1
Manufacturing	47.679	47.033	47.294	46.651	-1,4	-1,4
Electricity, gas and water prod. and distrib.	8	8	8	8	0,0	0,0
Construction industry	54.456	56.696	54.282	56.487	4,1	4,1
Retail and wholesale; rep. pers. and home care goods	10.009	9.611	9.971	9.570	-4,0	-4,0
Hotels and restaurants	337	305	332	301	-9,5	-9,3
Transport, storage and communication	12.763	12.664	12.723	12.614	-0,8	-0,9
Money and financial brokerage	21	24	21	24	14,3	14,3
Real estate, rental, IT, research	4.758	4.771	4.724	4.749	0,3	0,5
Education	153	152	153	152	-0,7	-0,7
Health and other social services	71	57	71	57	-19,7	-19,7
Other public, social and personal services	13.020	13.144	12.994	13.115	1,0	0,9
Housekeeping and life-in-care	0	0	0	0
Non classified businesses	282	157	246	119	-44,3	-51,6
Legal status						
Joint-stock companies	3.545	4.364	3.490	4.309	23,1	23,5
Partnerships	33.966	33.212	33.567	32.794	-2,2	-2,3
One-man businesses	105.832	106.844	105.567	106.559	1,0	0,9
Other statuses	299	293	280	276	-2,0	-1,4
TOTAL	143.642	144.713	142.904	143.938	0,7	0,7

*data have been affected by legislative amendments made in 2001, which have awarded "Srl" public limited companies artisan status

Source: Infocamere (Italian Chambers of Commerce IT consortium) data processed by Unioncamere of Veneto

The number of active artisan businesses in the Veneto has registered a 0.7% increase on 2004

In 2005, the number of active artisan businesses in the Veneto came close to the 144,000 unit mark, registering a 0.7% increase compared to the 2004 stock (over 1,000 enterprises more).

In 2005 again, the increase was sustained by the growth in joint-stock companies. Following the boom experienced in the three-year period from 2001-03, owing to the amendments and additions made to general policy law on artisan enterprise, the joint-stock companies consolidated their presence in 2004, and in 2005 reached the 4,300 unit mark (annual growth was +23.5%). Partnerships dropped further (-2.3%), whilst the one-man businesses strengthened in numbers (almost 1,000 more compared to 2004), approaching the 106,600 unit mark.

In terms of sectors of business, the artisan manufacturing businesses (almost

Table 11 - Veneto. Main economic indicators for artisan business and small enterprise (% change on prev. year). Year 2005

	Production	Building	Business services	People services	Total of all sectors
Demand/orders	-2,4	0,8	-0,4	-4,2	-0,9
Turnover	-2,1	0,4	-0,6	-3,2	-0,8
Prices	3,9	4,2	4,3	3,1	4,1
Employment	-1,2	0,5	-0,2	0,3	-0,2
Propensity to invest	-8,5	3,5	4,6	-14,8	-2,6

* The average has been taken for investments

Source: Confartigianato Veneto (regional federation of crafts) - "Sintesi" Studies Centre

72% of the total) were up 1.5% on 2004, and this growth is the combined result of a new drop in the manufacturing sector (-1.4%) and construction firm expansion (+4.1%). In the service sector, the stock of service enterprises experienced a slight dip (-1%), which can be attributed to the sales and repairs (-4%) and tourist (-9.3%) sectors.

Table 12 - Veneto. Artisan employees (% change on prev. year). Years 2001-2005

Sector	2001	2002	2003	2004	2005
Food	-1,4	2,2	-3,0	1,6	2,7
Textile, Clothing, Footwear	-5,7	-3,4	-6,1	-7,6	-7,4
Timber	-1,5	2,8	-0,8	-1,4	-4,6
Graphic design	-4,5	-1,0	0,4	-2,2	-2,9
Ceram. Chemicals, Glass	-2,0	0,3	-0,1	-1,2	-3,9
Mechanics	-2,5	0,5	-2,0	0,5	-2,2
Other manuf.	-3,2	-1,1	-6,8	-4,0	-4,3
Manufacturing total	-3,2	-0,4	-3,1	-2,1	-3,6
Building	-0,2	10,8	-8,5	-1,7	-1,1
Systems engineering	-0,6	-0,0	1,2	-0,9	-3,0
Construction total	-0,3	5,9	-4,6	-1,4	-1,9
Car/motorbike rep.	-1,6	-2,9	-1,1	0,5	1,7
People and misc. Serv.	-0,6	-0,9	-1,1	-3,1	0,3
Transport	3,1	3,5	1,5	0,7	3,6
Services total	0,0	-0,4	-0,5	-1,2	1,6
Total	-2,1	0,9	-3,0	-1,8	-2,3

Source: Confartigianato Veneto - BS consulting

The trend of the main economic indicators constitutes an important indicator for artisan business and small enterprises. According to the six-monthly survey by Veneto's Confartigianato, the regional federation of crafts, the resulting picture is bleak. 2005 ended with a -0.8% drop in turnover, which was greatly influenced by shrinkage in the manufacturing sector (-2.4%). The evolution of demand - which has shrunk by 0.9% overall and by 2.1% in the manufacturing sector - is reflected in the trends and proportions of turnover performance. There is growing awareness of supplier price rises: between 2004 and 2005, enterprises faced a 4.1% increase. Artisan businesses are going through difficult times and this is starting to affect employment, too - which has dropped by 0.2% - as well as the propensity to invest, which fell by -2.6% in 2005.

Services

Unlike in the agricultural and industrial sectors, 2005 ended with a positive result for the service sector. According to the latest estimates, added value at constant prices is up 1.2% on 2004, amounting to 57.3 billion euros (at constant 1995 prices), boosting the sector's contribution to regional added value to 63%. This is a positive result that positions the Veneto well above the national average (+0.7%) and almost in line with the variation recorded for the Northeast (+1.3%).

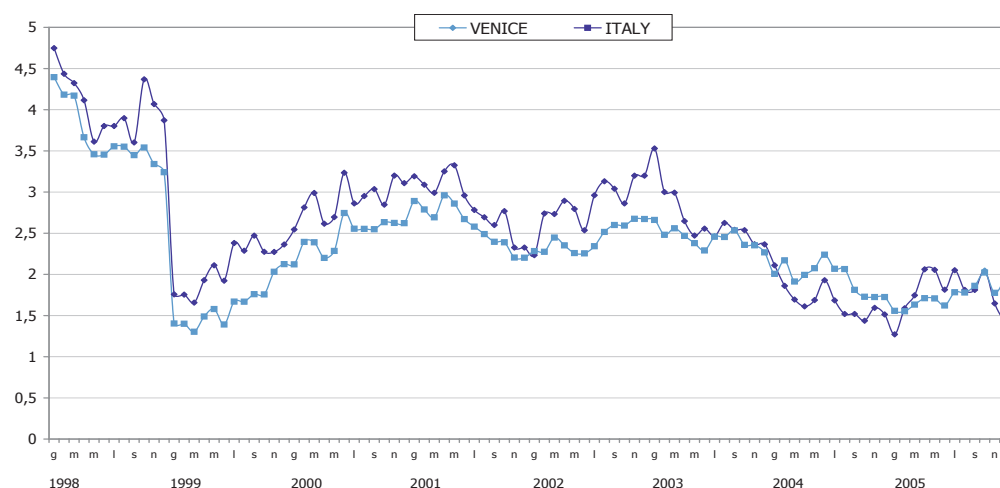
The growth trend in services has had mildly positive repercussions on the employment front. According to ISTAT, the number of employed in 2005 scored a 0.8% increase (over 9,000 units more than in 2004) (pending updated ISTAT data).

Domestic trade

The "slowdown" in price rises has led to a slight recovery in household consumption

For the domestic trade sector, 2004 was a year of stability, marked by a slight recovery in household consumption and the slowdown in price rises. Whilst sales abroad (as we will see later) have slowed down economic recovery in 2005, demand for private consumption has instead maintained the same pace, despite the low growth in earnings available to households. When compared against 2004, the fixed retail trade sales, estimated by ISTAT, revealed a +0.1% increase for the Northeast, which was less marked than in the rest of the country (+0.4%). Following the downturn experienced in 2004 (-0.7%), sales bounced back, though without achieving the levels of performance seen in the two-year period from 2002-2003. More specifically, the sales trend proved stable for food products, compared to a slight increase in non-food items (0.1%).

Graph 6- General consumer price index for the households of blue- and white-collar workers. Years 1998-2005.



