



Isae-Assolombarda Quarterly Survey on the Manufacturing and on the Business Services Sectors



Reference period: Third Quarter 2008

released on 14th November 2008

The heavy international financial crisis reflects its effects on business confidence in the Euro Area, in Italy and in the Milan area. In the third quarter of 2008 the confidence of manufacturing sector fell of 7 points in the whole Euro Area, sliding to its minimum level since the second half of 2005. The reduction was widespread to all main countries; in Italy the index went down from 87.5 to 82.7, plunging to its minimum value from the last quarter of 1993 and in the Milan area the index slid from 89.4 to 81.4. Even the confidence of the business services sectors slumped on its historical lowest level both in Italy and in the Milan area.

Examining the variables of manufacturing confidence, assessments on orders and expectations of production plummeted in the whole Euro Area, in the main countries (France, Germany and Italy) and also in the Milan area; inventories continued to grow slightly.

In Italy and in the Milan area, business services entrepreneurs were more pessimistic in the third quarter of 2008, after the slight improvement in the confidence index showed in the second quarter of the year. At national level the assessment and, above all, the expectations on orders dropped on their historical lowest levels and also expectations on economic situation went down. Instead, in the Milan area assessments on orders and expectations on the economic situation plunged on their historical minimum level, while the expectations on orders improved.

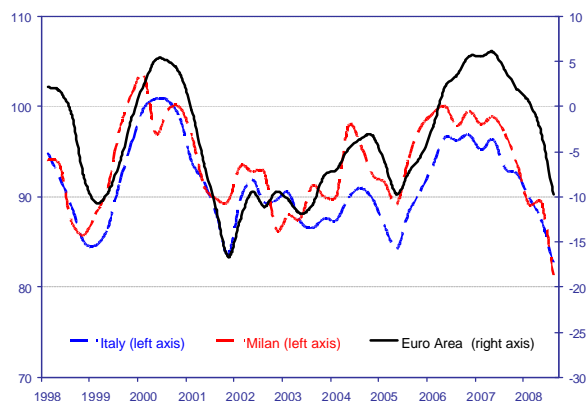
The next survey, related to the Fourth Quarter of 2008, shall be released on February 2009.

Manufacturing sector

- Confidence Climate¹**

In the Euro Area manufacturing confidence reduced for the fifth consecutive quarter, falling to its minimum since the second half of 2005. The drop is stronger in France (from -4 to -11, its minimum since the third quarter of 2002), in Germany (from 1 to -8) and in the Milan area (from 89.4 to 81.4), while the fall is milder in Italy (from 87.5 to 82.7).

Confidence Climate – Manufacturing Sector



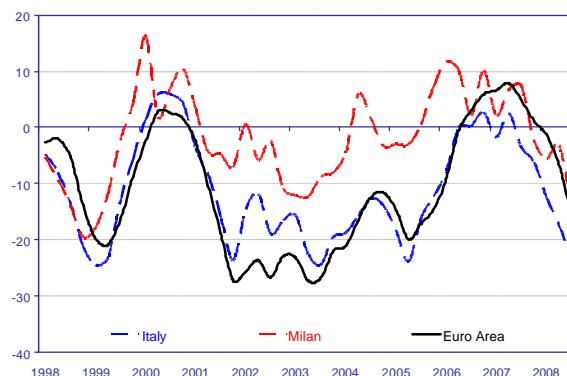
Confidence climate (seasonally adjusted data)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2007	2	3	2	92,5	93,6
first quarter 2008	0	2	2	89,9	89,1
second quarter 2008	-3	1	-4	87,5	89,4
third quarter 2008	-10	-8	-11	82,7	81,4

ASSESSMENTS:

- Assessment on Orders**

In the Euro Area and in Italy, entrepreneurs expressed more negative assessments on current demand: the balance in the whole Euro Area plummeted to its lowest level for the last three years, showing a sharp reduction in France, in Italy and, in particular, in the Milan area, while the fall was less strong in Germany.

Assessment on Orders - Manufacturing Sector



Orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2007	1	6	1	-6	-2
first quarter 2008	-1	4	0	-12	-6
second quarter 2008	-6	1	-7	-17	-3
third quarter 2008	-15	-9	-16	-23	-13

¹ The manufacturing confidence indicator is the arithmetic average of the seasonally adjusted data on production expectations, order books and stocks of finished products (with inverted sign).

Data referred to Euro Area, Germany and France are seasonally adjusted using Dainties method. The European Commission performs the Euro area aggregation using gross value added at constant prices.

