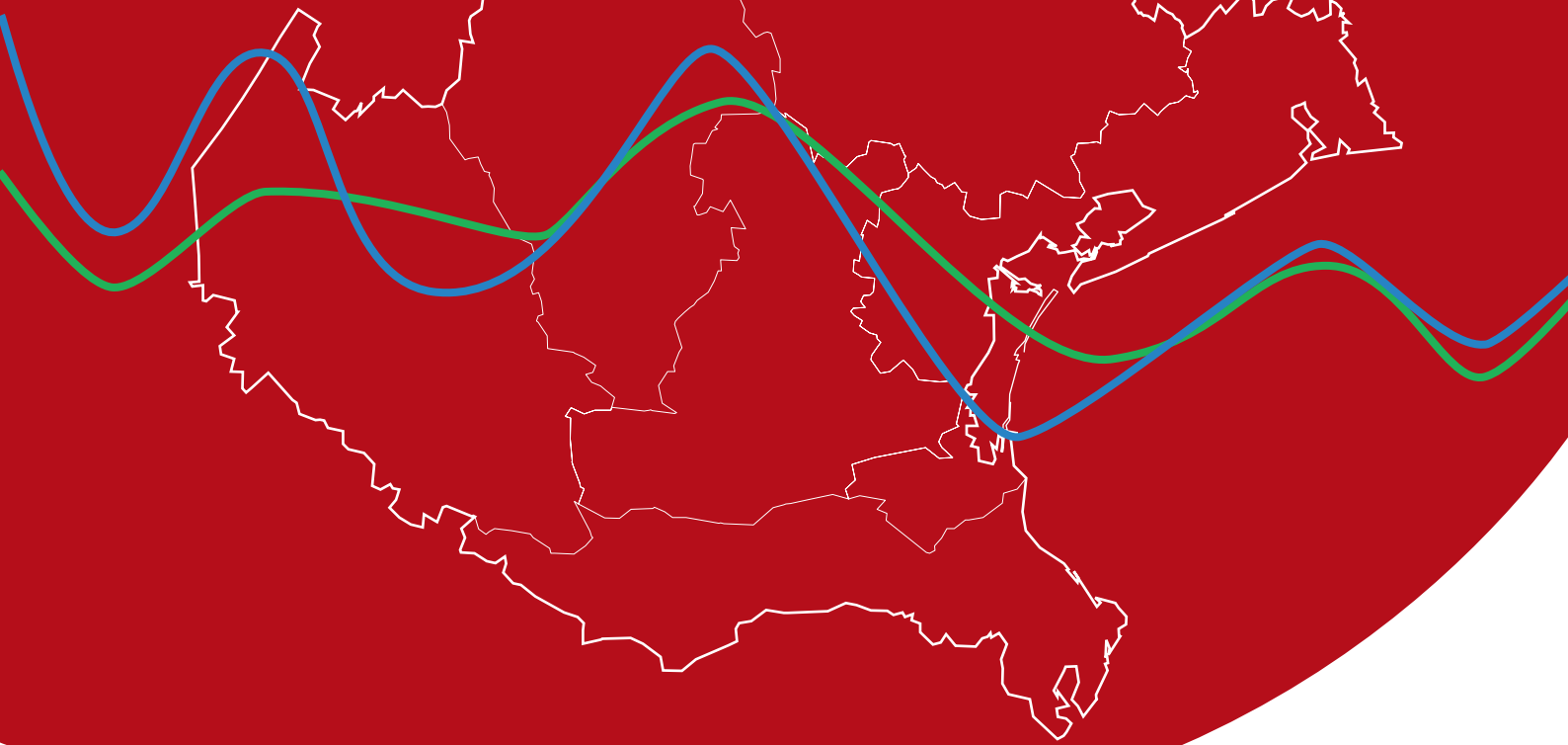


Veneto 2007

Economic report



Unioncamere
Veneto



Economic and social research centre

Following the acceleration of 2004 (+2.3%) and the slowdown of 2005 (-0.8%), the regional economy wound up 2006 with a growth of 1.9%. The agricultural sector is stable, while there was a record expansion in manufacturing and a boom in the tourist industry, with growth in retail sales and services. Forecasts for 2007 are good, with an estimated growth oscillating between 1.2 and 1.4%

This is the outlook that emerges from initial data on the economic situation of the Veneto region in 2006, which are set forth in this report and represent a preview of the Annual Report for 2007, which will be published during the month of June, as usual.

The publication of the initial data on the Veneto economy, which I am honoured to present in my capacity as Chairman of Unioncamere del Veneto- the Union of the Chambers of Commerce in the Veneto region, has now reached its eighth edition and is an important appointment in the panorama of regional economic information.

Again this year, the Preview takes a short, in-depth look at the economy. In addition to a concise survey of the most important economic and business indicators, an article has been included that deals with innovation in the Veneto economic system, compared with Europe. Like last year, the objective is to enlarge the traditional scope of analysis, limited to the main Italian regions, providing a comparison with other European regions.

Official statistics available today were found to be inappropriate to adequately measure the actual degree of innovation of the regional productive system, which is indeed one of the key factors of economic development, placing Veneto among Europe's most dynamic regions.

The important role of the Study Centre in the production and dissemination of statistical and economic information at a regional level continues, and is reinforced, with this work.

Venice, March 2007

FEDERICO TESSARI
Chairman of Unioncamere del Veneto
(Union of the Chambers of Commerce of Veneto)

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Introduction

The Veneto region resumed its growth in 2006. According to the initial data available, the region's economic system showed considerable recovery in all business sectors.

The international economic scenario is slowly changing, with industrial countries losing positions in favour of emerging countries, which have enhanced their ability to attract foreign investments and are beginning to play a role as protagonists in international trade. Globalisation is deeply changing the economic geography and equilibrium between the various areas of the planet, involving goods, productive installations and great movement of persons and capital, favouring the ascent of countries that had heretofore not been involved in any way, due to the political block they had belonged to and/or less openness towards foreign trade.

This growing openness is the product of technology and continuous innovation, which is also raising the productivity of older industrialised countries, placing them in a path leading to higher growth rates.

In a renewed context, Veneto has also hooked on to the recovery, although it may be too early to make a toast to it. Estimates for growth in 2006 are good, but this is no time to be satisfied with the results obtained so far. The effects of the deep structural transformation being experienced are seen with ever-greater clarity, with an increasingly rapid pace of change, involving demographic trends, the evolution of the labour market, the metamorphosis of the economic structure and the emergence of new markets.

2006 was also a year of expansion for the world economy, which is reflected in an increase in the gross domestic product of about 5%, with Asian countries as the absolute protagonists and Europe following in the wake of the United States. Overall, the Italian economy also resumed growth, thanks to the comeback of industry. And this did not occur by chance.

In fact, the recovery in 2006 was triggered by an acceleration of industrial activity, especially in the manufacturing sector, fuelled by the dynamic development of exports. In an increasingly tertiary-oriented economy, all it took was a leap forward in the industrial sector to cause the economy of both the country and the regions with a manufacturing vocation to move forward once again.

The average growth of industrial production throughout 2006 was 4% in the Veneto region, as compared to 1.9% for Italy as a whole, with positive effects on the regional (+1.9%) and national (+2%) GDP.

These statistics portray a sector that is experiencing growth and which has moved forward in transformation more than any other sector. In fact, many businesses were lost along the way, but many of them were companies which - failing to understand the changes that were occurring in the surrounding competitive environment - had wagered on individual customers, had failed to develop services and had looked on passively, succumbing to the competition of Eastern Europe, China and India.

By contrast, a considerable number of enterprises understood that it was indispensable to evolve towards a concept of advanced service to customers and specialised, "made to order" products. It was a difficult course for them to follow, which required investments, but in the end many of them succeeded and they represent a distinctive and competitive advantage of the territory today.

The low growth recorded in Veneto in recent years, therefore, did not concern

all enterprises. It was an average figure and as such, hid different dynamics: some companies did well (predominantly medium-sized enterprises) and others did not do so well (often small or very small-sized companies). Following the phase of selection and having swallowed the bitter medicine of globalisation, Veneto's industry has resumed its growth; additionally, this is not just a temporary rebound due to the current situation, but the result of a spontaneous process of restructuring that has been developing over the last few years.

This is the demonstration that de-industrialisation does not imply the disappearance, but rather the enhancement of manufacturing activities. The example of Germany is rather eloquent. Nobody can doubt the fact that the German economy is capable of successfully competing in the renewed international scenario (and economic history proves this). The novelty lies in the fact that Germany is once again successfully pursuing a model of development based on industrial production, following a path that was abandoned long ago by other developed countries.

Forecasts for 2007 indicate that it will be a year of growth, like 2006, or even better. If such predictions prove correct, as we hope - of course, it will not be a matter of chance or a new economic miracle. It will simply mean that the painful phase of sickness is over and the cure is slowly spreading its beneficial effects. The Veneto industry has cured its problems of competitiveness and has learned how to become specialised in products that are rich in service, design, planning and research.

Venetian companies do not need more or less explicit devaluations, or one-off measures to reduce costs. What they do need are more efficient public services and more functional schools and universities, as well as more adequate infrastructures. These are all instances that encourage the Chambers of Commerce – in their capacity as institutional bodies entrusted with the promotion of local economic development – to assume behaviour and take action in support of the productive system, sharing strategic priorities with associations and institutions.

Again this year, the *Unioncamere del Veneto* intends to make a contribution, through this report, to interpreting the economic dynamics that the region has been involved in, starting, as usual, with the numbers. The following pages concisely illustrate the structural dynamics that have characterised the Veneto economy in 2006, attempting to bring out the points of strength and weakness of a region that must look towards entrepreneurial development and the well being of its citizens.

1. The international economic context

Following the economic boom of 2004 and the positive results recorded in 2005, 2006 also notched up a remarkable growth in the world gross domestic product and trade, led by emerging economies, the United States and - finally - Europe. The world GDP grew 5.1% over the previous year and estimates for 2007 are close to 4.9%. This has been an extraordinary two-year period, which, together with the period 2004-2005, has been –quantitatively - one of the most remarkable periods of growth in the entire post-war history of the world economy and the most imposing one if its geographical extension is considered (Graph1).

In 2006, world GDP grew by 5.1%

The geography of world commerce has also changed in recent years. After the record growth of 2004 (+10.6%) and the increase of 2005 (+7.4%), world trade underwent new expansion in 2006, marking up a growth rate of +9.6%, which confirms the progressive ascent of emerging countries in their role as the protagonists of international trade.

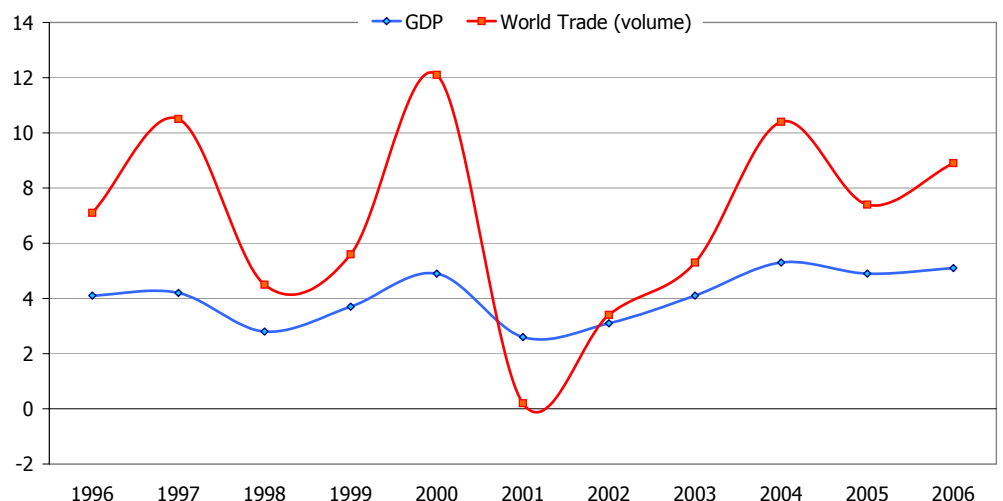
In an apparently tranquil geo-political situation, globalisation is changing relationships of competition: the industrialised countries are losing positions in favour of emerging economies, which have increased their ability to attract foreign investments.

After four years of growth, in 2006 the American economy entered a cycle of slowdown (Table 1). As market interest rates ceased to grow, the sluggish domestic demand, followed by deflation of the real estate bubble and the devaluation of the dollar, the US GDP recorded an average annual growth rate of 3.4%, due also to the slowdown in the fourth quarter (+0.9%).

The Asian locomotive, on the other hand, continues to steam forward. The Chinese economy underwent an expansion of 10.5% in 2006, scoring the highest growth rate in the last decade and consolidating its fifth place standing among the world's top economic powers, in front of France.

Japan also contributed to world economic growth. Benefiting from an end-of-year recovery (+1.2%), the Japanese GDP recorded an increase of 2.2%, the highest growth rate in two years, with a recovery that is also positively influencing the fall in the value of the yen against the Euro and the dollar.

**Graph 1 – World GDP and trade (in volume) trends (% change on prev. year).
Years 1996-2006**



Source: IMF data processed by Unioncamere of Veneto

Undoubtedly, 2006 was a year of recovery for the Eurozone. According to the latest Eurostat estimates, the year closed out with an increase of 2.7%, double the increase of 2005 (+1.4%) and almost in line with the trends recorded in the entire European Union of 25 members (+2.9%).

For the Eurozone, 2006 closed out with an increase of 2.7%

In particular, the recovery was most intense in Germany, which experienced a growth rate of 2.6%, stimulating the growth of the entire European economy. Spain also supported growth in the Eurozone, closing out 2006 with an average annual growth rate of 3.7%. France's performance was more limited, with a growth of +2.1%, while the United Kingdom, on the other side of the channel, recorded a growth rate of 2.6%.

This is something of a redemption for the European economy, which succeeded in 2006 in reducing the difference in growth with respect to the United States, even though some doubts remain as to future prospects. It could turn out to be a brief respite due to the cyclic mismatching of growth on the two sides of the Atlantic, due to the slack growth in demand in the United States and consequently diminishing commercial trade, as well as the slowing of the real estate sector, connected with the hike in interest rates by the ECB.

Table 1 - Real GDP trend in a number of countries (% change on prev. year). Years 2004-2006

	2004	2005	2006		% inc. on the World		
			IMF	OECD*	POP	GDP	EXP
World	5,3	4,9	5,1		100,0	100,0	100,0
Advanced Economies							
United States	3,9	3,2	3,4	3,3	4,7	20,1	10,1
Euro area	2,1	1,3	2,4	2,6	4,9	14,8	29,7
Japan	2,3	2,6	2,7	2,8	2,0	6,4	5,3
Germany	1,2	0,9	2,0	2,6	1,3	4,1	8,9
France	2,0	1,2	2,4	2,1	1,0	3,0	4,4
United Kingdom	3,3	1,9	2,7	2,6	0,9	3,0	4,6
Italy	1,1	0,0	1,5	1,8	0,9	2,7	3,7
Spain	3,1	3,4	3,4	3,7	0,7	1,8	5,3
Emergent Economies							
China	10,1	10,2	10,0	10,5	20,7	15,4	6,6
India	8	8,5	8,3	8,3	17,3	6,0	1,2
Russian Fed.	7,2	6,4	6,5	6,7	2,3	2,6	2,1

* for emergent economies the source is "The Economist"

Sources: 2004-2005 data: IMF; estimates 2006: IMF, OECD, The Economist

2. The national economic context

In a context of recovery in the Eurozone, Italy has also finally experienced renewed growth, changing direction after five years of recession and stagnation. In 2006 the Italian economy underwent significant growth, which even went beyond expectations, closing the curtain on a long phase of decline (Table 2).