Source: ISTAT data processed by Unioncamere of Veneto

The number of enterprises has remained practically stable

In 2005, the rate of inflation, measured by the consumer price index for society as a whole, gave the best result since 1999. At a national level, the average annual change in consumer prices stopped at 1.9%, which is three-tenths of a percentage point lower than the average recorded in 2004. Price trends remained fairly level in the Veneto, as well, with an average annual change in prices of 1.7%. An analysis of spending dynamics reveals which items have contributed to the drop in inflation. Communications spending stands out, above all, showing a negative change in prices of -5.2%, followed by food products (-0.6%) and health services and health spending (-0.5%). Alcoholic drinks and tobacco (+6.2%) and home, water, electricity and fuel (+5.8%) are all items of spending that have gone against the trend, followed by transport (+4.4%) and education (+3.1%).

Positive signals are also being received from the turnover of supermarkets and hypermarkets in the Veneto region. The latest data available reveal that the turnover of the large retail chains and multiples has grown altogether by an average 1.5% a year, which is lower than the national average (2.8%), but in line with the average recorded in the Northeast (+1.4%). The increase in retail chain turnover was driven by the sales of non-food products (+4.4%), compared to a weak contribution made by the sales of pre-packaged mass consumer goods (+0.8%)⁴.

Table 13 - Veneto. Sales in the large retail chain sector (current network sales turnover, seasonally adjusted data, % change on prev. year). Year 2005

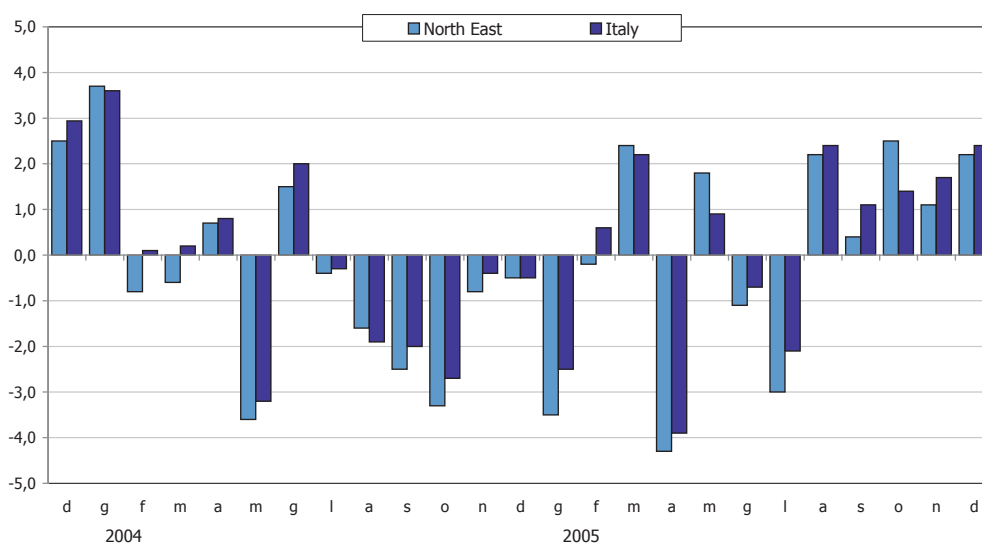
	2005					
	1 st 2-mths	2 nd 2-mths	3 rd 2-mths	4 th 2-mths	5 th 2-mths	6 th 2-mths
Veneto	1,9	1,4	1,6	0,8	1,6	2,4
<i>Pre-packaged mass consumer goods*</i>	0,9	0,6	1,0	0,2	1,2	2,3
<i>Non food**</i>	6,3	5,1	4,1	3,6	3,1	2,9
North-East	1,9	1,3	1,2	1,2	1,4	2,8
<i>Pre-packaged mass consumer goods</i>	1,7	1,5	1,9	1,3	2,0	3,5
<i>Non food</i>	2,8	0,6	-1,3	0,4	-1,0	0,1
Italy	4,1	3,7	2,6	2,0	1,8	3,3
<i>Pre-packaged mass consumer goods</i>	3,5	3,5	2,9	2,0	2,0	3,6
<i>Non food</i>	6,5	4,5	1,2	2,0	0,8	2,2

* includes groceries, drinks, chilled and frozen goods, pet care, personal care and home care products
 ** includes textiles and clothing, miscellaneous goods and household appliances

Source: Unioncamere Studies Centre- REF (Italian economic and finance research organization) based on Unioncamere and market surveys

In terms of business make-up, the number of enterprises in 2005 remained practically unchanged (+0.1%), approaching 106,000 units. Nonetheless, for the second year in a row, there was a negative balance between the number of newly registered companies and the number of companies that had closed down (-1,500 units), generating an annual rate of growth of -1.4%.

Graph 7- Fixed retail trade sales value index at current prices (% monthly change). Years 2004 2005.



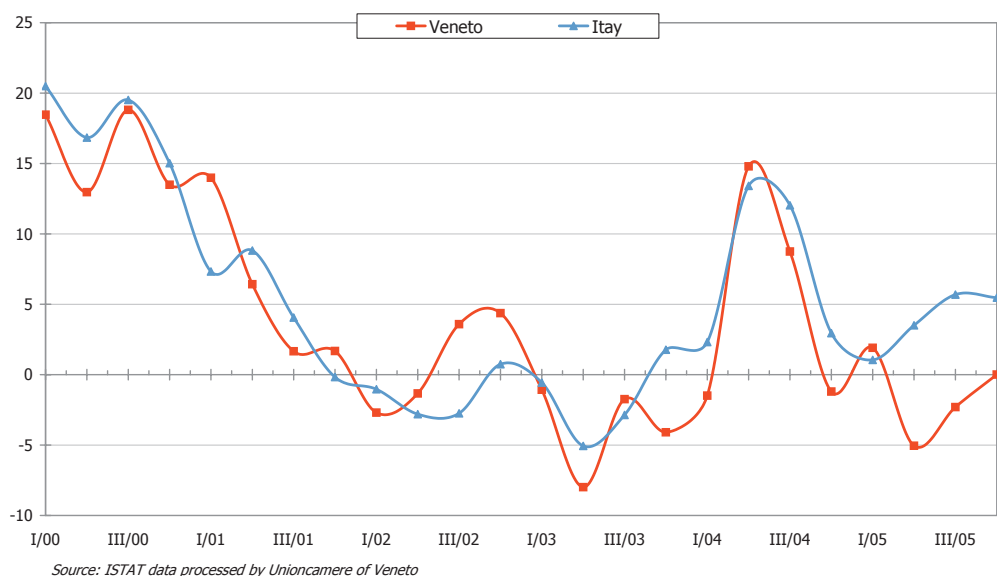
Foreign trade

In 2005, the Veneto experienced a less favourable economic situation than in 2004, registering a shrinkage in foreign trade, which went against the national trend.

National exports were up 4% on 2004

At a national level, following the obstacles tackled in 2003 and the recovery recorded in 2004, foreign trade actually showed renewed growth. On average over the twelve months of 2005, Italian exports increased by 4% in value, showing a clear slowdown compared to the more favourable 2004 trend (+7.5%). Flows of goods abroad have nonetheless not managed to compensate the much more marked increase in imports (up 7% on the same period), especially owing to the high price of petroleum and of numerous raw materials. In addition to this, trade has had to cope with fierce competition from China, which by now is affecting most of the typically Italian-made products, from textiles and clothing to footwear and mechanics of lower added value. The balance of payments is thus tipping further into the red. In the January-December 2005 period, the deficit was just short of 10.4 billion euros, which is considerably worse than in the same period in 2004 (-1.2 billion), pushed up, on the one hand, by the energy deficit (-38.5 billion in the twelve months, including electricity) and, on the other, by the invasion of Chinese products (the balance coming to -9.5 billion, which is higher than all but the OPEC area).

**Graph 8– Exports in Veneto and in Italy (% change on quarter of prev. year).
Years 2000-2005.**



At a regional level, exports in 2005 dropped (-1.5%) whilst imports registered growth (+2.1%), thus generating a reduction in the balance of trade compared to 2004.

Following the uptrend of the first quarter (+1.9%) and two negative quarters (-5% in the second and -2.3% in the third), the value of the Veneto region's exports picked up in the closing period of 2005, though without reaching the levels recorded in the previous year (39.6 billion euros compared to 40.2 billion in 2004). This trend, however, goes against that of the Northeast as a whole (+2.3%), which is sustained by the excellent performance of Emilia-Romagna (+7.7%) and Trentino-Alto Adige (+4.5%). Performance also proved to be positive for other regions considered to be export oriented, such as Piedmont (+1.6%) and Lombardy (+6.6%), whilst Tuscany experienced a 1.2% dip.