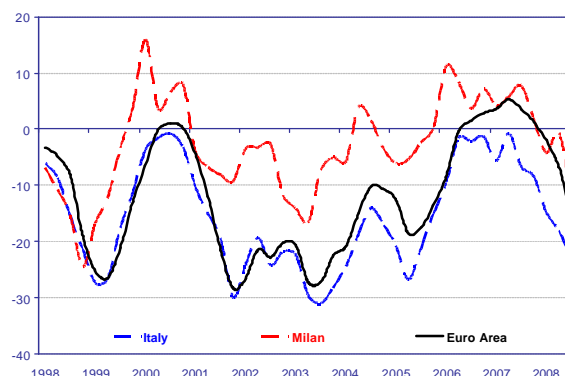
Data referred to Italy and the Milan Area are seasonally adjusted by ISAE and Assolombarda using Tramo-Seats method and the index base is 2000=100.

In spite of statistical differences, historical series are homogenous and comparable.

• **Assessment on Foreign Orders**

In the Euro Area the drop in total orders reflected a negative performance in foreign markets, widespread to all main countries.

Assessment on Foreign Orders – Manufacturing Sector

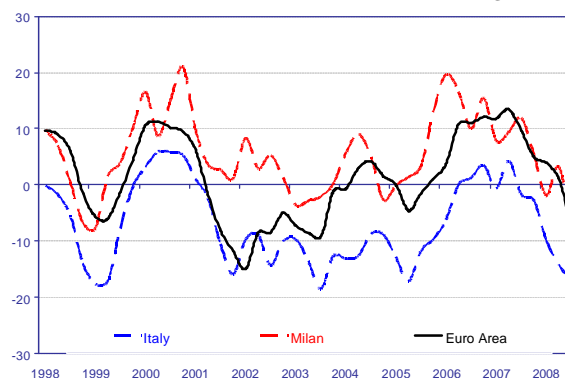


foreign orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2007	1	5	4	-8	2
first quarter 2008	-2	4	-1	-15	-4
second quarter 2008	-7	1	-4	-18	-1
third quarter 2008	-15	-7	-18	-23	-11

• **Production Assessment**

Assessments on production in the Euro Area fell for the fifth consecutive period. The reduction was stronger in Germany and in Milan, but it was also widespread to France and Italy.

Production Assessment- Manufacturing sector

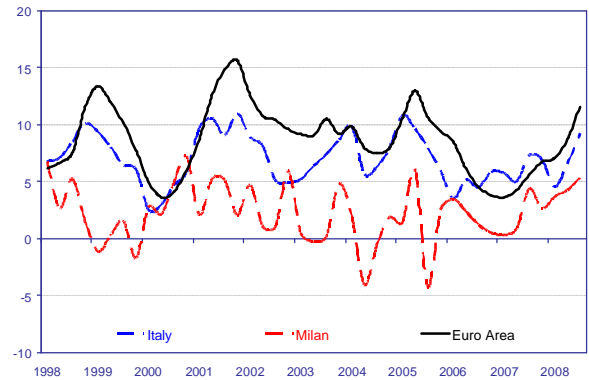


Production (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2007	5	3	15	-3	5
first quarter 2008	4	4	14	-10	-2
second quarter 2008	1	4	9	-14	3
third quarter 2008	-7	-8	0	-17	-8

Inventories

In the Euro Area inventories grew: in Germany they reached their highest levels for the last three years, and they rose above the long-term average also in Italy, while they were stable in France. In the Milan area stocks were substantially firm on levels higher than the normal ones.

Inventories - Manufacturing Sector



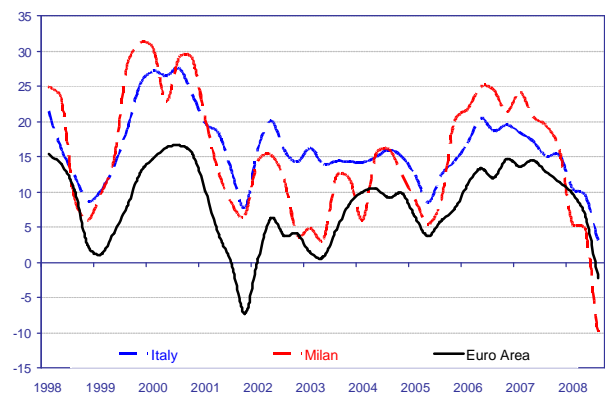
Inventories (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2007	7	6	9	7	3
first quarter 2008	7	6	10	5	4
second quarter 2008	9	6	15	7	4
third quarter 2008	12	10	15	9	5

SHORT-TERM EXPECTATIONS:

Production Expectations

At the European level, production expectations showed signals of deterioration in the third quarter: the balance worsened in the whole Euro Area and in the main countries. The reduction of production forecasts was very deep in the Milan area.