Unlike the standard practice in recent years, the forecasts formulated during 2006 by the leading research institutes - which had estimated a real growth in the GDP of around 1.5% - were progressively revised upwards. At the end of May the OECD revised growth estimates¹, predicting an increase in the GDP of + 1.4% for the Italian economy. Initial IMF² forecasts were less encouraging, with a foreseen growth rate of +1.2% in fall. The estimate was then corrected upwards and brought up to +1.8% - above the forecasts of both the government (+1.6%) and the European Commission (+1.7%)⁴. But things went even better.

According to the final data, published by ISTAT (Italy's national statistical institute) on the 1st of March, average growth in GDP in Italy in 2006 was 1.9% (+2% is the figure corrected by the number of working days), therefore marking up a decisive acceleration with respect to the figures of the previous year⁵. Following an encouraging quarter (+1.7% over the corresponding period of 2005), confirmed by the results of the second and third quarters (both + 1.7%), the GDP experienced strong a strong acceleration in growth in the fourth quarter (+2.8%). This surprising performance of the Italian economy was generated precisely by the strong acceleration of the fourth quarter (+1.1% short term), after the recovery of the first six months of 2006 (+0.8% in the first half, +0.6% in the second half of the year) and the slowdown in the third quarter (+0.3%). So Italy has chalked up its best result since 2000, with figures that are much different than usual. In the five-year period between 2001 and 2005, the Italian GDP grew only 0.6% per annum, on the average, less than a third of the current growth, and if we extend the observation to the last decade, the average change in the GDP was blocked at 1.3% per year, over half a percentage point below the average for 2006.

These figures also allow Italy to escape from its reputation as the "sick country of Europe". Limiting the analysis to the last quarter of 2006, it emerges that the Italian economy has done better than all of the leading European partners, even though the same does not apply to the yearly average. Almost all of the European countries have recorded positive results, and although Italy continues to be the slow one in the group, there are encouraging signs and the climate of faith suggests cautious optimism.

In 2006 the jump forward in the Italian GDP was accompanied by a growth of 4.3% in imports of goods and services, which brought an increase in available resources of +2.4% (it was +1.7% in 2005). Concerning spending, the growth in real terms was 1% for domestic demand. In particular, household consumption increased by 1.5%, while Public Administration spending decreased by 0.3%. Fixed gross investments, which increased by 2.3% in 2006, with respect to 2005, also made a positive contribution. This is the result of an increase in

1 OECD, *Economic Outlook (May 2006)*.

2 IMF, *World Economic Outlook (April 2006 and September 2006)*.

3 *Programme Forecast Report (September 2006) and Italian Stability Programme (December 2006)*

4 *European Commission, Economic Forecast (November 2006)*

5 *The estimates published include the general revision made in accordance with EU rules (compare www.istat.it).*

According to ISTAT, GDP in Italy
Grew by 1.9% in 2006

Table 2 - Main economic indicators in a number of Italian regions. Year 2006

	% change 2006/2005					% rate 2006	
	GDP*	Domestic demand*	Household consum.*	Gross fixed*	Exports	Empl. 15-64 years	Unempl. 15-64 years
Piedmnt	1,8	1,5	1,6	2,3	8,4	64,8	4,0
Lombardy	1,8	1,5	1,6	2,0	9,0	66,6	3,7
Veneto	1,9	2,7	2,0	6,1	7,8	65,5	4,0
Emilia							
Romagna	1,9	1,5	1,9	1,0	10,5	69,4	3,4
Tuscany	1,6	2,1	1,8	4,9	12,0	64,8	4,8
North-west	1,8	1,5	1,6	2,2	8,5	65,7	3,9
North-East	1,9	2,0	2,0	3,4	9,6	67,0	3,6
Centre	1,6	1,7	1,7	3,0	13,4	62,0	6,1
South	1,5	1,4	1,2	3,0	7,1	46,6	12,2
Italy	1,9	1,0	1,5	2,3	9,0	58,4	6,8

* data for regions and geogr. division are Unioncamere estimates

Source: Istat, Unioncamere (development of the local economies forecast, december 2006)

The manufacturing industry experienced growth in 2006

investments in construction (+2.1%) as well as in the purchase of machinery (+1.8%). Also investments in transport equipment saw positive growth, rising 3.7%. The most remarkable increase was posted by intangible assets, which grew by 7%. There is also positive news on the side of foreign demand. Overall, exports increased by 5.3% as a result of the growth in the sale of both goods (+4.4%) and services (+8.8%).

In terms of product make-up, the sectors sustaining GDP growth in real terms in 2006 were, in order of importance, the industrial sectors in the strict sense (+2.5%), services (+1.9%) and construction (+1.8%), against a negative contribution of the agricultural sector (-3.1%).

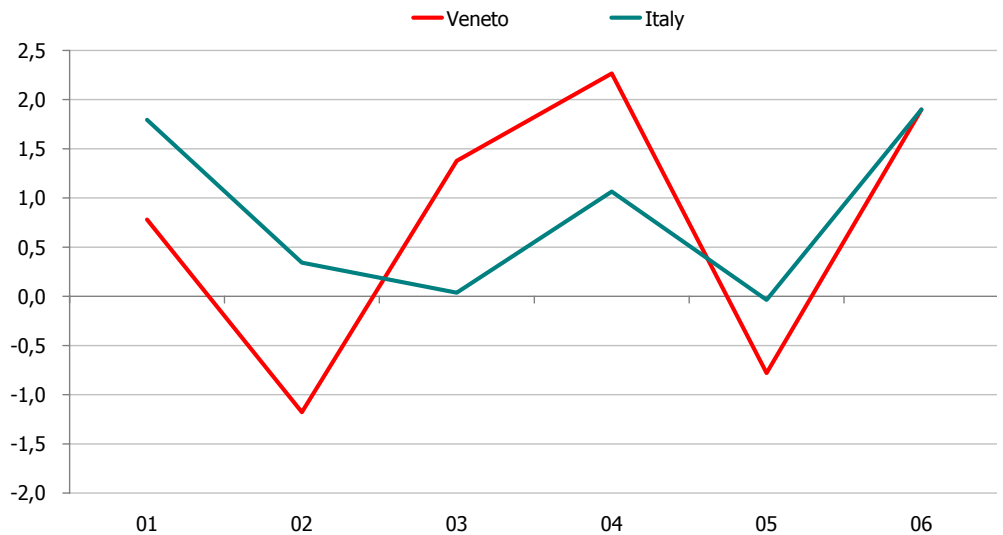
There was also good news from the labour market. Total employment rose by 1.9% in 2006. This can be attributed to the positive performance recorded by the employed component (+1.9%) given the result shown by the self-employed component (+1.7%). Considering the sectors, there were increases in agricultural employment (+3.5%) and services (+2.5%). The increase in constructions (+1.6%) and in the manufacturing industry (+0.6%) was more limited.

3. The Veneto economy in 2006

Like Italy, Veneto also experienced recovery. According to estimates developed by Unioncamere Italiana (the Italian Union of Chambers of Commerce), the regional GDP, at constant prices, recorded an increase of 1.9% over 2005, which coincides with the growth recorded in Italy (Graph 2).

Following the acceleration of 2004 (+2.3%) and the slowdown of 2005 (-0.8%), initially cautious 2006 forecasts (+1.5%) followed a growing trend during the course of the year, settling in at just below 2% by the end of the year. Estimates formulated by Prometeia also confirmed the growth rate for Veneto (1.9%), in line with the average growth of Northeastern Italian regions. It is an extremely positive result, which marks a recovery in almost every sector of the economy, especially in industry and tourism.

**Graph 2 – GDP trend in Veneto and in Italy (% change on prev. year).
Years 2001-2006**



Source: Prometeia and ISTAT data processed by Unioncamere of Veneto

Compared with other regions, the regional rate of growth was greater than Lombardy and Piedmont (both +1.8%) and Tuscany (+1.6%) and was in line with Emilia Romagna (+1.9%). The Northeast, with Emilia Romagna and Veneto at the head of the pack, were therefore the leading regions in the recovery of the Italian economy in 2006, in front of the Northwest (+1.8%) the Central regions (+1.5%) and the South (+1.5%).

In 2006 the Veneto GDP grew by 1.9%

Looking at the components of the aggregate demand, in 2006 the growth of the regional GDP was sustained by domestic demand (+2.7%), especially by investments (+6.1%), above all in machinery and equipment (+6.5%) followed by those in construction and building (+5.6%). There are positive, but more limited results on the side of household consumption, which recorded an increase of 2% on an annual basis (it was 0.2% in 2005).

Following the disappointing results of 2005, commercial trade with the Veneto underwent a strong recovery. Exports increased by 6.2% in 2006, reversing the negative trend, while imports saw an increase of 6%.

Concerning the formation of the added value, the growth of the regional economy was sustained by the construction sector (+5.2%) and by services (+2%). Industry also contributed to the growth of the regional economy, with an increase of +1.4%. The contribution of agriculture, on the other hand,

Table 3 - GDP, employment and productivity: comparison between Veneto and Italy. Years 2002-2006

	2002	2003	2004	2005	2006
absolute values					
VENETO					
GDP (millions euros)*	111.260	112.794	115.350	114.451	n.d.
Labor until (000)	2.213	2.247	2.251	2.237	n.d.
GDP per labor until (000 of euros)	50,3	50,2	51,2	51,2	n.d.
ITALY					
GDP (millions euros)*	1.216.589	1.217.041	1.231.689	1.232.773	1.255.848
Labor until (000)	24.132	24.283	24.373	24.329	24.726
GDP per labor until (000 of euros)	50,4	50,1	50,5	50,7	50,8
% change on prev. year					
VENETO					
GDP (millions euros)*	17,4	1,4	2,3	-0,8	1,9
Labor until (000)	1,2	1,6	0,2	-0,6	n.d.
GDP per labor until (000 of euros)	16,0	-0,2	2,1	-0,1	n.d.
ITALY					
GDP (millions euros)*	17,8	0,0	1,2	0,1	1,9
Labor until (000)	1,3	0,6	0,4	-0,2	1,6
GDP per labor until (000 of euros)	16,3	-0,6	0,8	0,3	0,2

* 2000 costant price values

** Prometeia estimates for year 2006(december 2006)

Source: Istat, Pometeia

Construction and services made the greatest contribution to the growth of the regional GDP

was negligible, despite recovery during the course of the year. According to the picture outlined on the basis of the initial data available, 2006 can be considered a year of recovery for the Veneto region, favoured by the growth in investments and exports, together with stability in private consumption. New expansion for the productive structure and employment. In 2006 the number of active companies grew by 0.6%, almost 2,500 more companies than in 2005, while the number of employed rose by 1.9%.

Agriculture

The results of the Veneto agricultural sector, based on provisional data published recently by INEA, Italy's National Institute of Agricultural Economics, indicate that 2006 was a relatively favourable year for farmers.

According to initial estimates, gross agricultural production in the Veneto region increased by about 2% over 2005, posting over 4,400 million euros of turnover, but suffered a contraction in real terms, amounting to between -3 and -5%. In fact, climatic conditions negatively influenced several productions, affecting the quantity of products. Trends were not consistent across the sectors in the year just concluded. Herbaceous crops underwent a modest growth of 2% at current prices with a sharp reduction in real terms, while wood plantation showed net positive signs. Products from animal husbandry underwent a slight contraction, albeit the turnover was maintained thanks to favourable trade conditions.

In 2006, gross agricultural production recorded a decrease of 4%.

Crop production recorded a strong reduction in 2006 (-9%). Maize is confirmed as the main crop of the region, exceeding 10,000 hectares of cultivated land. Climatic conditions reduced overall production (-15%). Common wheat also did well (+14%) and rice enjoyed a year of grace due to the customs limitations imposed by the EU on American rice, which was contaminated with a genetically modified variety. This limitation led to price quotations that were 50% above those of 2005. Unfortunately the climatic conditions were not equally favourable and overall production was 3% less than 2005.

Industrial crops were characterised by a sharp contraction in the production of sugar beet, with a strong reduction in the land under cultivation in accordance with the forecasts following the CMO reform (-67%) and production consequently decreased as well (-70%). Climatic conditions topped off the negative year, accounting for yields that were 8% less than 2005. Tobacco growing, albeit with a contraction of the land under cultivation (-6%) increased production by 26% over 2005. Favourable weather conditions led to quantitatively and qualitatively high yields of 5 t/ha (+34%). Positive results were also recorded for soybeans, with an increase in the land under cultivation (+14%) and a growth in production (+3%), despite climatic conditions that were not optimum for this crop.

The horticultural sector recorded a fluctuation in production in real terms (-24%). Overall fruit production underwent a slight reduction (-3%) primarily caused by the negative year for peaches and nectarines, for which the land under cultivation dropped below 5,000 hectares. The production of apricots, cherries and actinidia (kiwi fruit) was substantially stable. The production of apples and pears went well. Climatic conditions this year favoured the production of grapes.

Overall, production grew by 7% for grapes and 5% for wine. The turnover of the sector grew by +8%. The push of exports also remained high, increasing by 14% and the results in the field of zootechnics were favourable for cattle and pork, while poultry farming is still suffering.

Consumption of beef has risen, making national production insufficient. Consumption and imports have also increased for pork. The poultry market has suffered from the psychosis engendered in August 2005 by news about the avian influenza (bird flu). Consumption diminished a great deal over the first few months of 2006 and has progressively increased to normal levels during the course of the year.

From the point of view of the productive structure, the agricultural sector has recorded a further reduction in the number of businesses. At the end of 2006

Table 4 – Veneto. Gross agricultural production trend (% change on prev. year).
Year 2006

	at current price	at costant price
Herbaceous crop	+1 ÷ +3%	-8 ÷ -10%
Wood plantations	+9 ÷ +11%	+1 ÷ +3%
Livestock products	-1 ÷ +1%	-2 ÷ -4%
Gross output	+1 ÷ +3%	-3 ÷ -5%

Source: INEA estimates

Agricultural employment grew by 3.6% in 2006 there were some 88,630 farming enterprises, which was a reduction of 3% over 2005. There are positive signs in terms of employment, however: in 2006 the number of workers grew by 3.6%, marking a reversal of the trend of previous years.

Industry

1% decrease in the number of manufacturing companies

Overall, 2006 was a positive year for the industrial sector (manufacturing and construction). In terms of enterprises, the overall growth amounted to 1.3% over 2005. The total number of enterprises increased by over 1,800 units, passing the mark of 137 thousand.

After overtaking the manufacturing sector in 2005, with over 70 thousand enterprises, the construction sector has increased the gap with respect to manufacturing, which dropped to 66 thousand units (Table 5).

In terms of value added, the industrial sector's contribution to the regional GDP further reduced, going from 33.9 to 33.4%, a clear sign of the progressive decrease in the manufacturing component (from 27.3% to 26.6%).