The decline in foreign trade is reflected in the contribution of regional exports to the country's exports as a whole, which is lower than in 2004, dropping from 14.1% to 13.4%. Nonetheless, the Veneto still hangs on to second place on the standings list of Italian regions, behind Lombardy (28.5%), though Emilia-Romagna (12.6%) and Piedmont (10.7%) are hot on its heels.

The effects of delocalization weighed heavily again in 2005, especially delocalization in the textile, apparel, footwear and timber and furniture sectors. Nonetheless, it should be pointed out that the continuous transfer of production abroad, especially of the low added value kind, inevitably affects the statistics: each Veneto company producing and selling beyond the national boundaries 'robs' national statistics of considerable amounts of turnover, thus reducing the overall value of exports. To properly gauge foreign turnover, we ought to formulate an estimate of the value of products sold "from foreign

Veneto exports were down 1.5% on 2004

countries to foreign countries” - a figure that is unknown as yet. The countries to which production tends to be “transferred” are, above all, Rumania, China and Hungary, as confirmed by the results of the *VenetoCongiuntura* economic survey, conducted by *Unioncamere Veneto*, on the propensity of the Veneto’s manufacturing industries to delocalize production.

Table 14 -Veneto. Trade flows in a number of Italian regions (millions of euros). Year 2005

	Import		Export		Balance
	2005	% change on 2004	2005	% change on 2004	
Piedmont	23.164	1,1	31.768	1,6	8.604
98145,451	110.325	4,3	84.419	6,6	-25.906
Veneto	32.142	2,1	39.621	-1,5	7.479
Emilia Romagna	22.294	10,1	37.129	7,7	14.835
Tuscany	16.603	6,5	21.570	-1,2	4.967
Northwest	142.121	4,1	120.895	5,6	-21.226
Northeast	64.636	5,2	91.588	2,3	26.952
Centre	48.095	10,3	44.581	0,0	-3.514
South	20.468	4,9	22.592	3,2	2.124
Islands	25.128	35,7	11.079	32,2	-14.049
Various or n.s.	5.238	-13,3	5.004	-8,5	-234
Italy	305.686	7,0	295.739	4,0	-9.947

Source: ISTAT data processed by Unioncamere of Veneto

In terms of areas of production, exports of manufacturing products have experienced the biggest fall-off (-1.7%), compared to an increase in products from agriculture and fishing (+1.4%). More specifically, of particular note is the significant decrease in textile and clothing products (-5.2%) as well as in footwear and leather products (-7.1%). Fall-off in the furniture sector (-7.1%) and timber sector (-4.4%) was also considerable. Exports of jewellery and goldsmiths’ wares also showed a decrease (-12.6%), compared to eyewear’s excellent performance (+11.7%). Positive signals were received from the sector driving the Veneto’s exports - machinery and mechanical equipment (8.7 billion euros, 22% of regional exports), which registered a 2.5% increase in foreign trade flows in 2005.

If we take a look at the Veneto’s main trade partners, the slowdown in exports in 2005 was attributable to Germany and France, which have been the main sales markets for Veneto products for decades. Exports to German regions have dropped by 7.3% whilst the fall-off recorded for exports to the transalpine regions was not quite as severe (-5.1%). Negative results were recorded

across another six countries (also in the top ten): indeed, the Veneto's exports to Spain, the UK, Austria, Rumania, Switzerland and the Netherlands have also decreased, whilst foreign sales to the United States have remained stable (+0.2%). The positive exception to the trend is Russia, with a 22.1% increase in exports to this country.

As far as imports are concerned, the value recorded at the close of the year was just over 32.1 billion euros, which amounts to a 2.1% increase on 2004. Nonetheless, both the geographical area of the Northeast - which has experienced a 5.2% increase - and almost all the main regions of comparison, with the exception of Piedmont (+1%), have shown better growth than the Veneto.

In 2005, China again continued to make uninterrupted progress in moving up the table of the main import countries for the Veneto, with a 30.7% increase in trade flows recorded for the year. After its leap in 2004 from sixth to third place, the "Asian giant" has managed to overtake France, becoming the Veneto's second country in terms of the value of imports (2.1 billion euros). Germany is still firmly in control of the table (7.4 billion euros) and registered a 6.4% increase in imports in 2005.

Table 15 - Veneto. Exports by product type (millions of euros). Years 2004-05

PRODUCTS	2004	2005	% change 05/04	% comp. 2005
Processed and manufactured products	39.647	38.979	-1,7	98,4
<i>Machinery and mechanical equipment</i>	8.457	8.670	2,5	21,9
<i>Textile and clothing products</i>	4.866	4.615	-5,2	11,6
<i>Leather and leather products</i>	4.232	3.932	-7,1	9,9
<i>Metal and metal products</i>	3.655	3.841	5,1	9,7
<i>Electrical and precision equipment</i>	2.561	2.520	-1,6	6,4
<i>Motor vehicles and other means of transport</i>	2.714	2.395	-11,8	6,1
<i>Chemical and allied industries</i>	1.919	2.032	5,9	5,1
<i>Food products</i>	2.069	1.995	-3,6	5,0
<i>Furniture</i>	1.921	1.784	-7,1	4,5
<i>Eyewear</i>	1.461	1.632	11,7	4,1
<i>Jewellery</i>	1.636	1.430	-12,6	3,6
<i>Non metal min.proc.prod.</i>	1.399	1.383	-1,1	3,5
<i>Rubber and plastic products</i>	1.214	1.224	0,8	3,1
<i>Paper, printing, publishing</i>	934	954	2,1	2,4
<i>Other manufactured products</i>	384	357	-7,0	0,9
<i>Timber and wooden products</i>	225	215	-4,4	0,5
Farming and fishing products	458	541	18,1	1,4
Mine and quarry products	54	51	-5,6	0,1
Other products	48	50	4,2	0,1
Total	40.207	39.621	-1,5	100,0

Source: ISTAT data processed by Unioncamere of Veneto

Table 16 - Veneto. Imports and exports by province (millions of euros). Years 2004-05

Province	2004	2005	% change 05/04	% comp. 2005
<i>Imports</i>				
Verona	9.507	10.284	8,2	32,0
Vicenza	6.573	6.298	-4,2	19,6
Belluno	568	613	7,9	1,9
Treviso	4.505	4.699	4,3	14,6
Venice	4.832	5.041	4,3	15,7
Padua	4.786	4.469	-6,6	13,9
Rovigo	701	738	5,3	2,3
VENETO	31.472	32.142	2,1	100,0
ITALY	285.634	305.686	7,0	
Veneto/Italy % influence	11,0	10,5		
<i>Exports</i>				
Verona	6.621	6.761	2,1	17,1
Vicenza	12.012	11.119	-7,4	28,1
Belluno	1.823	1.971	8,1	5,0
Treviso	8.635	8.570	-0,8	21,6
Venice	4.320	4.201	-2,8	10,6
Padua	6.027	6.161	2,2	15,6
Rovigo	769	838	9,0	2,1
VENETO	40.207	39.621	-1,5	100,0
ITALY	284.413	295.739	4,0	
Veneto/Italy % influence	14,1	13,4		

Source: ISTAT data processed by Unioncamere of Veneto

Table 17 - Veneto. Top 10 countries according to origin of imports and destination of exports for the region (millions of euros). Years 2004-05

Countries	2004	2005	% change 05/04	% comp. 2005
<i>Import</i>				
Germany	6.976	7.423	6,4	23,1
China	1.584	2.070	30,7	6,4
France	2.183	2.014	-7,7	6,3
Rumania	1.394	1.325	-5,0	4,1
Austria	1.406	1.316	-6,4	4,1
Belgium	1.237	1.294	4,6	4,0
Spain	1.388	1.269	-8,6	3,9
Netherlands	1.227	1.123	-8,5	3,5
United States	1.028	1.080	5,1	3,4
United Kingdom	877	862	-1,7	2,7
<i>Export</i>				
Germany	5.542	5.137	-7,3	13,0
France	4.029	3.823	-5,1	9,6
United States	3.631	3.638	0,2	9,2
Spain	2.538	2.528	-0,4	6,4
United Kingdom	2.575	2.397	-6,9	6,1
Austria	1.349	1.321	-2,1	3,3
Rumania	1.325	1.283	-3,2	3,2
Switzerland	1.331	1.224	-8,0	3,1
Russia	792	967	22,1	2,4
Netherlands	1.115	912	-18,2	2,3

Source: ISTAT data processed by Unioncamere of Veneto

Tourism

In the January-December period, arrivals increased considerably (+3.4%) as did tourist nights (+4.0%)

Data (though not yet final) on tourist movement in the Veneto, gathered by the provincial APT tourist information centres, have revealed much better performance in 2005 compared to 2004 figures.