Production Expectations - Manufacturing Sector

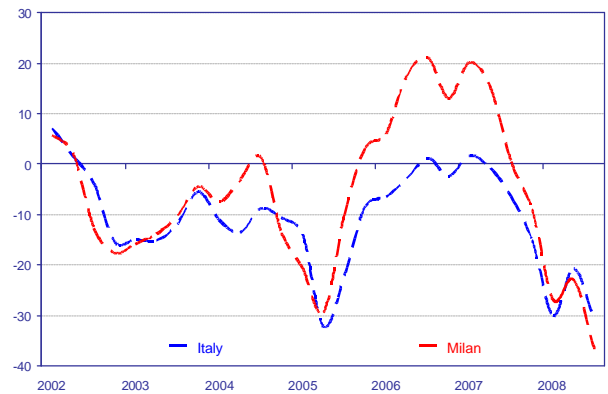


Production expectation (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2007	11	10	15	15	16
first quarter 2008	10	9	15	10	5
second quarter 2008	7	6	10	9	5
third quarter 2008	-2	-6	-2	3	-11

- Expectations on the Economic Situation²**

In the average of the third quarter entrepreneurs' opinions on the Italian economic situation were more pessimistic: the balance slid to its minimum level since the second quarter of 2005 in Italy and to its lowest level since the third quarter of 2001 in the Milan area.

Expectations on the Economic Situation - Manufacturing Sector



Expectation on the economic situation (seasonally adjusted balances)	Italy	Milan
fourth quarter 2007	-15	-9
first quarter 2008	-30	-27
second quarter 2008	-21	-23
third quarter 2008	-31	-37

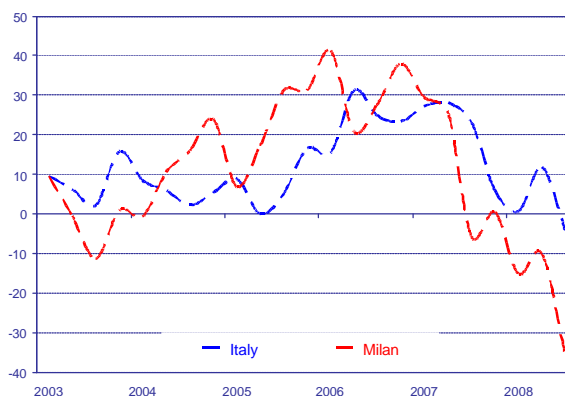
² The variable is not collected at the European level.

BUSINESS SERVICES³

- Confidence Climate⁴**

In the third quarter of 2008 the confidence plummeted both in Italy and in the Milan area. In Italy the index fell on the minimum value since the first quarter of 2003. Even in the Milan Area the index slumped on its historical lowest level after the slight rise of the previous period.

Confidence Climate – Business Services



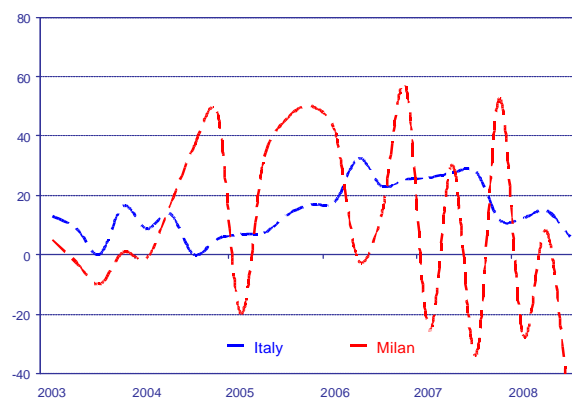
Confidence Climate (raw data)	Italy	Milan
fourth quarter 2007	6.0	0.5
first quarter 2008	0.7	-15.1
second quarter 2008	11.8	-10.0
third quarter 2008	-4.2	-35.6

ASSESSMENTS:

- Assessment on Orders**

The drop of the climate index was due, first of all, to the deterioration of assessments on orders. At the national level they decreased below the average of 2008; while in the Milan area they dropped on the minimum level since the first quarter of 2003.