Table 5 – Veneto. Registered active enterprises by sector and legal status. Years 2005-06

	Registered		Active		Registered	Active %
	2005	2006	2005	2006	% change 06/05	change 06/05
Business activity						
Agriculture, hunting and forestry	91.972	89.222	91.364	88.630	-3,0	-3,0
Fishing, fish farming and associated services	2.741	2.747	2.677	2.686	0,2	0,3
Mining	374	370	305	298	-1,1	-2,3
Manufacturing	76.342	75.727	66.776	66.096	-0,8	-1,0
Electricity, gas and water prod. and distrib.	205	235	180	210	14,6	16,7
Construction industry	71.288	73.778	67.939	70.408	3,5	3,6
Retail and wholesale; rep. pers. and home care goods	115.165	115.441	105.907	106.232	0,2	0,3
Hotels and restaurants	25.902	26.348	22.416	22.652	1,7	1,1
Transport, storage and communication	19.003	18.570	17.742	17.301	-2,3	-2,5
Money and financial brokerage	8.775	8.976	8.243	8.472	2,3	2,8
Real estate, rental, IT, research	58.462	61.416	52.644	55.462	5,1	5,4
Education	1.405	1.495	1.305	1.390	6,4	6,5
Health and othe social services	1.404	1.484	1.244	1.319	5,7	6,0
Other public, social and personal services	18.340	18.551	17.460	17.649	1,2	1,1
Housekeeping and life-in-care	0	0	0	0
Non classified businesses	19.538	19.226	676	616	-1,6	-8,9
Legal status						
Joint-stock companies	90.714	95.277	65.092	68.648	5,0	5,5
Partnerships	118.530	118.875	95.990	96.598	0,3	0,6
One-man businesses	292.708	290.335	289.942	288.093	-0,8	-0,6
Other statuses	8.964	9.099	5.854	6.082	1,5	3,9
TOTAL	510.916	513.586	456.878	459.421	0,5	0,6
TOTALE without agriculture and fishing	416.203	421.617	362.837	368.105	1,3	1,5

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

Manufacturing Industry

It was a brilliant year for the Veneto manufacturing industry

Veneto's manufacturing industry made a comeback in 2006 (Table 6). Following a timid recovery in the autumn of 2005, the economic outlook for the regional manufacturing sector progressively showed signs of clearing up, which became increasingly evident during the course of the year, with the final rush that bolstered confidence and optimism for 2007. According to the results of VenetoCongiuntura - a survey performed by Unioncamere del Veneto on a sample of almost 2,000 enterprises with at least 2 employees¹, the manufacturing sector had shown signs of recovery as early as the beginning of 2006, with industrial production increasing by 3.9% in the first quarter of the year. The increase was then consolidated in the second quarter with an increase of +3% and in the third quarter with +2.4%. The unexpected burst came in the fourth quarter of the year, with an increase in industrial production of +5.4% over the same quarter of the previous year. It had been over six years since the manufacturing industry had experienced such a strong increase². So 2006 was a brilliant year, thanks especially to medium sized enterprises, which led the entire sector, with performance greater than either small or large sized enterprises. Albeit with a few months of delay with respect to larger companies, the micro-enterprises also made a contribution to the recovery, bringing home positive results only at the end of the year.

Table 6 – Veneto. Main economic indicators for the manufacturing industry (% change on same quarter of prev. year). Year 2006

	I quart. '06	II quart. '06	III quart. '06	IV quart. '06
< 10 empl.				
Output	0,4	-2,1	-0,7	0,6
Total turnover	0,4	-1,7	-1,3	0,3
Domestic demand	0,2	-1,9	-1,1	0,3
Total employment	-4,7	0,3	-3,8	-1,0
Non-EU employment	-1,0	4,4	0,6	20,8
10 empl. and more				
Output	4,5	3,3	2,6	5,6
Total turnover	6,6	4,9	4,7	7,6
Domestic demand	8,7	4,3	4,9	6,0
Total employment	-1,6	-0,2	-0,4	-0,4
Non-EU employment	0,7	5,7	10,7	5,6
total				
Output	3,9	3,0	2,4	5,4
Total turnover	5,8	4,5	4,4	7,2
Domestic demand	7,5	3,9	4,6	5,7
Total employment	-2,5	-0,2	-0,9	-0,5
Non-EU employment	0,2	5,5	9,6	7,1

Source: Unioncamere of Veneto - VenetoCongiuntura economic survey

- ¹ Thanks to the collaboration of Unioncamere of Veneto with the Veneto small-business association (Confartigianato) starting from the first quarter of 2006, the VenetoCongiuntura survey was extended to companies with less than 10 employees, which represent 2/3 of the regional manufacturing system. The VenetoCongiuntura survey thus became the main instrument to assess the economic situation of manufacturing enterprises, both on account of the size of the sample interviewed (almost 2,000 companies each quarter) and the rigorosity of the method used.
- ² The last such change was recorded in the second quarter of 2000, when industrial production notched up an increase of 5.5%.

Industrial production in the Veneto region grew by 4% in 2006

As shown in graph 3, after an enthusiastic start (+4.5% in the first quarter, +3.3% in the second), the growth of small and medium sized companies (10 or more employees) levelled off in the third quarter (+2.6), recording a veritable economic boom in the last quarter (+5.6% over the previous year). On the other hand, smaller businesses (up to 9 employees), after a lacklustre start up of the year (+0.4%), recorded a sharp decline in the central quarters (-2.1% in the second quarter and -0.7% in the third quarter), closing out 2006 with a recovery, on both the annual (+0.6%) and short term (+1.2%) bases.

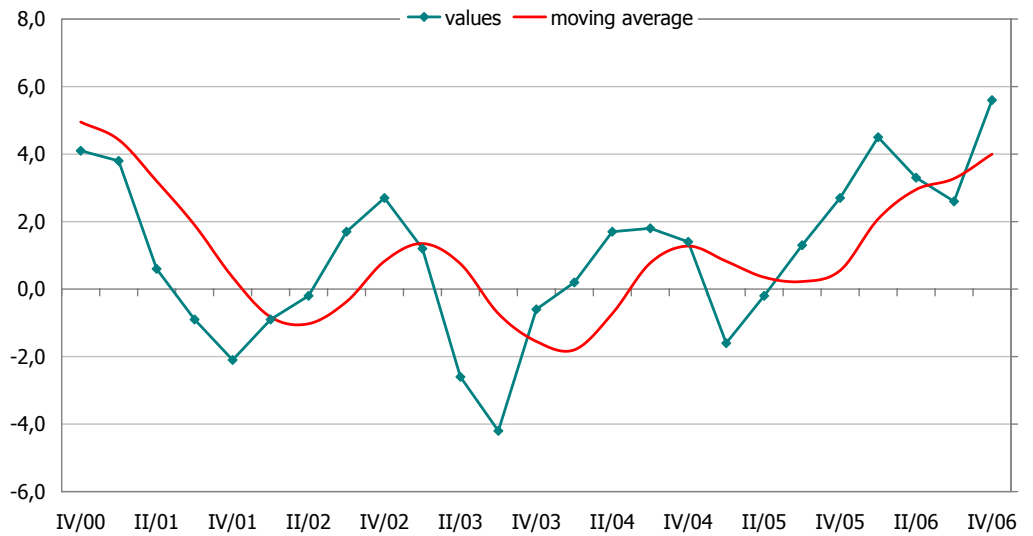
On the average, for the entire year of 2006, industrial production chalked up an increase of 4% over the previous year (+0.6% in 2005), against a +1.9% shown by the ISTAT index of industrial production (raw data). The brilliant dynamics of Veneto industry is confirmed by the indicator concerning the level of plant use, which during 2006 showed an annual average of 77.1% of full operational capacity (74.6% in 2005).

The Veneto companies' turnover also showed a trend for growth during the year, as revealed by the trend of the moving average calculated on the values of recorded variations (Graph 4). Following a burning start up of the year (+5.8%), the total turnover increased by 4.5% in the second quarter and 4.4% in the third, closing 2006 with a record growth of (+7.2%). The contribution of foreign turnover was decisive, which recorded increases of around 5-6%, with peaks of 10% at the beginning of the year. Orders also showed extremely positive trends during the year, especially for foreign sales. Overall demand in 2006 showed an increase of around 4%, with peaks of 7.5% in the first quarter and 5.7% in the fourth quarter. The contribution of orders from the foreign market was decisive, which showed record increases during the course of the year of 8% and 12.3%.

In a particularly brilliant year for the manufacturing industry, there were some disappointing notes concerning employment and the productive structure. On an annual basis, the progress of employment was characterised by negative variations (-2.5% in the first, -0.2% in the second, -0.9% in the third and -0.5% in the fourth quarter) albeit there were some signs of short-term recovery. On the other hand, the number of non- EU workers increased, with peaks in the first (+12%) and last quarters (+2.9%).

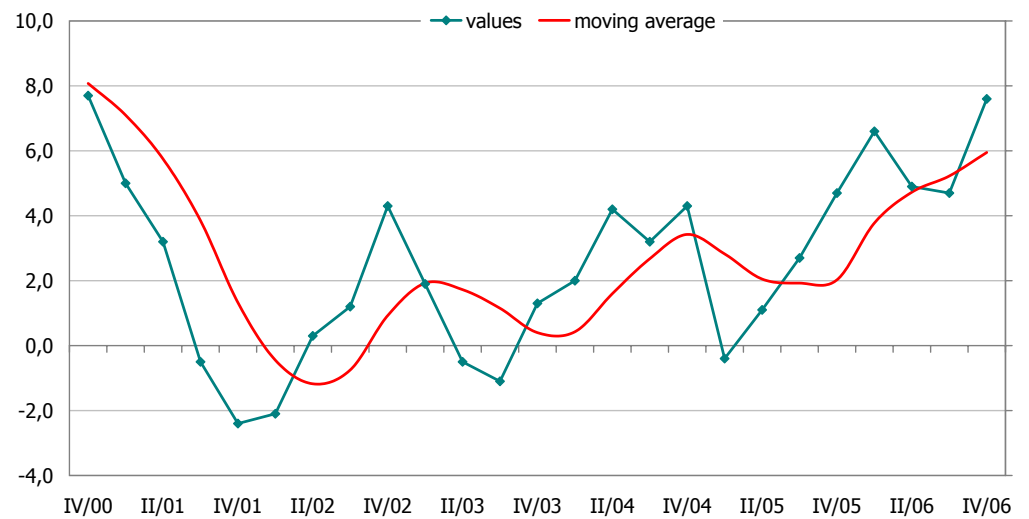
In the face of an evident recovery in productive activity, the entrepreneurial base has shrunk again. Even in 2006 the number of manufacturing companies decreased by an additional 1% (-680 units) totalling at the end of the year just slightly above 66 thousand active units.

Graph 3 - Veneto. Industrial production trend (% change on quarter of prev. year and moving averages). Years 2000-2006



Source: processing by Unioncamere of Veneto - VenetoCongiuntura economic survey

Graph 4 - Veneto. Industrial turnover trend (% change on quarter of previous year and moving averages). Years 2000-2006



Source: processing by Unioncamere of Veneto - VenetoCongiuntura economic survey

Construction

The long phase of expansion in the construction sector is waning. For the second year running, the industry has shown signs of difficulty, in line with the downswing in the rest of the country. Indeed according to estimates released by Cresme (the Italian economic, sociologic and market research centre), the growth of investments in Italy was around zero in 2006, thereby ending a long phase of growth, which had continued uninterrupted since 1995. Although the sector dropped back by 0.2% in 2006, it closed the year with a +0.3% as a result of the drop in public calls for tender and new housing development projects.

In 2006, investments in construction recorded a quantitative increase of 1%

Also Veneto was hit by the slowdown in the expansion cycle of the construction industry, especially in terms of contribution to the regional GDP and employment, which over the previous five years had greatly benefited from the trends of investments in construction and the creation of jobs (Table 7).

According to estimates produced by ANCE (National Association of Building Constructors), construction investments in 2006 amounted to some 16.2 billion euros, corresponding to an increase of 4.4% in value and 1% in quantity. Following the slump of 2005 (+1.1%), the growth rate has remained at modest levels due to the slowdown in investments for new home start-ups (+1.5%) and above all in public calls for tender, which have failed to materialise.

**Table 7 – Veneto. Investments in constructions (millions of Euros).
Years 2005-2006**

	2005	2006	% change on prev. year		% comp.
			value	volume	
Residential buildings	8.451	8.809	4,2	0,9	54,2
- new res. buildings	4.500	4.719	4,9	1,5	29,1
- extraordinary maintenances and recovery	3.951	4.090	3,5	0,2	25,2
private no residential buildings	4.845	5.095	5,2	1,8	31,4
public no residential buildings	2.267	2.342	3,3	0,0	14,4
Total investments	15.563	16.246	4,4	1,0	100,0

Source: ISTAT and Unioncamere data processed by ANCE - ANCE Veneto

Although construction plays an important role in the regional economy (12.2% of the GDP, the sector did not contribute to increase the value added in 2006, but continued to sustain employment.

The average number of employees in the building sector in 2006 was around 10 thousand units, showing an increase of 1.6% with respect to the same period of 2005. These results are confirmed by another indicator that is crucial to our understanding of the employment trend in the sectors, that is data on wage guarantee schemes published by INPS (Italian National Social Security Institute) (Table 8). In 2006 recourse to wage guarantee schemes (CIG) diminished by 15% in terms of hours granted, going back to the levels recorded in 2004 (2.5 million hours).

Nevertheless, from the structural point of view, the number of companies in

the sector is constantly increasing. In 2006 the increase of the productive base amounted to 3.6%, which is almost 2,500 companies more than in 2005 (Graph 5). This increase has exceeded the threshold of 70 thousand units, thus consolidating the position of leadership with respect to manufacturing companies (66 thousand units).

Graph 5 - Veneto. Active enterprises in the manufacturing and construction sector (absolute values). Years 1996-2006

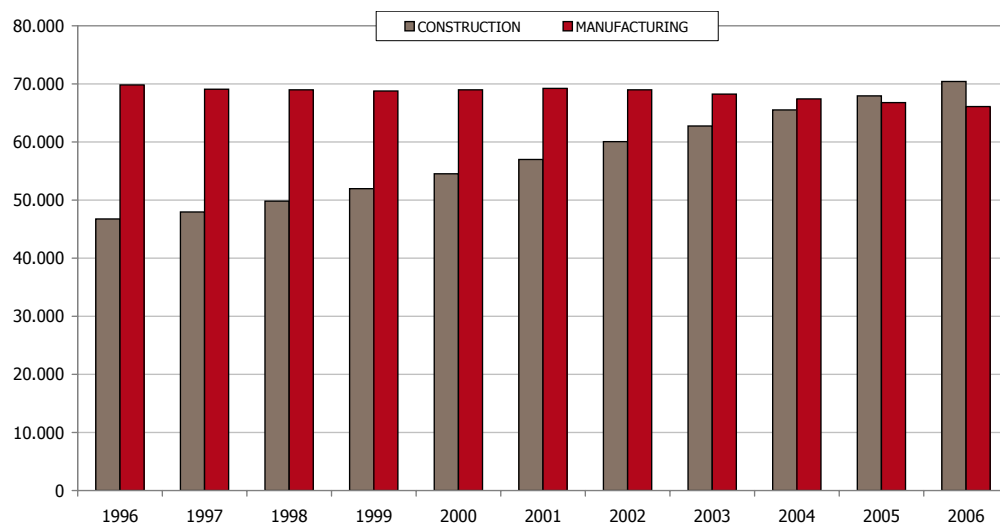


Table 8 - Veneto. Hours of wage supplement by sector of business. Years 2004-2006

Business	2004	2005	2006	% change 2006/2005
Fields of bus. related to agriculture	20.112	0	175.860	...
Mining (metal and other minerals)	1.720	0	128	...
Timber	250.845	293.555	218.855	-25,4
Food	59.552	240.965	207.946	-13,7
Metallurgical	272.154	105.145	86.820	-17,4
Machanical	3.090.363	4.347.820	6.387.589	46,9
Textiles	1.975.318	2.227.897	2.263.858	1,6
Clothing and furniture	1.278.143	1.288.225	791.207	-38,6
Chemicals	227.818	372.695	223.902	-39,9
Skins and leather	739.770	632.024	546.606	-13,5
Mineral processing	511.333	419.390	564.702	34,6
Paper and printing	110.758	233.246	96.840	-58,5
Building (brick)	508.093	317.123	154.199	-51,4
Electricity and gas	0	0	0	...
Transport and communications	92.003	110.578	93.471	-15,5
Miscellaneous	27.429	86.131	93.643	8,7
Tobacco-growing	0	0	0	...
Sales	273.242	28.439	50.260	76,7
Building total	2.517.622	2.907.062	2.460.943	-15,3
TOTAL	11.956.275	13.610.295	14.416.829	5,9

Source: INPS data processed by Unioncamere of Veneto

Crafts and Small businesses

The state of health of the production system in Veneto cannot be fully understood without a look at the performance of the artisan firms, which – if we exclude agriculture – account for about 40% of the productive units operating in the region.

In 2006 the number of artisan enterprises operating in Veneto came close to 147,000 units (Table 9), recording an increase of 0,5% over the stock of 2005 (almost 1,000 new companies).