In the January-December period, arrivals actually increased by 406 thousand units (+3.4%), taking the 2005 total of tourists over the 12.5 million mark. Tourist nights also increased, though percentages were not as high (+4.0%). An analysis of the various areas visited has revealed signs of growth compared to 2004. Only the spa sector, though registering a substantial increase in arrivals, saw a slight dip in tourist nights. In detail, we can see that lakeside tourism has scored a 4.2% increase in arrivals and +7.1% in tourist nights, mountain tourism a 3.1% and 3.4% increase respectively, the seaside +2.7% and +2.9% and, lastly, the spas with +4.0% and -1.9%.

As for the type of accommodation facilities, 2005 has shown marked increases in both non-hotel and hotel accommodation.

In the former case, arrivals were up 5.6% whilst tourist nights increased by 4.5%; in the latter case, a 2.5% increase was recorded in arrivals and a +3.4% in nights.

Table 18 - Veneto. Tourist movement by accommodation type and area. Years 2004-05

	2004		2005		% change	
	arrivals	tourist nights	arrivals	tourist nights	arrivals	tourist nights
Accommodation facilities						
hotel	8.625.414	26.284.387	8.839.460	27.174.001	2,5	3,4
non-hotel	3.437.148	28.283.671	3.629.140	29.558.958	5,6	4,5
Areas						
art cities	5.822.921	13.539.438	6.027.912	14.515.117	3,5	7,2
lakes	1.557.127	8.304.192	1.621.839	8.894.030	4,2	7,1
98145,451	3.261.350	23.416.930	3.348.681	23.872.284	2,7	1,9
mountains	891.465	6.043.308	919.178	6.248.581	3,1	3,4
spas	529.699	3.264.190	550.990	3.202.947	4,0	-1,9
Total	12.062.562	54.568.058	12.468.600	56.732.959	3,4	4,0

Source: SIRT (Veneto regional tourist information system) data processed by Unioncamere of Veneto

If we look at the individual areas of the region, we can see that performance recorded was good for almost all the Veneto's provinces, both in terms of arrivals and tourist nights.

The Veneto's two leading provinces - Venice and Verona - registered marked upward trends. Venice increased arrivals by 5.5% and tourist nights by 4.5% (topping the 30 million mark). The province of Verona saw moderate growth in arrivals (+1.8%) whilst tourist nights really rocketed (+10.6%). Other increases in arrivals were experienced by the provinces of Padua, Belluno and Rovigo,

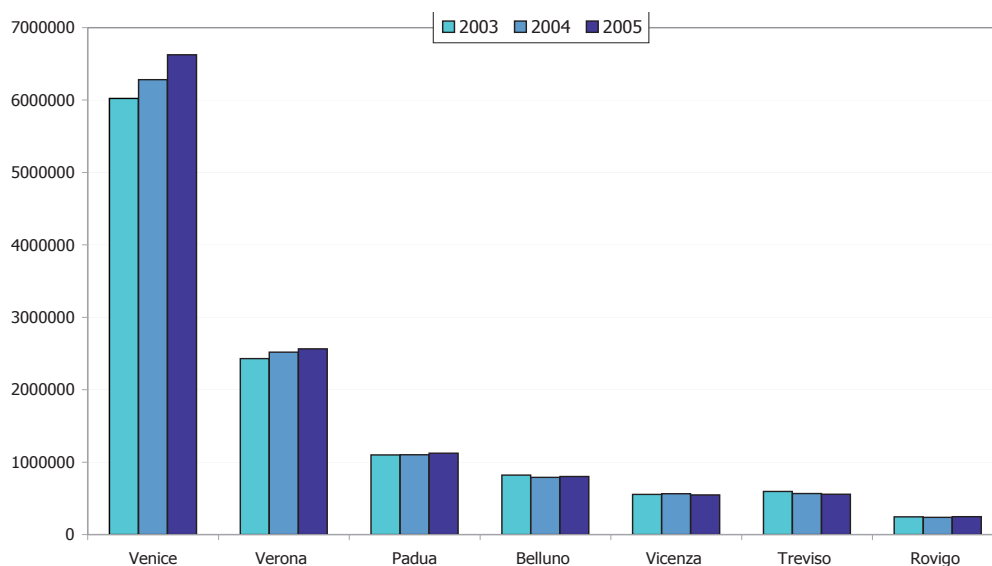
while a regression was recorded in Treviso and Vicenza, which are nonetheless considered to be “minor players” on the tourism scene.

In terms of tourist nights stayed, in addition to excellent results from Venice and Verona, positive results were also produced by Treviso and Rovigo. The other three provinces - Belluno, Padua and, above all, Vicenza - produced negative results.

In 2005, 53.3% of the nights stayed referred to Italian tourists. Out of these, no less than 17.4% of the grand total were people from the Veneto itself, followed by residents from Lombardy (7.5%, up 8.0% on 2004).

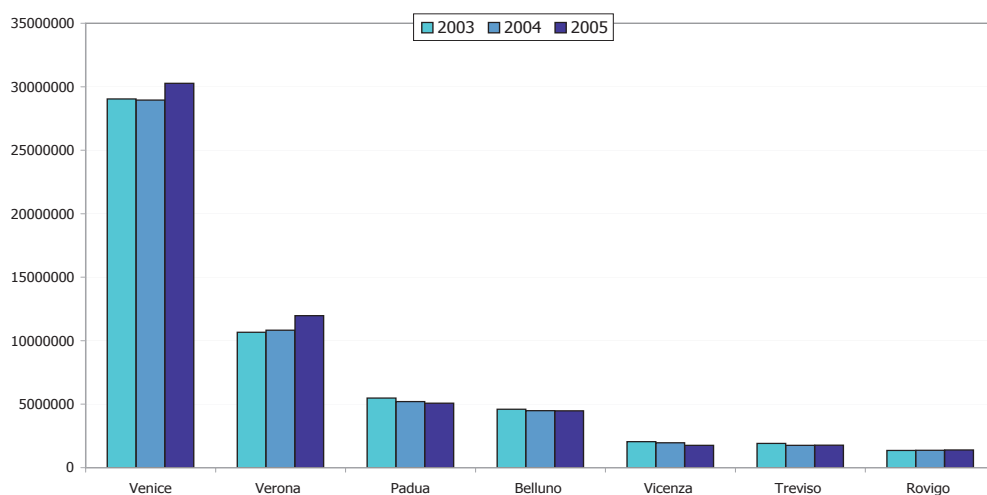
With regard to the foreign component, which accounts for over half the total tourist nights in the Veneto, first place, as always, was taken by Germany. Though tourist nights decreased further this year (down 4.0% on 2004), the Germans still represent 19.1% of the total.

Graph 9 - Tourist arrivals by province (thousands). Years 2003-2005.



Source: SIRT (Veneto regional tourist information) data processed by Unioncamere of Veneto

Graph 10 - Tourist nights by province (thousands). Years 2003-2005.



Source: SIRT (Veneto regional tourist information) data processed by Unioncamere of Veneto

Transport

Obstacles remain in road and motorway services and logistics, reducing competitiveness in the movement of people and goods

For the transport sector, 2005 was a year of partial revival following the reversal recorded last year. This is revealed both by statistics on cargo and passenger flows - which we will be analysing further on - and by the process of adapting local infrastructures to the needs of the regional economy, which is crying out more and more for roads and motorways, for room for expansion and for efficient services that can be relied on to compete with increasingly fierce opponents.

Despite undeniable efforts, environmental, structural and political restrictions remain, especially when it comes to the road and motorway system and logistics. This impedes the mobility of people and goods, which is an essential driving force behind the mature development of the economy. Moreover, the railway network - which, in everybody's opinion, is the only real alternative in the Veneto region to road transport - is not managing to increase its traffic volumes.

The responsibility for this shortcoming lies partly with the companies in charge of managing the sector, who fail to steer programming towards structural investments and instead see only the contingent problems, meaning efforts are limited to resolving just these. There are also external reasons, though, i.e. the objective difficulty encountered in persuading the sector's operators that the time has come to take a different look at goods transport than in the past, when road haulage was still the best, not to mention the quickest means.