Assessment on Orders - Business Services



Orders (raw balances)	Italy	Milan
fourth quarter 2007	12	53
first quarter 2008	12	-27
second quarter 2008	15	8
third quarter 2008	6	-54

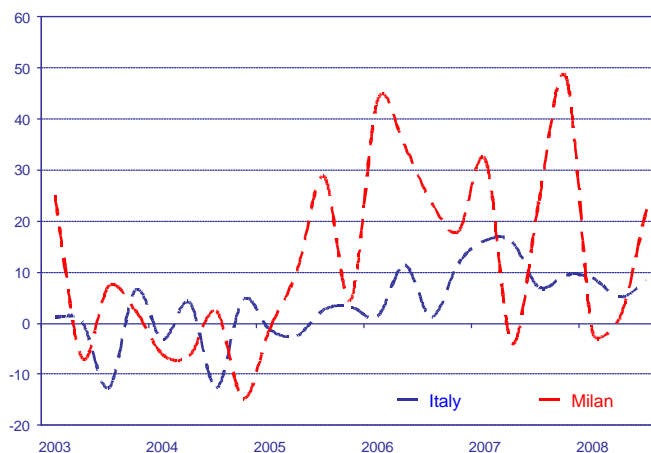
³ The sector includes: information technology, engineering, marketing and advertising, administrative and executive advice.

⁴ The confidence climate is the arithmetic average with the balances of the following variables: assessment and expectation on orders, expectation on economic situation.

- Assessment on Employment**

In Italy employment rose after the decrease of the second quarter; in the Milan area the improvement was higher.

Assessment on Employment - Business Services



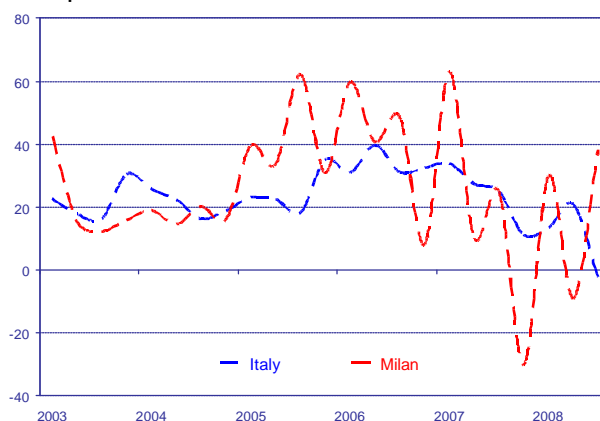
Employment (raw balances)	Italy	Milan
fourth quarter 2007	9	48
first quarter 2008	9	-2
second quarter 2008	5	1
third quarter 2008	8	22

SHORT-TERM EXPECTATIONS:

- Expectations on Orders**

Italian entrepreneurs were more pessimistic about the expectations on orders. On the contrary, in the Milan area entrepreneurs showed a greater optimism than in the previous period.

Expectations on Orders - Business Services

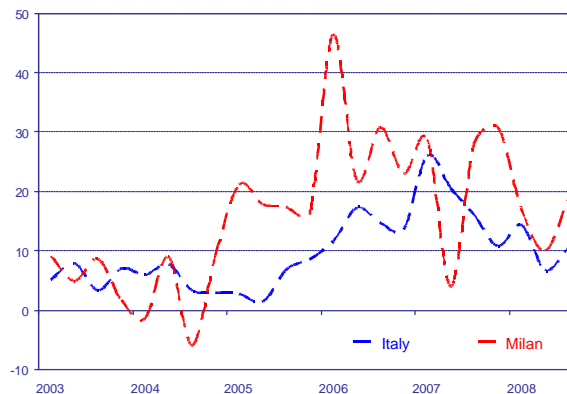


Expectation on Orders (raw balances)	Italy	Milan
fourth quarter 2007	11	-30
first quarter 2008	14	30
second quarter 2008	21	-9
third quarter 2008	-3	38

• **Expectations on Employment**

In line with the assessments on employment, the drop expected of the demand didn't transfer, at the moment, in a worsening of the expectations on employment; indeed they increased, recovering almost the lost of the previous period at the national level and reaching the value of the first quarter of 2008 in the Milan area.

Expectations on Employment - Business Services



Expectations on Employment (raw balances)	Italy	Milan
fourth quarter 2007	11	31
first quarter 2008	14	17
second quarter 2008	7	10
third quarter 2008	10	19

• **Expectations on the Economic Situation**

At last, entrepreneurs were pessimistic about the opinions on the economic situation both in Italy and in the Milan area. In particular, in the Milan area the index plunged to its minimum value since the first quarter of 2003.

Expectations on the Economic Situation – Business Services



Expectations on the Economic Situation (raw balances)	Italy	Milan
fourth quarter 2007	-5	-21
first quarter 2008	-24	-48
second quarter 2008	0	-29
third quarter 2008	-16	-92

Report written by Maria Grazia De Maglie (Assolombarda), Patrizia Margani (ISAE) and Valeria Negri (Assolombarda), with the coordination of Marco Malgarini (ISAE) and Pierangelo Angelini (Assolombarda).