Table 9 - Veneto. Registered and active artisan businesses by sector and legal status. Years 2005-06

	Registered		Active		Registered % change 06/05	Active % change 06/05
	2005	2006	2005	2006		
Economic activity						
Agriculture, hunting and forestry	2.115	2.168	2.112	2.162	2,5	2,4
Fishing, fish farming and associated services	0	0	0	0
Mining	91	87	91	87	-4,4	-4,4
Manufacturing	47.033	46.458	46.651	46.147	-1,2	-1,1
Electricity, gas and water prod. and distrib.	8	8	8	8	0,0	0,0
Construction industry	56.696	58.529	56.487	58.363	3,2	3,3
Retail and wholesale; rep. pers. and home care goods	9.611	9.412	9.570	9.381	-2,1	-2,0
Hotels and restaurants	305	264	301	262	-13,4	-13,0
Transport, storage and communication	12.664	12.158	12.614	12.120	-4,0	-3,9
Money and financial brokerage	24	24	24	24	0,0	0,0
Real estate, rental, IT, research	4.771	4.831	4.749	4.805	1,3	1,2
Education	152	150	152	148	-1,3	-2,6
Health and othe social services	57	61	57	61	7,0	7,0
Other public, social and personal services	13.144	13.211	13.115	13.193	0,5	0,6
Housekeeping and life-in-care	0	0	0	0
Non classified businesses	157	153	119	124	-2,5	4,2
Legal status						
Joint-stock companies	4.379	5.192	4.324	5.105	18,6	18,1
Partnerships	33.548	33.012	33.128	32.641	-1,6	-1,5
One-man businesses	108.604	109.016	108.318	108.863	0,4	0,5
Other statuses	297	294	280	276	-1,0	-1,4
TOTAL	146.828	147.514	146.050	146.885	0,5	0,6
TOTALE without agriculture	144.713	145.346	143.938	144.723	0,4	0,5

*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

In 2006 the number of artisan enterprises increased by 1.9%.

In 2006 once again the increase was predominantly due to the growth in the number of companies limited by shares.

Following the boom recorded in the three-year period 2001-03 resulting from the amendments and additions made to the framework law on artisan enterprises, limited companies levelled off in the two-year period between 2004 and 2005 and increased by 18.1% in 2006, bringing the stock to 5,192 companies.

Partnerships dropped further (-1.5%) while sole proprietorships increased (over 300 companies more than in 2005), bringing the total number to 109 thousand units.

In terms of sectors of business, the artisan manufacturing businesses (over 71% of the total) showed a growth of 1.2% over 2005, which is the combined

result of a new downturn in the manufacturing sector (-1.2%) and the expansion of construction companies (+3.2%). In the services sector the stock of companies showed a slight decrease (-1.5%, which is primarily attributed to the sectors of "hotels and restaurants" (-13.4%) and transportation (-4%).

Table 10 - Veneto. Main economic indicators for artisan business and small enterprise (% change on prev. year). Year 2006

	Production	Building	Business services	People services	Total of all sectors
Demand/orders	2,6	0,0	1,7	-3,7	0,8
Turnover	2,3	0,5	0,1	-3,4	0,6
Prices	4,3	5,2	2,5	2,3	4,0
Employment	0,2	-2,7	1,7	-4,7	-0,4
Propensity to invest*	0,1	2,3	5,4	-3,8	1,3

* The average has been taken for investments

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

Orders and turnover on the rise, artisan employment drops

The trend of the main economic indicators is an important instruments to understand the state of health of the crafts and small enterprise sector (Table 10).

According to the six-monthly survey by Veneto's Confartigianato, the regional federation of crafts, the resulting picture looks encouraging. 2006 closed with an increase in turnover of 0.6%, especially for the manufacturing sector (+2.6%). The turnover reflects the trends and proportions of the evolution of demand, which grew by 0.8% overall and +2.6% in manufacturing.

The perception of increasing supplier prices was constant with respect to 2005: between 2005 and 2006, companies have shown an increase of 4.0%. Employment, on the other hand, did not so well in artisan companies (Table 11), which show a contraction of 0.4% (-0.2% in 2005). The propensity to make investments is positive, on the other hand: after a somewhat negative 2005 (-2.6%), an increase over the previous year was recorded of +1.3%.

Table 11 - Veneto. Artisan employees (% change on prev. year). Years 2002-2006

Sector	2002	2003	2004	2005	2006
Food	2,2	-3,0	1,6	2,6	-0,2
Textile, Clothing, Footwear	-3,4	-6,1	-7,6	-7,4	-2,8
Timber	2,8	-0,8	-1,4	-4,6	0,8
Graphic design	-1,0	0,4	-2,2	-2,9	1,3
Ceram. Chemicals, Glass	0,3	-0,1	-1,2	-3,9	-0,3
Mechanics	0,5	-2,0	0,5	-2,2	1,2
Other manuf.	-1,1	-6,8	-4,0	-4,3	-2,1
Manufacturing total	-0,4	-3,1	-2,1	-3,6	-0,2
Building	10,8	-8,5	-1,7	-1,1	-1,3
Systems engineering	-0,0	1,2	-0,9	-3,0	-1,7
Construction total	5,9	-4,6	-1,4	-1,9	-1,4
Car/motorbike rep.	-2,9	-1,1	0,5	1,7	-1,7
People and misc. Serv.	-0,9	-1,1	-3,1	0,3	-1,5
Transport	3,5	1,5	0,7	3,6	3,2
Services total	-0,4	-0,5	-1,2	1,6	-0,3
Total	0,9	-3,0	-1,8	-2,3	-0,5

Source: Confartigianato Veneto - BS consulting

Services

In line with what took place in the agricultural and industrial sectors, also the tertiary sector also closed with a positive balance sheet in 2006. According to the latest estimates, the value added at constant prices grew by 2% over 2005, at a rate exceeding the regional average (+1.9%). With over 230 thousand active companies (50.2% of the regional total), almost 1.2 million workers (57.1%) and a value added to the product of 75.3 billion euros (63.2%), services is confirmed as the most important sector in the regional economic system.

Retail Sales

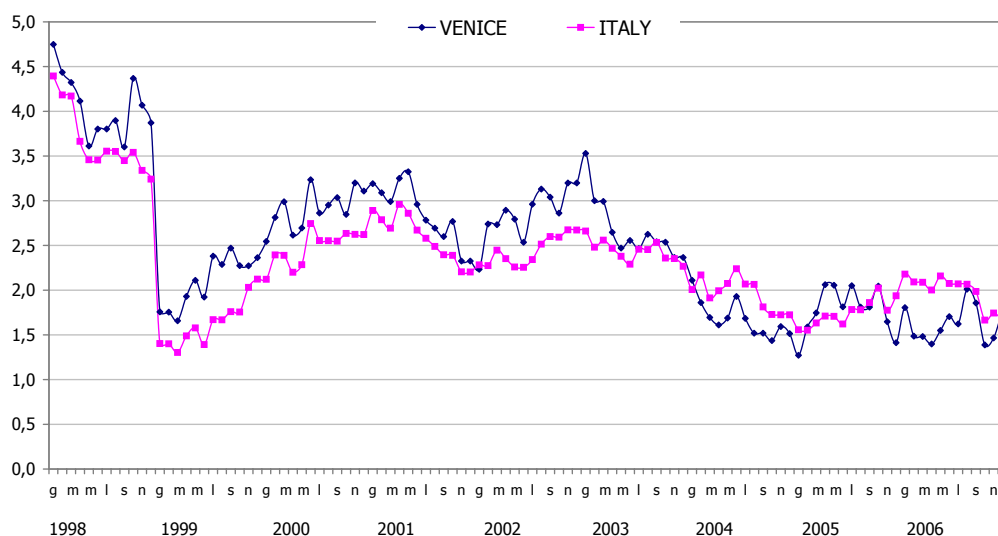
After a stable 2005, 2006 was a year of recovery for retail sales, characterised by stronger household consumption and substantially stationary consumer prices. Private demand for consumer goods improved, despite the low growth in households' available income.

Compared with 2005, retail sales¹ showed an increase of 1.9% for Veneto, exceeding the national average (+1.3%), but more modest than the variation recorded in the Northeast (+2%).

Retails sales increased by 1,9% in 2006

Following the downturn in 2005 (-0.3%), retail sales received new impetus from the performance of foodstuffs (+2%) as well as non-food products (+1.9%). Concerning size, sales benefited from the better result obtained by large-scale retail trade (+2.7%) against a more modest result recorded in small and medium scale retail trade +1.5%.

Graph 6 - General consumer price index for the households of blue- and white-collar workers. Years 1998-2006



Source: ISTAT data processed by Unioncamere of Veneto

¹ Data provided by the National Trade Observatory set up at the Ministry of Productive Activities.

In 2006 inflation, measured by the consumer price index for the entire population, recorded a slight increase (graph 6). At national level the average annual variation in consumer prices was +2.1% (+1.9% on 2005's average). The most important factors influencing prices in 2006 were the increase in inflation in the energy sector (+8.2%) and in the foodstuffs sector (+1.7%).

Large-scale retail trade also increased by 2.4%

In 2006 prices rose also in the Veneto region, albeit not as much as the national index: the average annual variation, in fact, was limited to 2%. An analysis of the spending dynamics reveals that the items which contributed to curb inflation were communications (prices varied by -3.7%) and foodstuffs (-0.4%). Spending for home, water, electricity and energy went against the trend (+6.2%), along with alcoholic beverages, tobacco (+4.3%) and transportation (+3.5%). Consumption on the upswing in 2006 thanks to the positive trend of sales in supermarkets and hypermarkets in Veneto (Table 12). The turnover of organised large scale retail trade in fact, marked an average overall growth of 2.4% for the year - less than the national average (2.8%) and the average recorded in the Northeast (+2.7%). The increase in the turnover of large retail chains was driven by the aggregate pre-packaged mass consumer goods² (+3.2%), against a new slowdown in the sale of non-food products (-1.3%).

Concerning the entrepreneurial structure, the number of companies grew slightly in 2006 (+0.3%), reaching around 106,232 units. Nevertheless, for the third year in a row, a negative balance between the number of newly registered companies and the number of companies that had closed down (-1,700 units) generating an annual rate of growth of -1.6%.

Table 12 - Veneto. Sales in the large retail chain sector (current network sales turnover, seasonally adjusted data, % change on prev. year). Year 2006

	2004	2005	2006
Veneto	1,5	1,5	2,4
Pre-packaged mass consumer goods*	0,5	1,1	3,2
Non food**	3,1	3,4	-1,3
North-East	1,8	1,5	2,9
Pre-packaged mass consumer goods	1,2	2,0	3,2
Non food	2,6	-0,6	1,5
Italy	3,1	2,6	2,8
Pre-packaged mass consumer goods	2,5	2,7	3,2
Non food	4,0	2,3	0,9

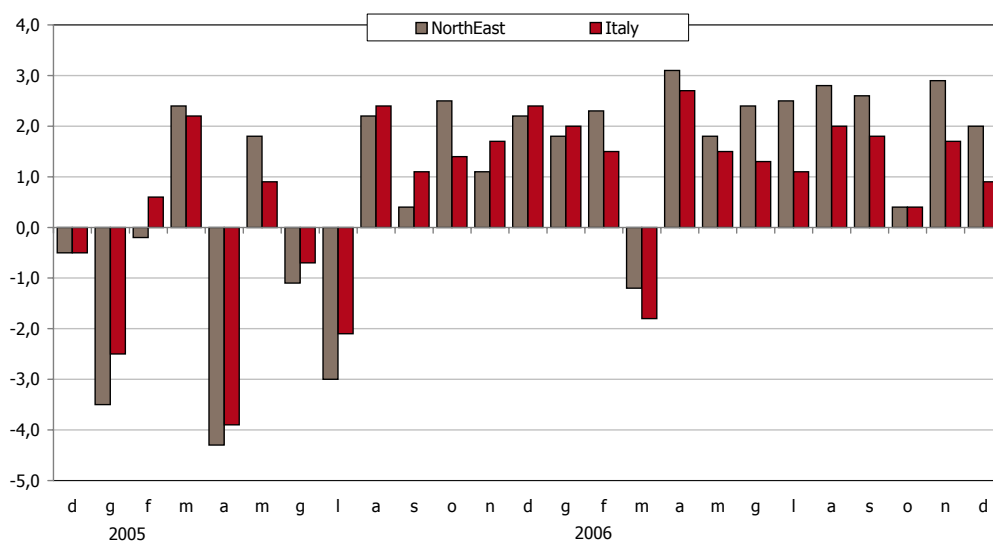
* includes groceries, drinks, chilled and frozen goods, pet care, personal care and home care products

**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

2. The category of pre-packed mass consumer goods includes: drinks, chilled and frozen goods, pet care, personal care and home care products, while non-food products includes textiles and clothing, miscellaneous articles and household appliances.
3. The category of non-food products includes textiles and clothing, miscellaneous articles and household appliances.

**Graph 7 - Fixed retail trade sales value index at current prices (% monthly change).
Years 2005-2006**



Source: ISTAT data processed by Unioncamere of Veneto

Tourism

The data on tourist movement in Veneto collected by Provincial Tourist Boards (APT), have revealed much better performance in 2006 compared to 2005 figures (+3.4% in arrivals and +4% in stays over the previous year).

In fact, in the period between January and December, arrivals increased by almost one million units (970,235, or +7.8%), exceeding 13.4 million tourists in 2006 (Table 13). Stays also increased, albeit with lower percentages (+4.6%).

All of the districts enjoyed sharp growth over 2005; the spa sector was the only one that in spite of a significant increase in the number of arrivals did not shine as far as the number of stays was concerned, which remained stationary compared to the previous year.

As for the type of destination, lake tourism marked an increase of +8.3% in arrivals and +3.9% in stays, mountain tourism recorded a +3.9% and +2.9% increase respectively; seaside resorts saw arrivals increase by +5.8 and stays by +5.0%, while spas showed increases of +6.8% and +0.2% respectively.

As for the type of accommodation facilities, 2006 was a positive year for both hotel and non-hotel accommodation.

In the former case, arrivals grew by +7.2%, while stays went up +4.0%; in the latter, there were 9.1% more arrivals and +5.2% more stays.

Almost all of Veneto Provinces recorded a good trend, both in arrivals and stays (graphs 8-9).

The trends in the two leading Veneto provinces – Venice and Verona – were markedly positive. Venice had an increase of 6.9% in arrivals and 5.8% in stays (exceeding a total of 32 million tourists).

The province of Verona witnessed considerable growth in the number of stays (+5.2%) and a veritable explosion of arrivals (+10.8%). There were also increases in arrivals in the provinces of Padua (+9.3%), Treviso (+9.4%), Vicenza (+13.4%) and Rovigo (+7.0%), while there was a slight decrease only in Belluno (-1.1%).