Table 19 – Veneto. Passenger and cargo traffic in airports. Year 2005

Airports	Passengers		Cargo (tonnes)	
	abs.val.	% change 05/04	abs.val.	% change 05/04
Venice - Marco Polo	5.825.499	-0,8	22.723	1,6
Verona - Valerio Catullo	2.649.655	-1,4	10.888	-14,7
Treviso - Sant'Angelo	1.300.298	45,4	17.907	-0,7
TOTAL	9.775.452	3,4	51.518	-3,1

Source: Assaeroporti (Italian airport providers association) data processed by Unioncamere of Veneto

Provisional data on the motorway network serving the Veneto region have revealed, for 2005, a slight growth in road traffic. Compared to 2004, the index, given by the vehicle/km ratio, has increased by 0.5% (0.3% for the nation as a whole), which is the combined result of a 0.5% increase attributable to light vehicles and another +0.5% recorded for heavy vehicles.

On the airport front, data on the Veneto are conflicting: excellent overall performance for passenger traffic in the Veneto's three main airports contrasts with the lull experienced by goods transport.

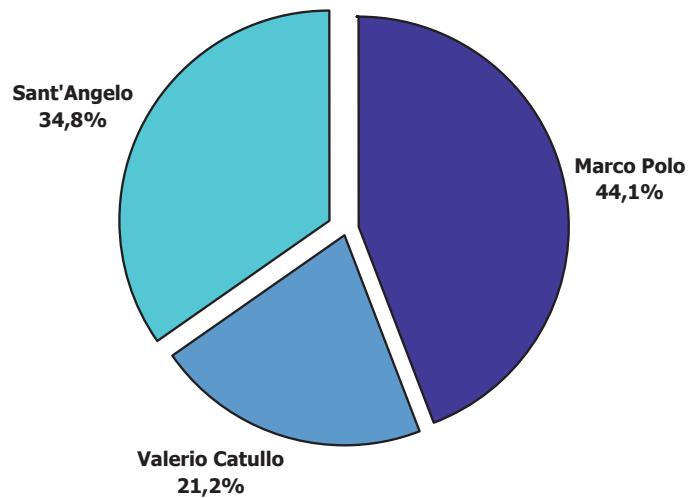
During the course of 2005, an impressive 9.8 million passengers and 51.5 thousand tonnes of goods passed through the Veneto's airports, showing trends of +3.4% and -3.1% respectively compared to 2004.

For the Veneto's airports, the year ended with conflicting results (+3.4% for passengers -3.1% for cargo)

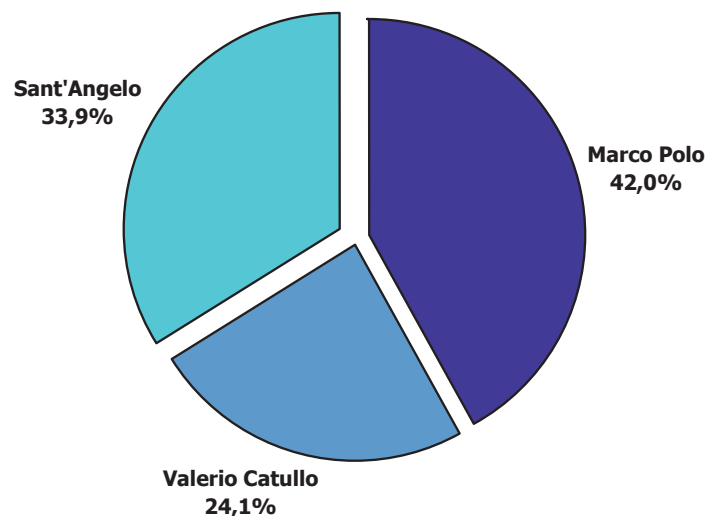
Venice Airport, the number one regional airport and fourth biggest in the country (after Fiumicino, Malpensa and Linate), wrapped up 2005 with a traffic rate of 5,825,499 passengers and a 0.8% decrease on 2004 (in the two previous years, increases had been particularly high: +25.8% in 2003 and +10.7 in 2004). The number of flights was 78,783, amounting to a 1.5% decrease (+4.0% in 2004). The result is partly attributable to the increase in fuel prices and reflects the effects of the slump that hit the low-cost flight sector in 2005.

Graph 11- Veneto. Passenger and cargo traffic in airports. (% comp.).
Year 2005

Passengers



Cargo



Source: Assaeroporti data processed by Unioncamere of Veneto su dati Assaeroporti

The cargo sector seems to have got over the slump that hit in the early years of the new millennium, owing to the unstable world political and economic situation. Cargo handled actually came to 22,723 tonnes, showing just a 1.6% increase.

The “Valerio Catullo” Verona airport produced a negative result for the year. Occupying twelfth place on the national table of airports, it registered decreases both in passenger traffic (-1.4%) and especially in cargo traffic (-14.7%). The number of aircraft also fell off, with relevant traffic dropping from 40,668 in 2004 to 38,494 in 2005 (-5.3%). Although Verona airport has experienced a lull after years of continuous increases, it still represents a viable alternative to Milan’s Malpensa airport for the entire catchment area stretching from Brescia to Trento and from Mantua to Vicenza.

Lastly, Treviso airport, which is part of the Venetian airport network, has achieved exceptional results in passenger traffic. The passengers served by this airport came to 1,300,298 (+45.4 on 2004), a number that has increased more than fourfold in just five years. Likewise, the number of flights has increased, going from 16,272 in 2004 to 17,587 in 2005 (+5.6%). In the cargo sector, Treviso has handled 17,907 tonnes, registering a slight decrease (0.7%) compared to 2004 (+17.0 in 2004).

Despite experiencing a lull, the Port of Venice retains the top spot in the national table

Lastly, an appraisal of figures for port activity ⁵reveals that the port of Venice ended the year 2005 with conflicting results: whilst registering a slight decrease in cargo traffic compared to 2004, it had actually handled almost a third more passengers.

Total traffic came to 29.1 million tonnes (down 2.2% on 2004), though this figure is quite respectable considering that in 1996 - the year the Port Authority was formed - total cargo handled was about 24 million tonnes.

The trade sector, the real jewel in the Venetian port’s crown, proved to be the most important segment, even in numerical terms. Though it failed to set an all-time record, it nonetheless handled over 12.7 million tonnes of cargo, registering a slight percentage decrease on 2004.

Compared to 1996, it has nonetheless registered a very respectable percentage of growth: +74.8%.

If we take a quick, more detailed look at traffic, we can see a considerable drop in traditional traffic (-12.3%) with cargo, like cereals, down by almost half. On the other hand, traffic handled through specialized carriers did well (+18.5%), especially the “sea motorways” (+34.5%) - a result consequently demonstrating that this is a continuously growing sector.

Table 20 - Handling of cargo, containers and passengers in the port of Venice. Years 2003-05

	2003	2004	2005	% change 05/04	% change 05/03
CARGO TRAFFIC (tonnes)					
trade total	12.715.743	13.016.263	12.729.077	-2,2	0,1
industrial total	5.970.768	5.994.289	5.841.297	-2,6	-2,2
petroleum total	11.440.487	10.745.587	10.517.599	-2,1	-8,1
GRAND TOTAL	30.126.998	29.756.139	29.087.973	-2,2	-3,4
CONTAINER TRAFFIC	283.667	290.898	289.860	-0,4	2,2
PASSENGER TRAFFIC	1.124.213	1.037.833	1.365.375	31,6	21,5
SHIP DOCKING IN COMMERCIAL TRADE PORT					
passenger ship out this total	3.372	3.459	3.517	1,7	4,3
	1.406	1.154	1.414	22,5	0,6

Source: Port of Venice data processed by Unioncamere of Veneto

Industrial traffic also experienced a slight downward trend, as did petroleum port traffic, decreasing by -2.6% and -2.1% respectively. The former experienced an about-turn following the positive trend of 2004. There was no about-turn for the latter, and instead the percentage decrease was down by two thirds, again compared to the value recorded in 2004.

The positive fact is that the industrial port made a good recovery in the last months of the year, considering that the result for January-October 2005 dropped by almost 7 percentage points on the same period of the year before! This shows that the industrial recovery, which started late in 2005, also had a positive effect on this port sector.

