

ITALY

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GENERAL ECONOMIC SITUATION IN ITALY IN 2007

GDP rose in 2007 by 1.5 percent, showing a slowdown respect to 2006 (+1,8 percent). The trend in output was closely *related to domestic components of demand*, both investment and especially *consumption* which was boosted by the rise in disposable income and policies to encourage spending on durable goods. *No relevant contribution to growth* came instead *from external demand*, which was *affected by the appreciation of the euro* and the slowdown in Italy's main export markets.

During the year economic activity gradually weakened and it appears to have stagnated in the final quarter. The acceleration in prices of energy and food products and the tightening of credit conditions associated with the turmoil in financial markets were among the factors curbing *household spending* in second half of the year.

The going on of the upward phase during first 3 quarters of the year generated an expansion in employment in all areas of the country in 2007 and the *unemployment rate* declined to the historically low level of 5,6 percent on 3rd Q., but showed a new growth in 4th Q (6,6 percent).

On annual average basis, *consumer price inflation* declined slightly in 2007, to 1,8 percent (2,1 percent in 2006). This result, however, was affected by the acceleration registered after the summer (+2,6 percent in 4th Q), due to rising pressures in the energy and food markets.

Italy started 2008 year suffering the euro appreciation, the weakness of United States economy, the all-time peaks of crude oil prices, rising food raw materials prices, troubles on financial markets and a national political situation to restart after last week elections.

THE PERFORMANCE OF THE PULP AND PAPER INDUSTRY IN 2007

1,000 Tons	2006	2007	2007/2006 %
Pulp production (woodpulp)	502	498	-0,8
Paper and board production	10.008	10.112	1,0
- Graphic papers	3.381	3.458	2,3
- Packaging grades	4.661	4.681	0,4
- Household and sanitary papers	1.411	1.451	2,9
- Others	556	522	-6,1
Paper and board Exports	3.502	3.514	0,3
Paper and board Imports	5.262	5.297	0,7
Paper and board Consumption	11.768	11.894	1,1

With reference to P&B production, 2007 **P&B production** was over **10,1 million tons, +1 percent respect to 2006**. As far as 2008 is concerned, 1st Q production (official figures for January and February an estimates for March) show -2 percent respect to same period 2007, due to low March production because of Easter holidays.

Turnover was over 7.66 million of €¹² in 2007, for the first time over the top registered on 2000 year, **+5.7 percent respect to the 2006 value** (7.25 million €). This result was also due to the *positive trend observed in prices, generally moderate but not uniform for different products*: difficulties are still characterizing graphic sector while packaging and tissue showed a fairly good dynamism mainly during 1st 9 months of the year. During 4th Q 2007 and 1st Q 2008 market situation appeared changing also for these sectors showing reducing or stable prices.

It is necessary to remember that among 2000 and 2007 while production grew by 11 percent, turnover rose by 0,8 percent only, in presence of production costs in continuous and sustained growth.

This way, the situation of the P&B sector as a whole remains not easy and characterized by heavy concerns regarding:

- levels reached by gas and energy prices due to continuing rises of brent quotations, even if accompanied by the weakness of US dollar,
- fibrous raw materials quotations trend. In addition to virgin raw materials rises, we cannot forget remarkable increases for different types of recovered paper: between +11 and +78 percent depending on qualities on last December respect to the end of 2006 and other new increases during this first part of the year respect to very high levels of same period 2007.

Market penetration politics acted by emerging Far East countries, mainly China, going on being further elements of strong uncertainty to be kept under control. The reorganization process of Italian paper sector is going on with mergers, rationalizations in production which require some shuts down, but also some restarts or potentiations of activity.

¹² Turnover historical series were revised to take in account the correction of a previous overestimate of household and sanitary papers.