Considering the stays, in additions to the fine performance of Venice and Verona, positive results were also produced by Treviso, Vicenza and, partially,

Almost one million more arrivals and 2.5 million more presences in 2006

Table 13 - Veneto. Tourist movement by accommodation type and area.
Years 2005-06

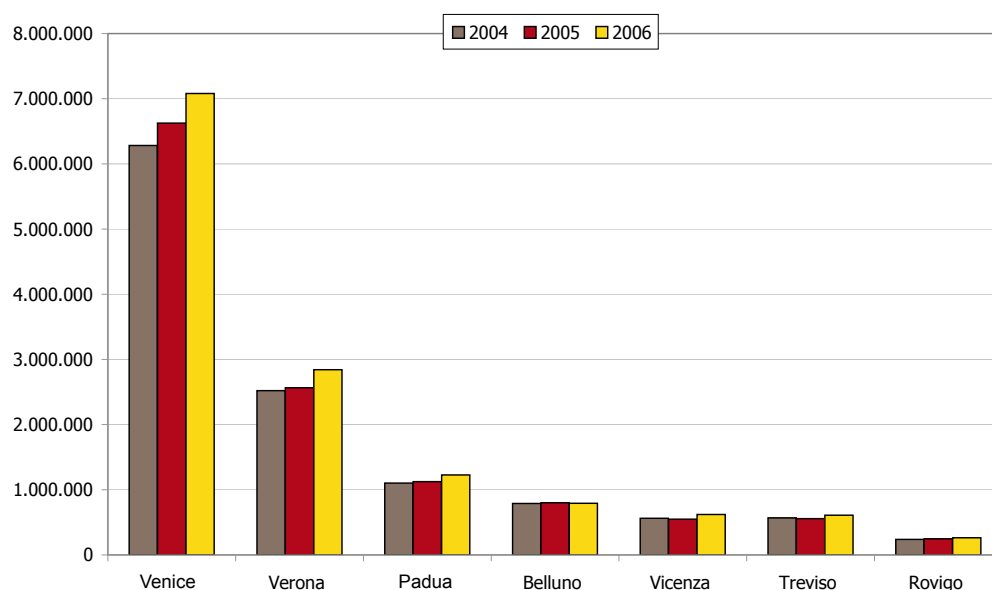
	2005		2006		% change 2006/05	
	arrivals	tourist nights	arrivals	tourist nights	arrivals	tourist nights
Accommodation facilities						
hotel	8.839.460	27.174.001	9.479.103	28.267.135	7,2	4,0
non-hotel	3.629.140	29.558.958	3.959.732	31.093.454	9,1	5,2
Areas						
art cities	6.027.912	14.515.117	6.594.242	15.525.987	9,4	7,0
lake	1.621.839	8.894.030	1.757.038	9.242.282	8,3	3,9
sea	3.348.681	23.872.284	3.543.880	25.058.815	5,8	5,0
mountains	919.178	6.248.581	955.290	6.325.202	3,9	1,2
spas	550.990	3.202.947	588.385	3.208.303	6,8	0,2
Total	12.468.600	56.732.959	13.438.835	59.360.589	7,8	4,6

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

Rovigo. The remaining provinces, i.e. Belluno and Padua, showed negative results.

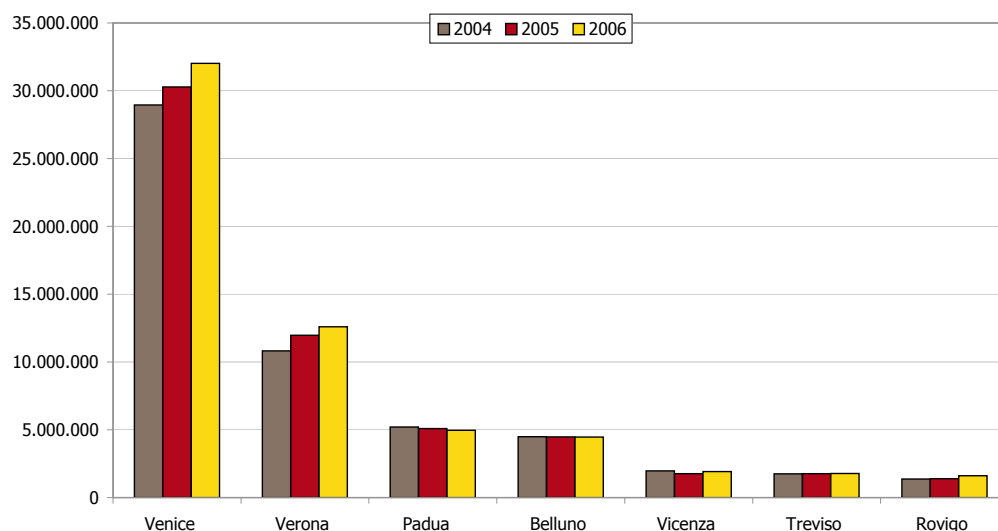
Record growth in arrivals and stays in Veneto cities of art

Italian tourists accounted for 42.2% of stays in 2006. Out of these, no less than 17.5% of the grand total were people from Veneto itself, followed by residents from Lombardy (7.2%, a percentage that was unchanged with respect to 2005). Concerning the foreign component, which accounts for almost 60% of all tourist stays in Veneto, the first place was taken, once again, by Germany. In 2006 the number of nights spent by German tourists in Veneto went up considerably (+6.3% over 2005 - which had not been an entirely positive year). Germans represent 19.4% of the total.

Graph 8 - Tourist arrivals by province (thousands).
Years 2004-2006

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

Graph 9 - Tourist nights by province (thousands).
Years 2004-2006



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

Transport

10.7 million passengers and 5.4 thousand tonnes of goods transit through Veneto airports

The transport sector recovered in 2006, after a 2005 that had been spent making up lost ground. This is revealed both by statistics on cargo and passenger flows and by the process of adapting local infrastructures to the needs of the regional economy, which increasingly requires roads, motorways, room to expand and efficient services that can be relied on to compete on foreign markets.

Infrastructures, in fact, are the most evident penalising factor for Veneto companies, with respect to foreign ones. Transportation accounts for 12% of the final price of goods in Italy, against an 8% average of the main European countries. In Veneto, where the infrastructure situation is even more critical than in other Italian regions, it may be expected that the regional economy must pay a yet higher tribute.

Despite the undeniable efforts, there remain environmental, structural and political restrictions that constitute impediments to the mobility of people and goods, which is an essential driving force for a mature development of the economy. Additionally, the railway network, Veneto's only real alternative to road transport, is not capable of increasing its traffic volumes.

The hope, at this point, lies in the privatisation of the railway sector. Managed by private entrepreneurs, the sector might have the chance to

Table 14 - Veneto. Passengers and cargo traffic in airports.
Year 2006

Airports	Passengers		Cargo (tonnes)	
	abs.val.	% change 06/05	abs.val.	% change 06/05
Venice - Marco Polo	6.342.178	8,9	26.692	17,5
Verona - Valerio Catullo	3.007.965	13,5	12.138	11,5
Treviso - Antonio Canova	1.340.874	3,1	19.598	9,4
TOTALE	10.691.017	9,4	58.428	13,4

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

change radically in a short time, becoming a concrete alternative to other modes of transport.

The provisional data referring to the motorway network in the Veneto region, reveal that in 2006 there was another slight increase in traffic. Compared to 2005, the traffic index, expressed as a vehicle/km ratio, increased by 0.5% (0.3% for the entire national territory), without significant differences in the trends of the two components (light and heavy vehicles)

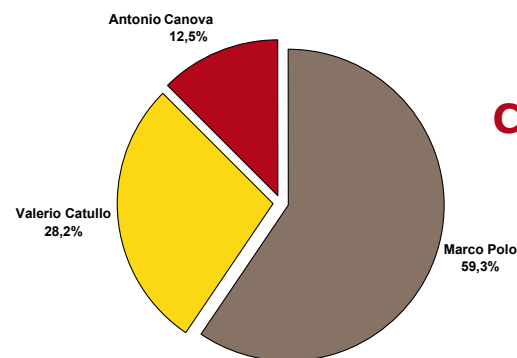
Concerning airports, data relative to Veneto was quite positive for 2006: the three first level airports of Veneto obtained optimum performance for both the passengers and cargo (Table 14).

Some 10.7 million passengers and 5.4 thousand tons of goods transited through Veneto airports, with a trend, of +9.4% and +13.4% respectively over 2005 (Graph 10).

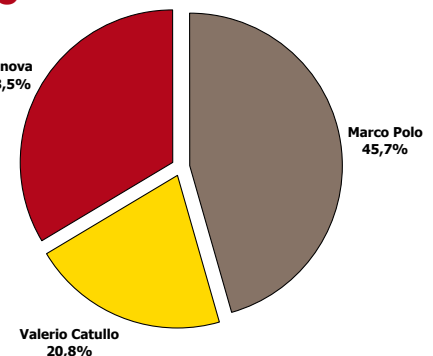
The Venice airport, the most important airport in the region and the fourth largest national airport (after Fiumicino, Malpensa and Linate), wrapped up 2006 with a traffic of 6,342,178 passengers and a +8.9% annual increase.

Graph 10 - Veneto. Passengers and cargo traffic in airports. (% comp.).
Year 2006

Passengers



Cargo



Source: Assaeroporti data processed by Unioncamere of Veneto

There were 82,199 flights, for an increase of 4.3% (-1.5% in 2005). This is an extremely positive result following the downturn in 2005 due to the increase in fuel prices and the slump that hit the low-cost flight sector.

Record growth in passengers at the Verona airport, with an increase of +13.5%

The cargo sector confirmed its positive trend of recent years, following the crisis in the early years of the new millennium, due to the unstable world political and economic situation. 26,692 tonnes of goods were handled, with an increase of 15.5%.

The balance of the Verona "Valerio Catullo" airport is also positive. It is the thirteenth largest national airport in terms of passengers, recording important increases in both the handling of passengers (+13.5%) and goods (+11.5%); the number of aircraft was also on the rise, with relevant traffic going up from

38,494 in 2005 to 39,949 in 2006 (+3.8%). The Verona airport is therefore a true alternative to Milan's Malpensa airport for the 'catchment area' of passengers stretching from Brescia to Trento and from Mantua to Vicenza. Finally, the Treviso airport, recently re-baptized "Antonio Canova", achieved fine results. Some 1,340,874 passengers were served by this airport (+3.1%, in 2004 +45.4%), a value that has more than quadrupled in only five years. The number of flights slightly diminished, going from 17,570 in 2005 to 7,150 in 2006 (-2.5%). In the cargo sector, Treviso moved 19,598 tonnes of goods, recording a good increase of 9.5% over 2005 (-0.7 in 2004).

Finally, an appraisal of figures for port activity ¹, reveals that 2006 was a record year for the port of Venice (Table 15).

Total traffic came close to 31 million tonnes (+6.3% over 2005), a figure worthy of respect considering that in 1996 - the year the Port Authority was formed - total cargo handled was about 24 million tonnes. Overall, Venice collected four first places in 2006: for total traffic, trade sector, handling of containers and passenger traffic.

Table 15 - Handling of cargo, containers and passengers in the port of Venice. Years 2004-06

	2004	2005	2006	% change 06/05	% change 06/04
CARGO TRAFFIC (tonnes)					
trade total	13.016.263	12.722.043	14.541.961	14,3	11,7
industrial total	5.994.289	5.834.761	5.033.494	-13,7	-16,0
petroleum total	10.745.587	10.542.237	11.361.476	7,8	5,7
GRAND TOTAL	29.756.139	29.099.041	30.936.931	6,3	4,0
CONTAINER TRAFFIC	290.898	289.860	316.641	9,2	8,8
PASSENGER TRAFFIC	1.037.833	1.365.375	1.453.513	6,5	40,1
SHIP DOCKING IN COMMERCIAL TRADE PORT	3.459	3.603	3.655	1,4	5,7
passenger ship out this total	1.154	1.414	1.377	-2,6	19,3

Source: Port of Venice data processed by Unioncamere of Veneto

2006 was a record year for the port of Venice Increases were recorded in all macro sectors of traffic, excluding industrial traffic. Out of these, three areas marked a historical peak for the Port of Venice: the "cargo", "container", and "passenger" sectors.

The cargo sector saw an increase of 14.3% (14,541,961 tonnes, 1,819,918 more than in 2005, with an increase of 19.7% in traditional goods (cereals + 33.9%, flours and meals + 14.7%, carbon +30.3%, bulk iron and steel materials +19.1%, iron and steel products, +56.9%, other goods +34.0%).

While there were signs of recovery in petroleum port movement, there was a consistent decline in industrial traffic (respectively +7.8% and -13.7%). For industrial traffic, the trend of 2005 was confirmed, while petroleum port traffic witnessed a reversal of the trend which inspires some hope of a quick recovery

¹ At the time of printing, there are still no data available on cargo traffic in the port of Chioggia for 2006, which are disseminated annually by the relevant Port Authority.

of ground lost in recent years.

Container movement grew by 9.2% (316,336 TEU's), with respect to the same period of 2005.

This positive result was obtained primarily thanks to the excavation of navigation channels and the reorganisation of combined services (agreement with Trenitalia and the State Railway Service, but also thanks to the realisation of the port's new railway park.

Although far from the performance of 2005 (+31.6% over 2004), passenger traffic did very well, recording an increase in traffic of +6.5%. 1,450,510 passengers chose the lagoon port of call for their sea cruises. This result greatly surpassed the historical record of last year.

2006 was also a record year for ferries: 456,604 (+2.2% over 2005). This is a sign that confirms that the lagoon port is a privileged port of call for Greece and the Eastern Mediterranean.

Additionally, Venice is the ideal port of departure to visit the Croatian and Slovenian coasts, which can be reached in a few hours of navigation with rapid hydrofoils and catamarans. Overall 111,245 passengers were transported in 2006 on fast ships and boats.

Labour market

In 2006, the labour market in Veneto achieved positive results showing trends that are basically in line with the national trend.

According to the data published by ISTAT – the Italian Statistical Office – the number of employed in 2006 was up 1.9% against the previous year, with an increase of approximately 38 thousand units. This result tallies with that recorded in Lombardy, improves on the data for Piedmont (+1.2%) but still falls short of the increases achieved in Tuscany and Emilia-Romagna (both recording a 2.4% increase in employment). The performance recorded in Veneto is aligned with the figures for the rest of the Country, but is lower than the data for the Northeast of Italy taken as a whole, where employment was up 2.2%. The widespread increase in employment is still broadly related to the legalization of the status of non-EU nationals in 2006 and their gradual registration in the local registry offices. The effect of this operation 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.

In 2006 the number of employed in Veneto grew 1.9%.

Furthermore, the data provided by the survey on the labour force should be read with some caution as it does not identify the percentage of workers in the underground economy nor does it make a distinction between part-time and full-time workers. To better and more comprehensively understand the trends

Table 16 - Veneto. Main labour market groups per sector of business (thousands). Years 2005-2006

	VENETO			NORTH-EAST			ITALY		
	2005	2006	%	2005	2006	%	2005	2006	%
Labour force	2.155	2.190	1,6	5.081	5.173	1,8	24.451	24.662	0,9
Total number of people in employment	2.063	2.101	1,9	4.879	4.986	2,2	22.563	22.988	1,9
- agriculture	75	78	3,6	200	201	0,2	947	982	3,6
- industry	809	815	0,8	1.764	1.783	1,1	6.940	6.927	-0,2
- services	1.179	1.208	2,5	2.915	3.002	3,0	14.675	15.080	2,8
Jobseekers	91	88	-3,1	202	187	-7,0	1.889	1.673	-11,4

Source: ISTAT data processed by Unioncamere of Veneto

in the labour market it will be necessary to wait for the announcement of the national data.

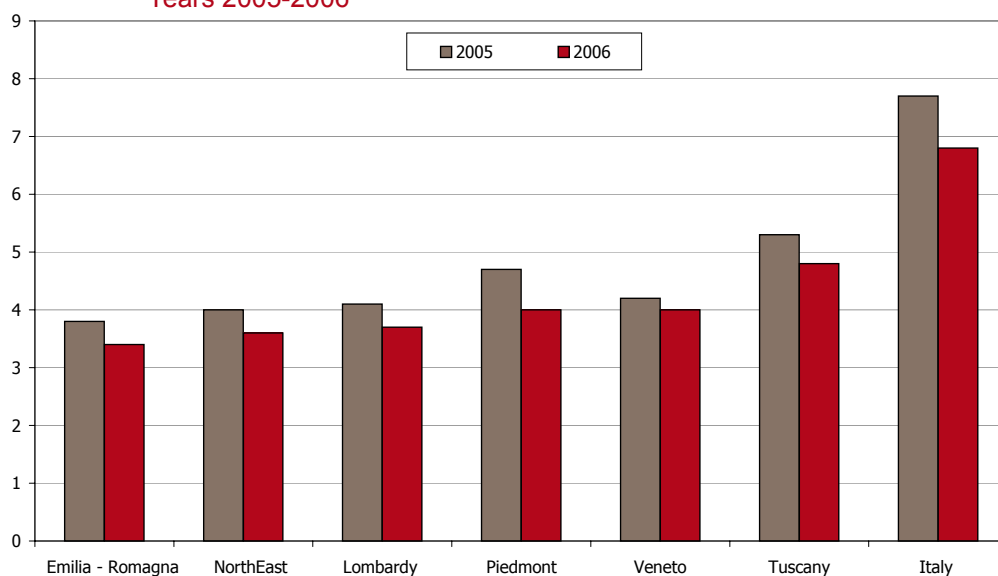
The growth trend in employment specifically concerned the employee component, which grew by 1.9% (+29 thou. units) and the number of male workers, which was up 2% (+25 thou. units). While in 2005 self-employment was on a decrease, in 2006 it increased by 1.7% (+9 thou. units). The number of female workers recorded a growth rate of 1.6% (+14 thou. units).