Following years of constant growth, container traffic handled was the same as in 2004, thus allowing the port to retain its leader status (289,860 containers, which amounts to -1.4%), and nonetheless consolidate its first place on the Adriatic.

Passenger traffic showed very good performance, successfully getting over the lull experienced in 2004. The number of passengers who chose the port on the lagoon for their cruise trips came to 1,365,375 (up 31.6% on 2004). With this result, the all-time record achieved in 2003 has been met and exceeded.

Extremely positive year for passenger traffic (+21.5% on 2004)

4. Outlook for 2006

Despite a slight slowdown, the year just ended has confirmed considerable world expansion in terms of both GDP and trade. Nonetheless, there are still a few uncertainties linked, on the one hand, to the price of petroleum and, on the other, to the prices of raw materials and gold. While the increases in the price of crude oil seem to have trailed off in the last few months, there is still the problem of the prices of raw materials, especially since world demand is shifting towards this market. This factor, combined with the unstoppable growth of China and India, does little to quell rising fears of a new upswing in inflation.

Nonetheless, there are reasons to believe that 2006 will be another year of growth, however moderate. On the one hand, the American economy and that of some other economic areas around the world (South America and lesser countries of Asia) are actually slowing in their growth, whilst on the other, the Euro area seems to have latched on to world recovery at last. This hails the advent of a new phase in which growth spreads to every area of the planet. This should lead to the cyclic lack of synchronization between the main world economies being put progressively to an end, as well as to a reduction in growth differentials, thus kicking world demand into a higher gear.

Table 21 - Real GDP rate of growth: comparison of forecasts. Years 2004-2007

	2004	2005	2006	2007
			<i>Italy</i>	
ISTAT March 2006	1,2	0,0	-	
Government December 2005*	1,2	0,0	1,5	1,5
FMI September 2005	1,2	0,0	1,4	n.d.
ISAE February 2006**	1,2	0,1	1,3	1,4
Prometeia January 2006	1,2	0,2	1,0	1,4
Unioncamere Studies Centre December 2005	1,2	0,2	1,5	1,5
ERC November 2005	1,2	0,1	1,2	1,4
Confindustria Studies Centre December 2005	1,2	0,2	1,3	1,2
OECD November 2005	1,2	0,1	1,1	1,5
European Commission February 2006	1,2	0,2	1,3	n.d.
Ref.Irs January 2006	1,2	0,2	1,4	1,4
			<i>Veneto</i>	
ISTAT January 2005	1,4	-	-	-
Prometeia January 2006	1,4	0,1	1,4	1,5
Unioncamere Studies Centre December 2005	1,4	0,3	1,5	1,6

(*) Italy stability programme (December 2005)

(**) Trend picture for year 2006

Source: data from sources mentioned processed by Unioncamere of Veneto

Estimated forecasts in 2006 very positive for Euroland in 2006-2007 (+2.0% and +1.9% respectively)

According to the latest estimates by the IMF, world GDP should grow by 4.3% in 2006, and then slow down slightly in 2007 (+4.1%). The US is still the “primary engine” of the world economy, with a growth rate in 2006 (as well as in 2007) that should come to around an annual 3.3% on average. The large emerging countries of Asia instead combine to form the “second engine”: in 2006, China will grow by 8.2% while India will have a growth rate of 6.3%. Significant growth is also expected from Japan, for which the IMF predicts a 2% increase in GDP in 2006.

Perhaps it is too early to talk of a “third engine” of world economy, though forecasts show an evident recovery for the European economy in 2006. The IMF is convinced of the fact and indeed, in a draft of the World Economic Outlook, made an upward revision of forecasts for Euroland as a whole, advancing a 2% growth prediction for 2006 and 1.9% for 2007. Germany’s recovery has been decisive: having been the weak link in European growth for the last few years, the country should regain the role of “European engine” in 2006 with a growth of 1.4%.

Table 22 - Forecast scenario for 2006-07: comparison between Veneto, Northeast and Italy

	Veneto			NorthEast			Italy		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
<i>annual % change on 1995 constant price values</i>									
Gross domestic product	0,1	1,4	1,5	0,5	1,4	1,6	0,1	1,0	1,4
Regional balance (% internal resources)	2,9	2,6	2,3	1,9	2,0	1,8	-0,8	-0,9	-1,2
Domestic demand	0,4	1,7	1,8	0,7	1,4	1,8	0,6	1,2	1,7
Household spending	1,0	1,2	2,1	1,0	1,1	1,9	0,9	0,9	1,8
Gross fixed capital formation	-1,9	3,5	1,1	-0,9	2,6	1,6	-0,9	1,9	1,6
machinery and systems	-3,3	1,9	1,5	-1,7	3,0	2,3	-2,1	2,5	1,8
construction and buildings	-3,0	5,3	0,7	-0,2	2,1	1,0	0,6	1,2	1,3
Import of good from abroad	1,6	4,6	4,4	1,7	4,7	0,2	1,2	4,1	4,0
Export of good to foreign countries	-0,4	3,4	2,6	-0,5	3,2	2,5	0,1	3,8	3,0
Added value at basic prices									
agriculture	-4,8	0,3	0,9	-3,5	0,9	1,2	-3,5	1,0	1,2
industry	-1,1	0,5	0,9	-0,5	1,0	1,3	-0,6	0,9	1,2
construction	-0,6	5,3	0,7	-0,4	2,1	1,0	0,3	1,2	1,3
services	1,2	1,6	1,9	1,3	1,7	2,0	0,7	1,1	1,5
total	0,2	1,5	1,5	0,5	1,5	1,7	0,2	1,1	1,5
Labour units									
agriculture	-4,2	-1,6	-1,2	-4,4	-1,8	-1,3	-4,3	-1,6	-1,2
industry	-1,1	-0,5	-0,2	-0,9	-0,2	0,0	-0,9	0,0	0,1
construction	2,3	0,5	-0,3	2,9	0,9	0,2	2,5	0,5	-0,2
services	0,8	0,4	0,9	0,7	0,4	0,9	0,7	0,3	0,8
total	0,1	0,1	0,4	0,2	0,1	0,5	0,2	0,1	0,5
Typical ratios (%)									
Employment rate	44,5	44,3	44,1	44,9	44,7	44,7	39,2	39,2	39,2
Unemployment rate	4,1	4,1	4,1	3,7	3,6	3,7	7,8	7,6	7,6
Rate of activity	46,1	46,1	46,0	46,6	46,4	46,4	42,5	42,4	42,5
Available earnings qt current prices	3,8	3,5	3,5	4,4	3,9	3,7	4,1	3,7	3,6
Consumption deflator (% change)	1,6	1,6	1,7	1,6	2,2	1,7	1,6	2,2	1,7

Source: Prometeia (January 2006 forecasts)

In 2006, the trend of the Italian economy should be similar to the general European trend, with acceleration accentuated due to the low level of growth recorded over the last year. Following 2005's zero growth, the IMF's estimates predict that growth in national GDP will be 1.5% in both 2006 and 2007. This is an encouraging estimate, though it is lower than the European and world averages, and also not high enough to reduce the public deficit. The economic performance of our country and of the Euro area, however, is still dependent on possible renewed hikes in petroleum prices and on the strengthening of the euro. Hence the IMF has urged the ECB to proceed with caution on the tax front, so as to promote acceleration of the European economy following the decision by the Frankfurt institute to raise the cost of money to 2.50%.

In line with the IMF, the forecasts from the main research institutes nonetheless show quiet optimism. According to the *Unioncamere* Studies Centre, growth in national GDP should come to 1.5%, in line with the 2006 forecasts from the European Commission and with the Italian Government. ISAE (Italian institute for studies and economic analysis) and Ref (Italian economic and finance research organization) do not expect the rate of growth for Italy to exceed 1.3-1.4% in 2006, whilst the estimates calculated by the OECD (+1.1%) and Prometeia (+1%) appear much more cautious.

These are comforting forecasts that, if combined with the data on the early months of 2006, make this year look hopeful.

For the Veneto, the national Unioncamere estimates indicate GDP growth in the order of 1.5%

In January, the industrial production index was up 4.1% on the same month in 2005 (+1% is the working-day-adjusted figure). Again in the month of January 2006, total exports increased by 10.8% compared to the same month in 2005, whilst imports were up by 18.5%. In February 2006, Italian consumer confidence soared to the highest levels since Autumn 2002 (seasonally adjusted index calculated by ISAE was 110) and opinions on the general economic situation and short-term expectations have improved considerably.

Following the slowdown in the last quarter of 2005, the tone of the Italian economy is thus gradually strengthening, not just thanks to exports (forecast to accelerate), but also as a result of a progressive strengthening of domestic demand (consumption and investments). As regards the labour market, the phase of economic recovery should be accompanied by a positive employment trend following the 2005 slowdown (-0.4%). More specifically, the labour units should grow by 0.6% while the unemployment rate should be reduced further, reaching 7.6%. As far as inflation is concerned, external stimuli should generate some price tensions, with a modest increase taking it to 2.1%, compared to the 2005 level, where it stopped at 1.9%.

As far as the Veneto is concerned, initial indications for 2006 seem to be giving essentially positive signs, though weak as yet. The estimate formulated by the *Unioncamere* Studies Centre (December 2005) puts GDP growth at around

1.5% for 2006, while the latest Prometeia forecast (January 2006) gives an estimated 1.4% growth for the regional economy.

Though a cautious estimate, this forecast represents the start of a new economic growth path for the Veneto, which might thus become once again an engine driving the Northeast and indeed the whole national economy. In 2006, the forecast scenario painted by Prometeia saw the Veneto at the head of the main Italian regions in terms of rate of growth, together with Emilia-Romagna (+1.4%) and ahead of Tuscany (+1.3%), Lombardy (+0.9%) and Piedmont (+0.8%).

With reference to the components of the demand, positive signals are also being received from domestic demand. In 2006, household spending is due to increase by 1.2% while gross fixed capital formation will see a 3.5% increase owing to the purchase of machinery and systems (+1.9%) and investments in construction and buildings (+5.3%). Foreign demand will once again be making a positive contribution to growth: the competitiveness regained by “Veneto-made” products will encourage a revival in foreign trade, taking export growth to 3.4%. Imports are also on an uptrend, and are expected to register a 4.6% increase in 2006.

The favourable labour market trend will be broken. In 2006, employment will remain stable (+0.1%) while the unemployment rate will come to 4.1%.

Nonetheless, forecasts made for the Veneto’s manufacturing concerns for the first six months of 2006 look fairly good. According to the *VenetoCongiuntura* survey conducted by the regional *Unioncamere*, the balance between expected increases and forecast decreases in industrial production come to +14. Confidence is fuelled by the positive prospects of foreign demand (the balance being +21) and domestic demand (+11), whilst there is increased worry concerning price increases (the balance being +20). There are critical forecasts for employment, where the balance between expected increases and forecast decreases comes to -5.

5. The service industry in the Veneto: a comparison between Europe's regions

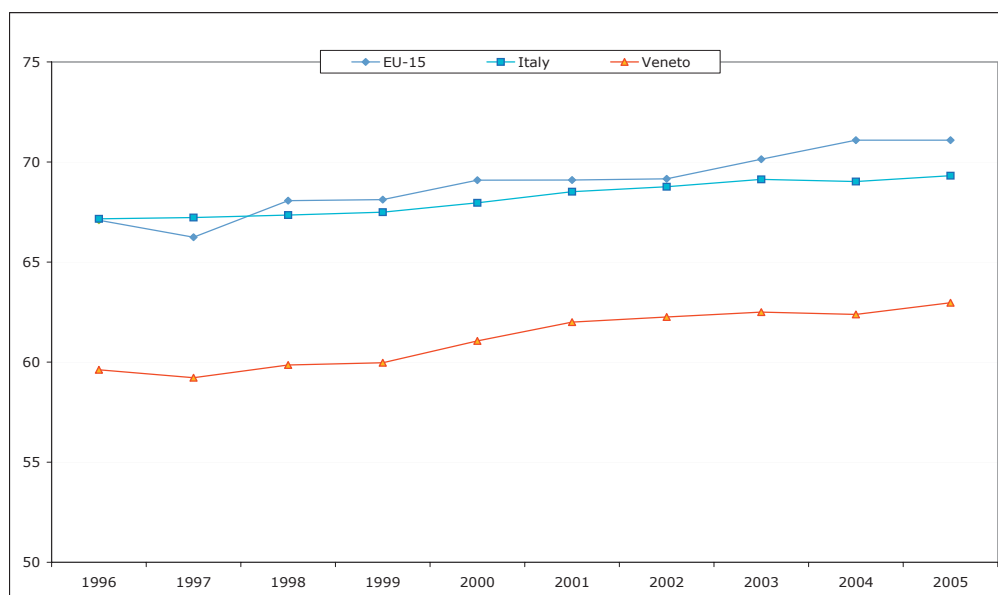
Expanding the service industry is a trend that has been hitting advanced economies for some years. It is also becoming increasingly significant given the growing size of the service sector in terms of added value and employment. This growth is linked to the various developments that have occurred in the different sectors of the service industry following the restructuring of the production system and to the evolution of household lifestyles and spending.

Despite the growing importance services have for the national economy, when subjected to an international comparison, Italy nonetheless has a degree of service industry expansion that is “historically” lower than the United States, France and the United Kingdom, in terms of both added value and employment.

This late start is evident from a comparison with the EU15 average: in 2005, services accounted for in excess of 71% of added value produced, while the number of employed in the tertiary sector accounted for 67.1% of total employment ⁶ compared to the much lower percentages offered by Italy and, above all, the Veneto.

Over the last thirty years, the share of employment in the tertiary sector has increased by almost 24 percentage points, rising from just over 43% to more than 66%, whilst the share of value added at factor cost relating to services has grown by about 10 percentage points, going from 59% to over 69% ⁷. For the Veneto, there has been a higher increase: in the period from 1970-2005, the share of added value attributable to the tertiary sector rose from 54.3% to 62.4% in 2005, whilst the share of employment in services has gone from 38% to 58.4%, increasing by a full 20 percentage points.

Graph 12 - Incidence of added value of services: comparison between 15-member EU, Italy and Veneto (% share). Years 1996-2004



Nonetheless, although the Veneto's economy in the last 30 years has really stood out for the flexibility of its manufacturing industry and the strength of its exports of regional products, the degree of development of the service industry has always lagged behind the Italian average. The only exception was in the decade of the '80s when the birth of services and in-house service departments in businesses was fostered in the Veneto by the slump in industry, which also led to growth in trade, tourism and transport.

Starting in the '90s, the expansion of the service industry in the Italian and the Veneto's economy instead proceeded at a much slower pace, which can be ascribed to the major reorganization of service-related activities. On the whole, this was a process aiming to radically transform the quality of the supply following the restructuring of the trade, credit and transport sector, as well as the decline in civil service employment and, in the opposite direction, the development of business services (IT, professional and entrepreneurial activities) and new or renewed family services⁸.

Business services, especially those related to ICT, finally took off in Italy, boosted by the civil service crisis that occurred between 1992 and 1995.

For the Veneto, the development of business services, especially of a technological and innovative nature, got off to a later start, gathering momentum in recent years following the slump in the manufacturing sector. Despite recent trends, the late start to expansion of the service industry is still evident in the Veneto, as revealed by the analysis of the evolution of services in the period from 1999-2004 in a comparison extended to the regions of the 15-member EU. The aim of the analysis is to determine not just the degree of service industry expansion in the Veneto, by positioning it based on its share of employment in services, but also the specialization of services that the regional economy is adopting.

The Veneto is one of the most industrialized regions in all of Europe. Nonetheless, as of 2000, faced with a progressive drop in the added value of industry in the strict sense, figures reveal an acceleration in the added value of services for the Veneto.

To assess the development trend, a statistical analysis was conducted on 199 EU15 regions for which data were available on employment and added value by sector of business.

The index of industrialization confirms that the Veneto is one of the most industrialized regions in Europe and has been suitably normalized⁹ and calculated considering both the share of employment and the influence of the industry's added value on the total.

With reference to the employment data, the 2004 table of European regions puts the Veneto in 8th place, beaten only by the Marches, which take 4th place. Nonetheless, compared to 1999, the value of this indicator is lower not just for

The index of industrialization (service industry expansion) of region y is calculated as the ratio between the share of employment in industry (services) in region y and the share of share of employment in industry (services) in the EU15

Where the European average=0, the index ranges from -1 to 1. Values over zero indicate an industrial leaning above the European average; and values below zero an industrial leaning below the European average.