In terms of area of employment, the main contribution to the growth of employment was provided by the service sector (+2.5%), followed by the construction industry (+1.6). Employment also increased in the agricultural sector (+3.5%) and in the processing industry, possibly due to the widespread recourse to non-EU workers (+0.6%). For a full picture of the trends in the industrial sector, it is nevertheless necessary to take into account 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 Social Security Institute) relating to the Redundancy and Unemployment Benefits Fund known as CIG. Based on the *VenetoCongiuntura* economic survey, the average annual change in employment in 2006 was -1%, especially in the non-metals mineral sector and other manufacturing industries (both sectors recorded -3.2%), while the textiles, apparel and footwear sector (-2.9%) and the timber and furniture industry (-2.3%) both recorded a cut in work force, albeit not so drastic. The average yearly growth in the employment of workers from non-EU countries continued to grow, standing at +5.7% in 2006.

This trend is further confirmed by CIG data: despite a lower performance on the previous year, in 2005 the manufacturing industry showed a further increase in the number of working hours (+12,1%), against a clear drop recorded in the construction industry (-15.3%).

Graph 11 - Unemployment rate in a number of Italian regions.
Years 2005-2006



Source: ISTAT data processed by Unioncamere of Veneto

The growth trend in employment has positively affected the employment rate. In 2006, the ratio between the number of employed in the 15-64 age bracket and the corresponding population stood at 65.5%, revealing a greater increase in the male population (now standing at 76.9%) than in the female population (now at 53.6%).

In 2006, the labour supply in Veneto increased by 1.6%. According to ISTAT, the number of jobseekers decreased by 1.3%, reaching 88 thousand units. This trend contributed in the year to cutting the unemployment rate that stands at 4% for 2006. This value is higher than the average recorded for the Northeast (3.6%), which can be attributed to the lower rates recorded in Emilia-Romagna (3.4%), Friuli-Venezia-Giulia (3.5%) and in Trentino Alto Adige (2.8%).

The unemployment rate dropped
to 4% in 2006

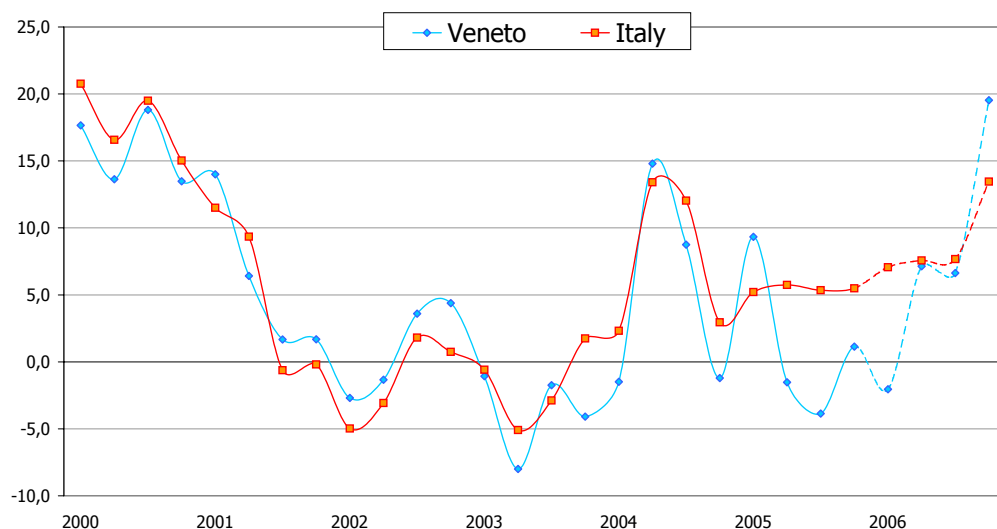
Foreign trade

In 2006, Veneto's exports increased by 7,8%

In 2006, Veneto benefited from a more favourable economic situation than in 2005 and recorded an increase in foreign trade that clearly exceeds the figures for the previous year.

At national level, the trade flows towards foreign countries increased by 9%, clearly outdoing the figures for 2005 (+4%). The trade balance is nevertheless still negative due to the strong increase in imports (+12.6% for the same period), mainly justified by the high oil prices and of other raw materials. In addition to this, trade has had to cope with fierce competition from China, which by now is affecting most of the typical 'made in Italy' products, from textiles and clothing to footwear and low added value mechanics. The balance of payments is thus tipping further into the red, having reached 21,356 million Euro in the January-December 2006 period, a figure which is considerably worse than the same period in 2005 (-9,369 million) and which is mainly driven by a growing energy deficit (-56,186 million over the full year – including electricity) and the invasion of Chinese products (which, with a balance of -12,260 million, is lower only than that relating to the OPEC area).

Graph 12 - Exports in Veneto and in Italy (% change on quarter of prev. year). Years 2000-2006



*temporary data for 2006

Source: ISTAT data processed by Unioncamere of Veneto

The provisional data¹ on foreign trade in Veneto for 2006 reveal that exports increased by +7.8% whilst imports grew by +10.3%, thus causing the balance

¹ These are provisional data as the Intrastat system for the identification of trade flows bases its information on the data available in the summary reports of trade operations performed by economic players before the local competent customs offices. More specifically, operators that carry out (or expect to carry out) trade abroad in the reference year, for an amount exceeding the so-called assimilation thresholds that are set yearly by dedicated decrees issued by the Finance Ministry –involving approximately 97% of flows, whilst representing only approximately 27% of total operators – must fill in a monthly report for Intrastat while operators not exceeding the threshold must only provide the same information on a quarterly or yearly basis. Final and definitive data on foreign trade for 2006 will thus only be released at the end of 2007. For further information on the percentage weighting of the value of operations arising from the declarations provided by operators falling below the threshold, broken down by province and region, please refer to the tables made available by ISTAT on www.coeweb.istat.it

of trade to stand at +7,728 million Euro, differing only slightly from the data for 2005.

Veneto accounted for 13.4% of national exports

The downward trend in the first quarter (with a trend of -2%) was followed by two favourable quarters (+7.1% for the second quarter and +6.6% for the third quarter) and a swinging last quarter for 2006 where the value of exports reached 43,824 million Euro (against 40,647 million in 2005). This trend is nevertheless not as remarkable as the average for the Northeast (+9.6%), which was supported by the excellent performance of Friuli Venezia Giulia (+13.9%) and Emilia-Romagna (+10.5%). Positive variations were recorded in other regions that are considered to be export-oriented, such as Piedmont (+8.4%), Lombardy (+9%) and Tuscany, the latter having revealed a strong recovery of sales that recorded a +12%.

The contribution of regional exports to the country's exports as a whole stood at 13.4% (against 13.6% in 2005). Veneto has nevertheless kept its second position in the list of Italy's leading exporting regions after Lombardy (28.4%), with Emilia-Romagna (12.6%) and Piedmont (10.6%) hot on its heels.

Table 17 - Trade flows in a number of Italian regions (millions of euros).
Year 2006

	Import		Export		Trade balance
	2006	% change 2006/05	2006	% change 2006/05	
Piedmont	26.515	12,8	34.694	8,4	8.179
Lombardy	127.159	14,3	93.020	9,0	-34.139
Veneto	36.095	10,3	43.824	7,8	7.728
Emilia Romagna	25.257	12,3	41.262	10,5	16.005
Tuscany	18.460	9,4	24.447	12,0	5.988
Northwest	163.279	13,8	132.479	8,5	-30.800
Northeast	72.324	10,7	101.737	9,6	29.413
Centre	55.369	13,4	51.318	13,4	-4.051
South	22.980	11,5	24.298	7,1	1.319
Islands	28.545	13,2	11.750	6,1	-16.795
Various or n.s.	5.853	0,4	5.412	-10,0	-441
Italy	348.349	12,6	326.992	9,0	-21.356

* temporary data for 2006

Source: ISTAT data processed by Unioncamere of Veneto

In terms of product types, the exports of manufacturing products do not generally show any decrease, with the sole exception of the automobile and transport sector (-0.6%). The overall increase amounted to 7.7%. Specific reference must be made to the remarkable increase in outbound flows of metal and metal products (+19.6), optical and photographic equipment (+17.3%), the goldsmiths' industry and jewellery (+13.4%) and electrical precision tools (+13%). Positive signals were received from the sectors driving the Veneto's exports, namely machinery and mechanical equipment (9,475 million Euro, 21.6% of regional exports), that in 2006 recorded an increase of sales for +6.6%. The export of agricultural and fisheries products also recorded excellent

results, reaching a 16.3% increase.

If we take a look at Veneto's main trade partners, the slowdown in exports in 2006 was attributable to the United Kingdom (-10.2%). Exports to German regions have increased by 2.8%, whilst a tamer increase was recorded in exports to France (+1.4%). Positive signals are provided by exchanges recorded by Veneto with other Partner countries, with remarkable export increases notably with the Russian Federation (+26.5%) that now ranks ninth for importance and accounts for 1.223 million Euro. Veneto, together with Lombardy and Emilia Romagna, leads Italian sales to Russia especially for machinery. The trade balance with Romania gets better and better, with this country now ranking sixth (up one position) in the list of Veneto's major ten partners for exports.

The Russian Federation ranks amongst the first ten partner countries for exports

As far as imports are concerned, the value recorded at the close of 2006 was 36,095 million Euro, revealing a 10.3% increase on 2005. Veneto growth is in line with that recorded in the Northeast that is characterised by a 10.7% increase, but still falls short of the growth rates recorded in the main regions taken as reference, with the sole exception of Tuscany (+9.4%).

In 2006, China continued its relentless climb in the ranking of main import countries for Veneto, soaring from a third to a second position (2,731 million Euro) following a 31.9% growth in trade flows. Germany steadfastly maintains its first position (7,935 million Euro), with imports for 2006 increasing by 2.9%.

Table 18 - Veneto. Exports by product type (millions of euros).
Year 2006

PRODUCTS	abs. value		% change 06/05		% comp. 2006	
	import	export	import	export	import	export
Processed and manufactured products	32.548	43.061	8,5	7,7	90,2	98,3
Machinery and mechanical equipment	2.589	9.475	11,3	6,6	7,2	21,6
Textile and clothing products	3.588	4.771	7,9	1,7	9,9	10,9
Leather and leather products	2.687	4.151	16,8	2,9	7,4	9,5
Metal and metal products	5.134	4.755	21,0	19,6	14,2	10,9
Electrical and precision equipment	2.010	2.955	2,9	13,0	5,6	6,7
Motor vehicles and other means of transport	6.687	2.416	1,4	-0,6	18,5	5,5
Chemical and allied industries	3.309	2.234	7,3	8,0	9,2	5,1
Food products	2.532	2.233	-0,3	8,0	7,0	5,1
Furniture	181	1.990	4,4	7,1	0,5	4,5
Eyewear	492	1.938	37,6	17,3	1,4	4,4
Jewellery	224	1.658	12,9	13,4	0,6	3,8
Non metal min.proc.prod.	476	1.479	7,8	4,8	1,3	3,4
Rubber and plastic products	736	1.317	10,3	2,9	2,0	3,0
Paper, printing, publishing	811	1.059	1,8	9,6	2,2	2,4
Other manufactured products	321	389	13,6	6,7	0,9	0,9
Timber and wooden products	772	240	6,7	8,3	2,1	0,5
Farming and fishing products	1.543	652	2,0	16,3	4,3	1,5
Mine and quarry products	1.948	55	69,3	7,4	5,4	0,1
Other products	56	56	-0,1	15,9	0,2	0,1
Total	36.095	43.824	10,3	7,8	100,0	100,0

* temporary data for 2006

Source: ISTAT data processed by Unioncamere of Veneto

Table 19 – Veneto. Imports and exports by province (millions of euros).
Years 2005-06

Countries	2005	2006	% change 06/05	% comp. 2006
Import				
Verona	10.532	11.235	6,7	31,1
Vicenza	6.489	7.014	8,1	19,4
Belluno	619	850	37,4	2,4
Treviso	4.768	5.276	10,7	14,6
Venice	4.991	5.764	15,5	16,0
Padua	4.591	5.132	11,8	14,2
Rovigo	740	824	11,3	2,3
VENETO	32.730	36.095	10,3	100,0
ITALY	309.292	348.349	12,6	
Veneto/Italy % inc.	10,6	10,4		
Export				
Verona	6.854	7.647	11,6	17,4
Vicenza	11.660	12.131	4,0	27,7
Belluno	1.999	2.392	19,7	5,5
Treviso	8.729	9.361	7,2	21,4
Venice	4.243	4.451	4,9	10,2
Padua	6.322	6.892	9,0	15,7
Rovigo	840	951	13,3	2,2
VENETO	40.647	43.824	7,8	100,0
ITALY	299.923	326.992	9,0	
Veneto/Italy % inc.	13,6	13,4		

* temporary data for 2006

Source: ISTAT data processed by Unioncamere of Veneto

Table 20 - Veneto. Top 10 countries according to origin of imports and destination of exports for the region (millions of euros). Years 2005-06

Countries	2005	2006	% change 06/05	% comp. 2006
Import				
Germany	7.713	7.935	2,9	22,0
China	2.071	2.731	31,9	7,6
France	2.107	2.162	2,6	6,0
Spain	1.298	1.496	15,3	4,1
Rumania	1.326	1.377	3,9	3,8
Netherlands	1.089	1.350	24,0	3,7
Austria	1.359	1.314	-3,3	3,6
Belgium	1.332	1.223	-8,2	3,4
United States	1.080	1.083	0,3	3,0
Switzerland	795	971	22,2	2,7
Export				
Germany	5.382	5.532	2,8	12,6
France	3.987	4.045	1,4	9,2
United States	3.639	3.834	5,4	8,7
Spain	2.642	2.713	2,7	6,2
United Kingdom	2.841	2.552	-10,2	5,8
Rumania	1.283	1.517	18,2	3,5
Austria	1.377	1.451	5,3	3,3
Switzerland	1.224	1.360	11,1	3,1
Russian Fed.	967	1.223	26,5	2,8
Belgium	939	997	6,2	2,3

* temporary data for 2006

Source: ISTAT data processed by Unioncamere of Veneto

4. Outlook for 2007

Taking a look at the final growth figures, the year that has just ended has confirmed a new world expansion in terms of GDP and trade which was supported, albeit in a varying proportion, by all of the world economies. During the year, the contribution of the various regions to world growth has changed: leaving China to one side, the slowdown in the US and in Japan has been offset by the recovery of the Eurozone but also by the expansion of Eastern Europe, with Russia at the forefront.

At the beginning of 2007, the macroeconomic outlook indeed shows reason for mixed optimism. The improvement of the prospects for the US economy, the slowdown of production in some countries of South-eastern Asia, rising levels of production in Japan and the acceleration of the Eurozone are the main trends seen on the global scene.

Nonetheless, the main economic indicators are depicting an outlook of sustained growth also for 2007: the contraction of crude oil prices, the recovery of US interest rates, the dollar which is gaining on the Euro in addition to the immediate revival of the stock markets after Shanghai are all factors that corroborate the prospect of a new period of growth.