Table 23 - Ranking of European and Italian regions ordered by index of industrialization based on number of employed. Years 1999-2004.

rank	REGION	1999	2004
<i>European regions</i>			
1	Stuttgart	0,27	0,31
2	Tübingen	0,25	0,30
3	Oberfranken	0,18	0,27
4	Marche	0,24	0,27
8	Veneto	0,25	0,24
196	Inner London	-0,40	-0,50
197	Canarias (ES)	-0,50	-0,54
198	Ionia Nisia	-0,51	-0,68
199	Corse	-1,00	-1,00
<i>Italian regions</i>			
4	Marches	0,24	0,27
8	Veneto	0,25	0,24
11	Lombardy	0,24	0,23
21	Piedmont	0,22	0,21
23	Emilia-Romagna	0,16	0,19
29	Friuli-Venezia Giulia	0,14	0,14
36	Tuscany	0,14	0,12
45	Umbria	0,07	0,09
53	Abruzzi	0,08	0,07
75	Self governed province Trento	-0,06	0,02
86	Molise	-0,07	0,01
94	Basilicata	-0,05	-0,02
119	Apulia	-0,09	-0,07
135	Self governed province Bolzano	-0,13	-0,12
147	Campania	-0,16	-0,14
153	Valle d'Aosta	-0,25	-0,18
159	Liguria	-0,15	-0,19
161	Sardinia	-0,29	-0,20
165	Latium	-0,24	-0,21
182	Sicily	-0,38	-0,31
189	Calabria	-0,47	-0,37

Source: Eurostat data processed by Unioncamere of Veneto

the Veneto, but for many regions in northern Italy. The regions in central and southern Italy, during the same period of time, have experienced a reverse process, i.e. a growth in the share of employment in industry.

With regard to the data on added value (data current to 2003), the table of European regions by index of industrialization sees the Veneto in 37th place. Again, the value is lower than in 1999, but for both years in question, it remains the Italian region with the highest degree of industrialization.

If we instead take the index of service industry expansion ¹⁰ in relation to the EU15 calculated based on the number of employed, we see a slight increase for the Veneto in the period in question, though it remains below the European average: in 2004, the Veneto was actually in 186th place out of the European regions, and in last place out of the Italian regions. Of these, Latium took first place, and achieved 14th place out of all the European regions.

A look at the indicator based on the added value of the tertiary industry, despite progress made between 1999 and 2003, shows the Veneto in 155th place, below the European average and still bringing up the rear of the Italian region rankings.

Nonetheless, this result does not discriminate between the type of services

Table 24 - Ranking of European and Italian regions ordered by index of service industry expansion based on number of employed. Years 1999-2004

rank	REGION	1999	2004
<i>European regions</i>			
1	Région de Bruxelles-Capitale	0,13	0,13
2	Corse	0,08	0,13
3	Inner London	0,13	0,13
4	Stockholm	0,12	0,11
186	Veneto	-0,11	-0,01
196	La Rioja	-0,16	-0,15
197	Dytiki Makedonia	-0,17	-0,17
198	Centro (PT)	-0,21	-0,19
199	Norte	-0,22	-0,19
<i>Italian regions</i>			
14	Latium	0,08	0,07
22	Liguria	0,05	0,06
56	Sicily	0,04	0,03
74	Campania	0,02	0,02
80	Valle d'Aosta	0,03	0,01
86	Sardinia	0,02	0,01
91	Calabria	0,02	0,00
98	Self governed province Bolzano	-0,02	-0,00
124	Self governed province Trento	-0,00	-0,02
135	Umbria	-0,03	-0,03
143	Friuli-Venezia Giulia	-0,03	-0,03
144	Tuscany	-0,03	-0,03
146	Abruzzi	-0,05	-0,03
147	Apulia	-0,03	-0,04
160	Molise	-0,06	-0,05
168	Lombardy	-0,08	-0,07
169	Emilia-Romagna	-0,07	-0,07
174	Piedmont	-0,08	-0,07
178	Basilicata	-0,09	-0,08
184	Marches	-0,10	-0,09
186	Veneto	-0,11	-0,01

Source: Eurostat data processed by Unioncamere of Veneto

predominating in each of the European regions. Intuitively, we are inclined to think that regions with a strong industrial connotation have developed business services more. To prove this hypothesis right or wrong, it was decided that a more in-depth analysis of the trends was in order to distinguish the different service sectors. The assessment was made by calculating a number of indices of specialization based on the figures relating to the number of employed per sector of business, for whom there was more detailed sector-related information available.

The macro-sectors of the tertiary industry considered are divided up as follows:

- Retail and wholesale; repairs; hotels and restaurants; transport; storage and communications (ISTAT Ateco business categories G-H-I);

The index of specialization of region y in service sector x is calculated as the ratio between the share of employment in sector x in the service industry in region y and the share of share of employment in sector x in the service industry in the EU15 and is suitably normalized.

- Credit and finance; business services (Ateco business categories J-K);
- People services and public administration (Ateco business categories L to Q)

For the purpose of our assessment, therefore, the following indicators have been calculated for each region:

- the index of specialization of business services (these are generally the services with the higher innovative content);
- the index of specialization of people services (these are generally the so-called traditional services) ¹¹.

Table 25 - Table of European and Italian regions ordered by index of specialization relating to business services (Ateco business categories J and K). Years 1999-2004.

rank	REGION	1999	2004
<i>European regions</i>			
1	Inner London	0,31	0,28
2	Darmstadt	0,17	0,21
3	Stockholm	0,20	0,20
4	Lombardia	0,12	0,20
33	Veneto	-0,04	0,05
196	Anatoliki Makedonia, Thraki	-0,34	-0,35
197	Voreio Aigaio	-0,40	-0,35
198	Centro (PT)	-0,41	-0,35
199	Corse	-0,20	-0,48
<i>Italian regions</i>			
4	Lombardy	0,12	0,20
22	Piedmont	0,01	0,10
23	Emilia-Romagna	-0,03	0,01
24	Latium	0,01	0,01
33	Veneto	-0,04	0,05
40	Tuscany	-0,07	0,03
41	Friuli-Venezia Giulia	-0,08	0,03
47	Liguria	-0,06	0,00
60	Marches	-0,08	-0,01
82	Self governed province Trento	-0,13	-0,04
84	Umbria	-0,19	-0,04
104	Self governed province Bolzano	-0,21	-0,08
106	Apulia	-0,25	-0,08
111	Sardinia	-0,29	-0,09
122	Abruzzi	-0,18	-0,11
125	Valle d'Aosta	-0,16	-0,11
129	Campania	-0,23	-0,13
138	Basilicata	-0,34	-0,14
145	Molise	-0,22	-0,15
156	Calabria	-0,28	-0,16
173	Sicily	-0,30	-0,21

Source: Eurostat data processed by Unioncamere of Veneto

The index of specialization relating to business services (ISP1)¹², calculated for the period from 1999 to 2004, gives a positive result for the Veneto: between 1999 and 2004, the Veneto moved up from 73rd place - below the European average in 1999 - to 33rd place out of the 199 regions taken into consideration. The Veneto's result put it behind other Italian regions like Lombardy, which ranked 4th on the table, as well as Piedmont, Emilia-Romagna and Latium (in 22nd, 23rd and 24th place respectively). The top-ranking region in 2004 was Inner London, whose economy is strongly supported by the service industry and, more specifically, by financial and credit services and hi-tech services. The runners-up were Darmstadt in Germany followed by Stockholm in Sweden. The hypothesis that the more industrialized regions are converting shares of employment in industry into shares of employment in business services is partly confirmed. Indeed, except for London and Stockholm, whose economies are historically dependent on services, business services and financial and credit services have developed in different ways in the various industrialized regions. As far as the Veneto is concerned, the growth in business services observed seems to be related to a couple of phenomena: the delocalization of traditional sectors of regional economy and a natural evolution in this sense that involves the advanced economies as a whole.

The index of specialization relating to the people services (ISP2), mainly accounted for by services of a traditional nature and public administration, gave the Veneto a rather low ranking in the 2004 table, below the European average. Results for the Italian regions were above the European average in all the southern regions, in the self-governed province of Trento and Valle d'Aosta (the only two out of all the northern regions) and in the central Umbria and Abruzzi regions.

The most significant aspect, if we take the two indices of specialization together, is that the regions where business services are developed more all fall below the European average in the table ranking the regions by their index of specialization in people services.

Nonetheless, we believe the table of regions compiled according to this last ISP should be regarded with due caution since the sectors making up the group on which the rankings are based include types of services that differ greatly from each other.

In the end, though, this analysis reveals an important result for the Veneto: the tertiary industry's clear concurrence towards the development of services designed to provide assistance to businesses in their action strategies and decisions, which typify Europe's most advanced economies.

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