In 2007, global GDP will increase by 4.9% and world trade will increase by 7.7%

The estimates made available by IMF point at the world GDP growing by 4.9% both in 2007 and 2008, while for world trade, the OECD expects a 7.7% growth in 2007 and 8.4% in 2008.

Having shed the fears of recession, the outlook of the US economy for 2007 is clearly on the rise and growth should be back to its long-standing trend of 2.6% and finally reach 3% in 2008. Despite the deceleration of the growth rates highlighted at the end of 2006, Asian economies are showing sound signs of a period of expansion for 2007: China will grow by 10%, India by 8.3%, while Japan is expected to confirm the 2.2% growth rate achieved in 2006.

The outlook for growth is shared by the Latin-American region that does not appear to have suffered from the deceleration of the United States: in 2007 this region's contribution to world growth sees Argentina at the helm (+6.3%), followed by Brazil (+3.3%) and Mexico (+3.2%).

Central and Eastern Europe is also recording very high growth rates, mainly due to GDP trends that are close to 7% for Russia and above 8% for Poland. Yet the real revelation is the Eurozone, the world economy's "third driver", that according to expectations will hold on to its growth trends also in 2007. This at least is the position maintained by IMF that, in the draft World Economic Outlook published in Spring, has envisaged a growth rate for Euroland of 2.3% both in 2007 and in 2008. The role of Germany is crucial, considering that recovery in this country does not seem to have been affected by the increase of VAT, considering that growth estimates are pointing to the GDP increasing by 1.8% in 2007 and in 2008. France, that ended its year having increased its GDP by 2%, is expected to confirm a 1.9% rate this year and to rise to a 2.3% in 2008, while Spain, which now ranks amongst the leading industrialised countries, will achieve a 3.4% growth in 2007 and 3.3% in 2008. The IMF draft recognised the primacy of the British market amongst the countries of G7, estimating that its GDP will grow 2.9% this year, and 2.7% in 2008.

In line with the slight slowdown envisaged in terms of world economic expansion, in 2007 the Italian economy is expected to follow the economic trends depicted for the rest of Europe. Following the 2% brought home in 2006, IMF estimates forecast that the national GDP will grow by 1.8% in 2007 and

Table 21 - Real GDP rate of growth: comparison of forecasts.
Years 2005-2008

	2005	2006	2007	2008
	Italy			
ISTAT March 2007	0,0	1,9	-	-
Government December 2006*	0,0	1,6	1,3	1,8
FMI September 2006	0,0	1,5	1,3	-
ISAE October 2006	0,0	1,8	1,3	-
Prometeia December 2006	0,0	1,8	1,3	1,5
Unioncamere Studies Centre December 2006	0,0	1,7	1,4	-
ERC October 2006	0,0	1,8	1,2	-
Confindustria Studies Centre December 2006	0,0	1,8	1,4	-
OECD November 2006	0,0	1,8	1,4	1,6
European Commission February 2007	0,0	1,7	1,4	1,4
Ref.Irs February 2007	0,0	2,0	1,7	1,8
	Veneto			
ISTAT January 2007	-0,8	-	-	-
Prometeia December 2006	-0,8	1,9	1,2	1,5
Unioncamere Studies Centre December 2006	-0,8	1,9	1,4	-

(*) Italy stability programme (December 2006)

Source: data from sources mentioned processed by Unioncamere of Veneto

by 1.7% in 2008. Despite being lower than the European and world average, these figures definitely place Italy in an economic boom scenario, with the Italian economy blooming as never before since 2000.

Recovery will continue also in 2007 but growth will not necessarily accelerate. This is the position maintained by the main research institutes that for 2007 have predicted a less brilliant development scenario if compared to 2006. Based on the estimates released by Prometeia and Isae, the growth rate of national GDP should end up on a 1.3% that is in line with the forecasts provided by the Government² in its updated review. The expectations of the Study Centre of Unioncamere (+1.4%) are more optimistic and mirror the forecasts provided by the European Commission and Ref (+1.7%), while OECD envisages a more vigorous growth for Italy with development rates standing at 2.2% rather than 1.4% as shown in the latest Outlook³.

In any case, all are encouraging outlooks that, combined with the data on the early months of 2007, provide good expectations for the ongoing year.

In January, the industrial production index was up 4.2% against the same month in 2006 (+1.3% is the working-day adjusted figure). Again in the month of January 2007, total exports increased by 15% against the same period in 2006, mainly due to the positive trend of exchanges with the EU (+19.4%). In February 2007 consumer confidence soared, flanked by similar trends in the manufacturing sector.

If the signals of the early months of 2007 are to be heeded, the Italian economy is expected to continue moving along the pathways of growth, albeit

¹ See *Italy's Stability Programme (December 2006)*

² *OECD Economic Outlook (December 2006)*

2007 growth rates for Italy range
between 1.3% and 1.7%

Table 22 - Forecast scenario for 2007: comparison between Veneto, NorthEast and Italy

	Veneto	NorthEast	Italy
	2007	2007	2007
Gross domestic product	1,4	1,6	1,4
Regional balance (% internal resources)	2,2	1,8	-0,2
Domestic demand	1,4	1,3	1,2
Household spending	1,4	1,2	1,2
Gross fixed capital formation	2,1	2,2	2,3
machinery and systems	4,2	4,5	3,5
construction and buildings	-0,2	-0,1	0,7
Import of good from abroad	4,5	4,3	3,5
Export of good to foreign countries	4,2	3,9	4,4
Added value at basic prices			
agriculture	0,8	0,8	1,2
industry	0,8	1,2	1,3
construction	0,4	0,5	1,4
services	1,7	1,7	1,3
total	1,3	1,5	1,3
Labour units			
agriculture	-0,6	-0,7	-0,6
industry	0,2	0,3	0,3
construction	0,4	0,5	0,4
services	0,7	0,6	0,7
total	0,5	0,5	0,5
Typical ratios (%)			
Employment rate	44,5	45,0	39,4
Unemployment rate	3,3	3,1	6,8
Rate of activity	46,0	46,4	42,2
Available earnings qt current prices	2,8	2,9	3,0
Consumption deflator (% change)	2,0	2,0	2,0

Source: Unioncamere - Prometeia (December 2006 forecasts)

For Veneto, the forecasts estimate a growth of approximately 1.3% in 2007

decelerating against 2006. Forecasts hint to a less evident increase in domestic demand (+1.2%), characterised by families spending less on consumer goods (+1.2%) while gross fixed investments seem to be steady (+2.3%), linked to the lower support to growth provided by the construction industry (+0.7%). Despite a less dynamic world trade and the appreciation of the Euro, exports will once again be on a positive trend (+4.4%) although they will decrease against 2006. As for the labour market, employment is expected to grow at a more modest rate for 2007 (+0.5%) and the unemployment rate is expected to drop against 2006 (6.8%).

As far as Veneto is concerned, the forecasts for 2007 seem to provide a favourable outlook. The estimates provided by the Study Centre of Unioncamere last December refer to a growth of GDP of around 1.4% for 2007, which is more optimistic than the Prometeia forecasts that estimate that the regional economy will grow by 1.2%.

These forecasts are encouraging, especially considering the expectation that the Northeast will be the most dynamic area in Italy (+1.6%). Indeed, in 2007, the outlook traced by Unioncamere places it with Emilia Romagna at the head of the main Italian regions for growth rate, ahead of Trentino Alto Adige (+1.6%) and Friuli Venezia Giulia (+1.5%).

As to the sectors that make up the demand, in 2007 in Veneto the household spending for consumer goods will grow by 1.4% while gross fixed capital

investments will increase by 2.1% and refers to the purchase of plant and machinery (+4.2%) that is expected to offset the decrease of investments in constructions and buildings (-0.2%). Forecasts for foreign demand are also positive (+4.2%), as the “made in Veneto” products regain their competitive edge, thus ensuring that foreign trade will reach a reasonable level of success. In 2007, imports are expected to increase by 4.5%.

Good news also on the labour market side: in 2007, employment will grow by 0.5% while unemployment is expected to go right down to 3.3%.

Cautious optimism for the first half
of 2007

There is cautious optimism amongst the Veneto’s manufacturing companies for the first half of 2007. According to the *VenetoCongiuntura* survey conducted by the regional *Unioncamere*, the balance between expected increases and forecast decreases in industrial production come +14%, thus increasing compared to the previous estimate, while the forecasts for turnover (+16% balance) is stable. There is growing concern in reference to domestic demand (from +15% to +12.3%) that contrasts with the optimism shown for foreign orders (from +11.5% to +21%). Some apprehension is felt once again for a possible increase in sales prices (balance rated between 19% and 26%). Employment forecasts are cautious: the balance between expected increase and forecast decrease stand at +0.6% for micro-enterprises and at +2.3% for companies employing over 10 staff.

5. Innovation and the knowledge-based economy in Veneto: a comparison with European regions

The conclusions of the EU Council held in Lisbon in 2000 brought innovation to the limelight setting it as a crucial objective for the achievement of the European Union's new strategic target of becoming, by the year 2010, the most competitive and dynamic economy in the world, to achieve growth while providing new and better jobs.

The European Union currently invests in Research and Development (R&D) less GDP than its main competitors (United States and Japan) and has, as a consequence, called upon Member States to increase funding to research and to adopt measures to encourage national private investments. More specifically, it sets the objective of the allocation of at least 3% of GDP in R&D, a figure that the private sector should contribute to by two thirds, to finance the country's strategic requirements in terms of research.

The indicators relating to innovation in Italy and Veneto also show a rather large discrepancy from the targets. Nevertheless, the assessment of progress in the field of innovation achieved in European Regions and mainly by Veneto does not provide the full picture if we restrict our scope to public and private expenditure as a percentage of GDP.

As a result, the scope of the paragraph below is to provide an overview of innovation trends in Veneto and in European regions, adding to the information provided by Eurostat the results that have emerged in more recent studies.

It is no news that Eurostat data (updated as of 2003) enable the assessment of innovation levels on a regional basis by making reference to the following basic indicators:

- R&D expenditure as a % of GDP;
- the amount of R&D expenditure subsidised by the private sector;
- employees working in the field of R&D (absolute value and percentage of total employed);
- percentage employed in activities in the field of science and technology (S&T);
- percentage employed in S&T having a university-level qualification and coming from science faculties;
- percentage employees in hi-tech and knowledge-intensive areas in manufacturing and services;
- number of applications for patents presented to EPO in reference to work force and type of patent.

These indicators have been used to contrast the position of Veneto with that of the following regions: Piedmont, Lombardy, Emilia Romagna, Tuscany, Catalonia, Baden-Württemberg, Bayern and Rhône-Alpes.

If reference is made to the ratio between the expenditure for R&D and GDP, Veneto ranks rather below the represented European countries (0.7% in 2003), especially if we compare the results achieved by the German regions of Bayern and Baden-Württemberg, whose innovation potential has already exceeded the 3% target set in Lisbon. Even the percentage of R&D expenditure funded by the private sector is still far from the target of two thirds of the total amount, standing as it does at a mere 45.2%. This percentage not only falls short of that recorded in the other represented European Regions but it also falls short of the levels achieved in the other Italian regions that Veneto competes with, with the

sole exception of Tuscany.

The number of staff employed in R&D as a percentage of total employees once again sees Veneto lagging behind in comparison with the other represented regions: a mere 0.7% of employees work in R&D while the Italian average stands at 1.1% and the EU average at 1.5%. More recent data refer to employees (these are 2005 data) working in the field of science and technology. In Veneto, 26.4% of employees work in these fields, enabling the region to rank only just ahead Piedmont (26.1%) and the Spanish region of Catalonia (23.5%). All the other represented regions perform above the UE-25 average. It is interesting to note that within this category of workers, in Italy graduates represent around 36% of the total (34.9% in Veneto), while the percentage exceeds 50% in the other European regions, with Catalonia soaring above everybody else with a 74.6%. This indicator shows that the demand for highly trained graduates is limited, compared to the percentage of workers who attend vocational training courses during their working life.

Table 23 – Main European indicators of innovation for some European regions.
Year 2003

REGIONS	RESEARCH AND DEVELOPMENT EXPEDITURE (R&S)				R&S PERSONNEL (2003)	
	% for 2003 of total expenditure		change in penc. points 1999-2003		Total R&D personnel on total employment	
	% on GDP	% of business enterprise R&D expenditure on total R&S expenditure	% on GDP	% of business enterprise R&D expenditure on total R&S expenditure	absolute value	% on total employment
Piedmont	1,6	76,9	-0,0	-4,6	23.954	1,3
Lombardy	1,2	66,2	0,1	-7,2	46.023	1,1
Emilia Romagna	1,2	58,5	0,3	7,1	24.284	1,3
Tuscany	1,1	32,2	0,2	1,6	16.753	1,1
Veneto	0,7	45,1	0,2	2,7	14.813	0,7
ITALY	1,1	47,3	0,1	-2,1	249.782	1,1
Bayern	3,0	80,2	0,2	1,5	124.740	2,1
Baden-Württemberg	3,9	79,3	0,1	0,4	130.878	2,6
GERMANY	2,5	69,7	0,1	-0,0	664.731	1,9
Rhône-Alpes	2,6	68,1	0,4	0,2	:	:
FRANCE	2,2	62,6	0,0	-0,6	415.061	1,7
Catalogna	1,3	66,3	0,2	-0,6	49.909	1,7
SPAIN	1,1	54,1	0,2	2,1	249.969	1,5
EU15	2,0	64,5	0,1	-0,4	2.624.868	1,6
EU25	1,9	64,1	0,0	-0,5	2.892.092	1,5

: missing value

Source: Eurostat data processed by Unioncamere of Veneto

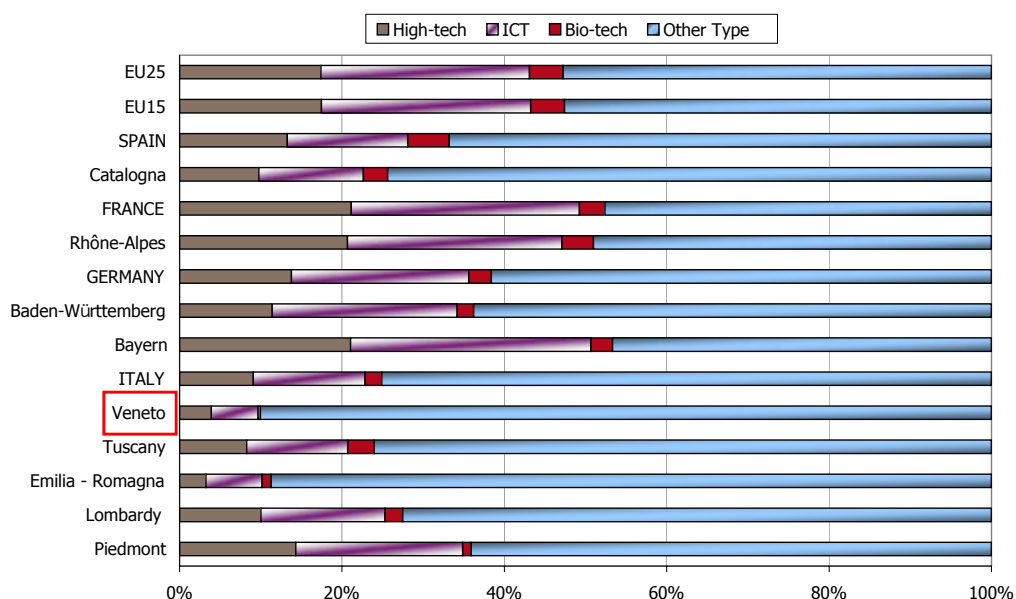
Taking into further detail the percentage of people employed in the *high-tech* and *knowledge-intensive* sectors in Veneto, the figures reach 10% in manufacturing, thus exceeding not only the EU-25 average (6.8%) and the Italian average (7.4%) but also the average percentages recorded in Tuscany, Catalonia and Rhône-Alpes. On the other hand, the services sector shows a clear delay in Veneto in the economy's shift towards the tertiary and the development of advanced services: a mere 2.7% of workers is involved in *knowledge-intensive* services, leaving Veneto and Emilia Romagna trailing behind all the other regions concerned (Tables 23 and 24).

When considering the number of applications for patents submitted to EPO in comparison to the work force, Veneto is clearly an exception if compared to the other considered regions: indeed it is the region that records the lowest number of patent registrations (17.5 patents per million employees) in absolute terms and in the "high-tech, ICT, Bio-tech" sectors. The leaders for registered patents are the German regions and Rhone-Alpes in France that exceed the average EU-25 average (Graph 13).

Overall, the assessment of these first indicators shows Veneto in a critical position in terms of innovation if compared to its European counterparts. There is no indicator that places Veneto in a position of excellence, despite its distinction in terms of a developed economy providing high income levels and social trends that are close to those identified in the other considered regions.

However, when contrasted with the region's position on the eve of the Lisbon summit (1999) there are clear signs of encouragement for Veneto, notably a slight progress in the field of innovation. More specifically, compared to the considered European regions, Veneto shows significant increase in the amount of R&D financed by the private sector (+2.7%), in the percentage of human resources over the total workforce employed in S&T (+4.8%) and the percentage of people working in high tech services (+1%).

Graph 13 – Number of patents by type for some European regions. (% distribution per million of labour force). Year 2003



Source: Eurostat data processed by Unioncamere of Veneto

In addition to the data provided by Eurostat, another useful source of information for monitoring the rate of innovation of European economies

Table 24 – Main European indicators of innovation for some European regions.
Year 2005

REGIONS	HUMAN RESOURCES EMPLOYED IN SCIENCE AND TECHNOLOGY				PERC. OF HUMAN RESOURCES (HR) EMPLOYED IN HIGH-TECH AND INTENSIVE KNOWLEDGE(1) SECTORS			
	% for 2005		change in perc. points 1999-2005		% for 2005		change in perc. points 1999-2005	
	% on labor force	of which % with tertiary level	% on labor force	of which % with tertiary level	Manufac. MHT	Services KI and HT	Manufac. MH	Services KI and HT
Piedmont	26,1	36,1	5,2	4,5	12,4	3,6	-1,6	0,2
Lombardy	31,2	34,3	7,6	-0,5	11,1	3,3	-0,4	0,2
Emilia Romagna	27,5	34,4	6,1	-3,1	10,3	2,5	0,5	0,2
Tuscany	29,1	36,6	7,9	1,6	5,6	3,0	-0,2	0,4
Veneto	26,4	34,9	4,8	1,2	10,0	2,7	-0,1	1,0
ITALY	27,2	38,2	5,4	1,1	7,4	2,9	-0,3	0,2
Bayern	33,1	49,1	3,2	3,4	12,1	3,5	-1,3	0,3
Baden-Württemberg	33,6	50,9	1,9	1,6	17,7	3,8	-0,1	0,6
GERMANY	31,9	50,0	2,1	1,6	10,4	3,4	-0,4	0,6
Rhône-Alpes	28,2	59,7	1,6	-2,3	8,1	3,8	-0,8	-0,3
FRANCE	28,0	60,4	3,3	-0,5	6,3	3,9	-0,9	0,1
Catalogna	23,5	74,6	5,0	4,8	8,1	3,0	-1,2	0,7
SPAIN	21,8	76,5	4,4	2,9	4,7	2,8	-0,8	0,6
EU15	27,7	57,4	2,9	2,1	6,8	3,5	-0,9	0,3
EU25	27,0	56,8	:	:	6,8	3,4	:	:

(1) MHT=Medium and High Technologies; HT=High Technologies; KI=Knowledge Intensive

Source: Eurostat data processed by Unioncamere of Veneto

is supplied by the *European Innovation Scoreboard (EIS)*, which is drawn up yearly by the EU Commission¹, describing a set of complex indicators that are also based on Eurostat data, but which also assess other features of the innovation process.

The latest report considers 7 indicators that are available for 203 regions of EU-25:

- population that attended post-secondary education (age group 25-64, year 2004);
- attendance of vocational training initiatives (age group 25-64, year 2004);
- workers employed in medium-high, high technology manufacturing activities with (on total workforce);

¹ The 2006 edition of the *European Innovation Scoreboard (EIS)* report was drawn up by the Maastricht Economic Research Institute on Innovation and Technology (MERIT) and by the European Commission's Joint Research Centre (Institute for the Protection and Security of the Citizen). EIS is a tool that was developed by the European Commission as a follow-up to the Lisbon strategy, with the aim of assessing and comparing the performance of European Union Member States in the field of innovation.

- workers employed in high-technology services (on total workforce);
- public expenditure for R&D (% of GDP);
- private expenditure for R&D (% of GDP);
- number of patent applications submitted to EPO (per million inhabitants).

The summary innovation index (RRSII – Revealed Regional Summary Innovation Index²) is calculated based on the weighted average of another two indicators: one is calculated nationally (RNSII) and the other at European level (REUSI I).

The results of the assessment enable the regions to be ranked and hierarchically grouped into clusters based on their summary index (Table 25).

Table 25 – Ranking of European and Italian regions ordered by synthetic index of innovation (RBSII). Year 2006

rank	Region	RRSII
1	Stockholm (SE)	0,90
2	Vastsverige (SE)	0,83
3	Oberbayern (DE)	0,79
...
44	Lazio (IT)	0,57
71	Lombardy (IT)	0,49
73	Piedmont (IT)	0,49
81	Emilia Romagna (IT)	0,47
94	Liguria (IT)	0,44
95	Friuli Venezia Giulia (IT)	0,44
104	Tuscany (IT)	0,43
109	Abruzzo (IT)	0,42
122	Veneto (IT)	0,40
132	Marche (IT)	0,35
152	Campania (IT)	0,31
159	Basilicata (IT)	0,29
165	Molise (IT)	0,27
170	Valle d'Aosta (IT)	0,26
177	Sicily (IT)	0,25
184	Sardegna (IT)	0,23
185	Puglia (IT)	0,22
188	Calabria (IT)	0,20
...
201	Dytiki Makedonia (GR)	0,07
202	Voreio Aigaio (GR)	0,04
204	Notio Aigaio (GR)	0,01

Source: MERIT - Maastricht Economic and social Research and training centre on Innovation and Technology - data processed by Unioncamere of Veneto

² The method is described in full in "Hugo Hollanders - 2006 European Regional Innovation Scoreboard (2006 RIS)"

Through the assessment it is also possible to identify weaker and stronger innovation areas in each region and compare the performance of neighbouring regions or regions belonging to the same cluster.

In the list ranking the 203 European regions, Veneto is assigned a RRSII rating of 0.4, meaning it ranks 122nd and is positioned in the same group that includes the Italian regions of Emilia-Romagna, Liguria, Friuli-Venezia-Giulia, Tuscany, Umbria and Abruzzo.

By breaking the indicator down into its components, the main features identified for Veneto are the relative weakness of private investments in R&D (a problem shared with all the Italian regions, with the exception of Piedmont and Lombardy) and the number of science graduates working in S&T, while its strength lies in the relatively higher number of science graduates employed in the medium-high technology manufacturing sector.

If we take each of the 7 indicators that constitute the summary index individually, the reasons for Veneto's poor inclination towards science-based innovation become clear. The comparison provided in table 26 shows Veneto as an innovative region compared to the Italian leaders solely in the field of workers' attendance of training initiatives and the number of persons employed in medium-high technology manufacturing activities.

The latter indicator in particular shows results that exceed the European average, while for the remaining indicators, Veneto lags behind in terms of performance, especially for private investments and R&D.

Table 26 – Leader regions for innovation in Italy and in Europe (EU-25=100).
Year 2003

Indicator	Leader Regions		Veneto (value)
	European region (Country, value of indicator)	Italian region (value of indicator)	
Human Resources in science, technol. and communic.	Stockholm (SE, 210)	Lazio (71)	52
Life long learning	Sydsverige (SE, 318)	Friuli VG (79)	78
Medium and high tech Manufacturing	Stuttgart (DE, 302)	Piedmont (200)	140
High tech services	Praha (CZ, 210)	Liguria, Piedmont (117)	57
Research and Develop. in public sector	Midi-Pyrénées (FR, 309)	Lazio (182)	45
Research and Develop. in business sector	Braunschweig (DE, 373)	Piedmont (119)	19
Patents	Oberbayern (DE, 623)	Emilia Romagna (127)	84

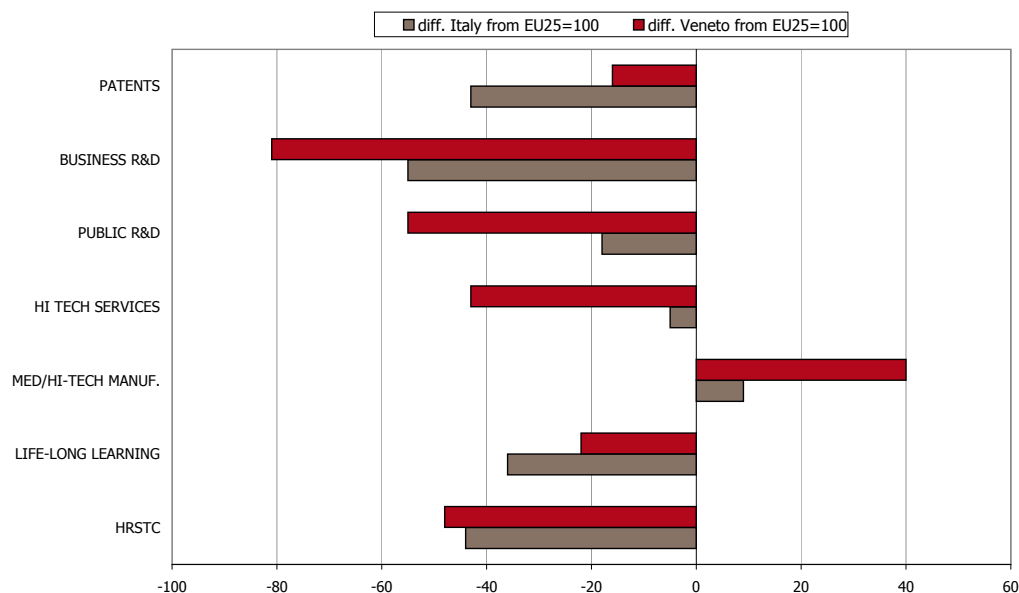
Source: MERIT - Maastricht Economic and social Research and training centre on Innovation and Technology - data processed by Unioncamere of Veneto

At this point it is important to understand whether Veneto is evolving on the innovation front and which direction it is taking when compared to European Regions, to establish whether Veneto economy's poor innovation capacity are about to be improved or not.

The overall assessment, in addition to the assessment of the different innovation indicators taken individually (patents, public and private R&D expenditure,

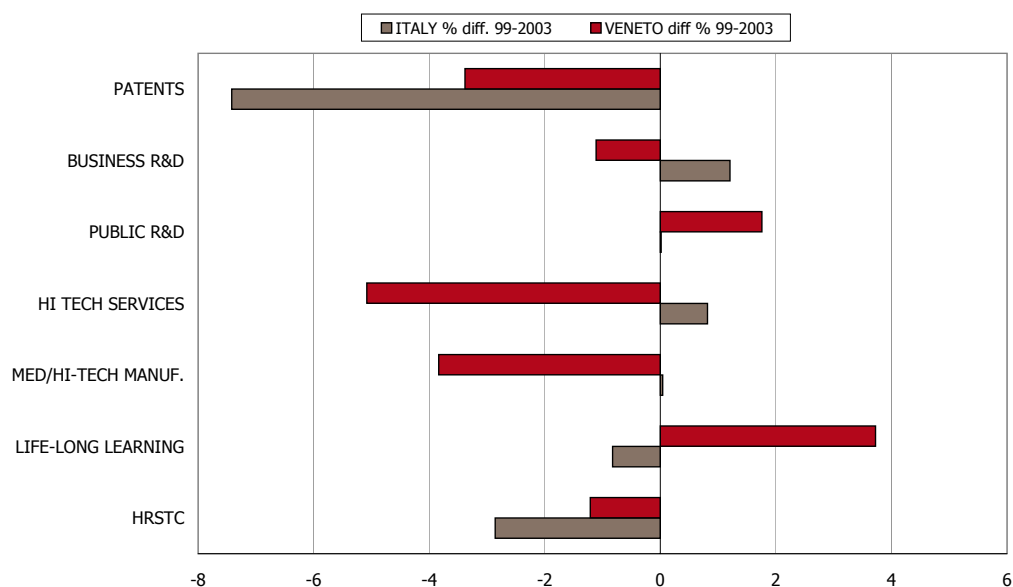
high-tech services, medium-high technology manufacturing industry, life-long training and science graduates working in S&T), does not however clarify the link between economic growth and innovation in Veneto 's economic fabric.

Graph 14 – Italy and Veneto. Innovation indicators, difference from European average (EU25=100)



Source: Eurostat data processed by Unioncamere of Veneto

Graph 15 - Italy and Veneto. Innovation indicators, difference in percent. points 1999-2003



Source: Eurostat data processed by Unioncamere of Veneto

If on the one hand there are concrete constraints relating to the need to update Eurostat indicators, on the other, the model apparently only partly explains why Veneto manages to stand amongst the European Regions with a per capita income of 27,385 Euro (assessed on an equal purchasing-power basis)

which is higher than both the EU-15 (24,336 Euro) and the EU-25 (22,414 Euro) averages. If innovation is taken as an indication of an area's economic growth, presumably there are some specific features that characterise the region's system that have not been picked up or that are hard to measure, but which are essential to draw the full picture of innovation in Veneto's economic system.

Much of the innovation capacity shown by companies in Veneto is achieved by its ability to creatively adapt existing solutions to new requirements. Another issue that can easily be used as a yardstick for measuring the innovation potential of an economic system is the availability of human and creative resources, which cannot be picked up by a basic survey on the workforce, since such survey will not measure the actual qualities of workers as it usually merely reports the employment of graduate staff.

If we accept the above statement, we suggest that compared to other European regions, Veneto has ably resorted to competitive factors that are not included in those identified by the EIS indicators. These factors are clearly expressed in the field of design, planning, product and process engineering, the acquisition of patents, the assessment and inclusion of production technologies, market surveys and communication.

Then there are further three issues that are essential for the economy of Veneto: the first issue is linked to its strong drive towards the international markets, the second relates to the presence of production districts or clusters, while the third relates to the presence of large industrial leaders in their field of industry.

The technological spill-over effects arising from the above belittle the importance of formal investments in R&D by Veneto's SMEs that can rely on a broad network of knowledge. Hence the clear need to adjust the assessment of Veneto's economy capacity for innovation, as it differs from the mainstream concept of innovation that prevails in Europe.

An alternative to the traditional assessment is provided by the establishment of dedicated assessments on innovation pathways set up by SMEs and their outcomes in terms of profitability and achieved growth. An example is the survey performed jointly by TeDis and Banca Intesa on the SMEs of the Italian Industrial Clusters³. The survey highlighted that a core of companies focusing on Italian-made products has managed to increase their profit well above the average for their field of industry, despite the concrete problems encountered in recent years, as a result of strategies that the individual companies had developed in terms of technological innovation, product innovation and ICT.

In consideration of the fragmentation that characterises its production system and the individualistic mentality of its entrepreneurs, it is thus essential for Veneto to learn to work in a networked system, by setting up an open network of knowledge and relationships between enterprises and between the latter and the academic/research communities. This requires the adoption of a new mindset, that will provide the tools needed to rise to the challenge of competition and where the role of cross-cutting scientific knowledge that is shared within a given area of industry, the quality of human capital and technology resources will make the difference and will enable economic players to continue to compete with the best on the international market.

3 Chiarvesio M., Trenti S., 2005, *Competitiveness and innovation in SMEs*, Iged, no.3