



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



Reference period: Second Quarter 2008

released on 29th July, 2008

In the second quarter of 2008 confidence of the manufacturing sector continued to weaken in the whole Euro Area, with a strong drop in France, a slight decrease in Germany and in Italy and a mild improvement in the Milan Area. After the deep reduction of the first quarter of the year, confidence in the business services sectors recovered in Italy and, with a softer intensity, in the Milan Area.

In the Euro Area the reduction of confidence of the manufacturing sector is connected to a decrease in orders, which implied a growth of inventories, in particular in France; also production expectations for the next 3 months fell. In the Milan Area the mild increase of confidence was due to a rise in orders, in particular on foreign markets, and in production expectations, while inventories remained stable on levels higher than the standard ones.

After its minimum reached in the previous quarter, business services sectors confidence showed signs of improvement in Italy and, in a slighter way, in the Milan Area, where the index stand firm on historical low levels.

In Italy, assessments and expectations regarding orders and, above all, opinion on the general economic situation rose.

In the Milan Area assessments on orders grew, while expectations on demand worsened. Forecasts about the economic situation improved, even if negative indications remained higher than positive ones.

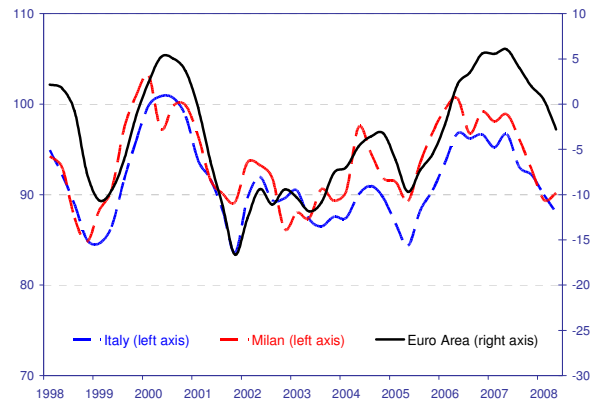
The next survey, related to the Third Quarter of 2008, shall be released on November 2008.

Manufacturing sector

Confidence Climate¹

In the Euro Area manufacturing confidence reduced of 3 points, plunging to its minimum since the end of 2005. The fall is stronger in France (with a decrease of 6 points), milder in Germany (the index reduced from 2 to 1) and in Italy (from 90 to 88). On the contrary, confidence improved a little in the Milan Area, after the reduction registered in the first period of this year.

Confidence Climate – Manufacturing Sector



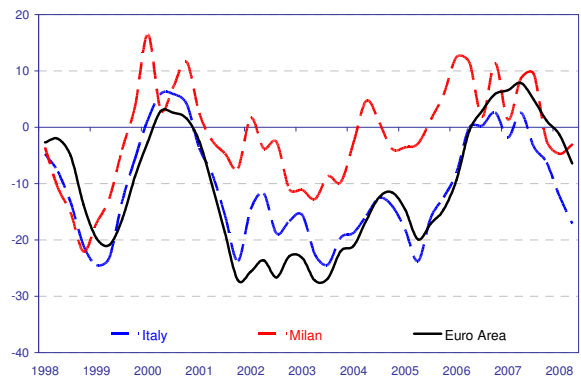
Confidence climate (seasonally adjusted data)	Euro Area	Germany	France	Italy	Milan
third quarter 2007	4	7	2	93	96
fourth quarter 2007	2	3	2	92	93
first quarter 2008	0	2	2	90	89
second quarter 2008	-3	1	-4	88	90

ASSESSMENTS:

Assessment on Orders

In the Euro Area and in the main European countries, assessments on orders reduced: the balance in the whole Euro Area plummeted to its minimum level for the last two years, with a deep decrease in France and in Italy and a milder fall in Germany. In the Milan Area demand recovered partially the drop of the beginning of 2008, even if the balance remained negative.

Assessment on Orders - Manufacturing Sector



Orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
third quarter 2007	5	11	2	-3	9
fourth quarter 2007	1	6	1	-6	-2
first quarter 2008	-1	4	0	-12	-5
second quarter 2008	-6	1	-7	-17	-3

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.

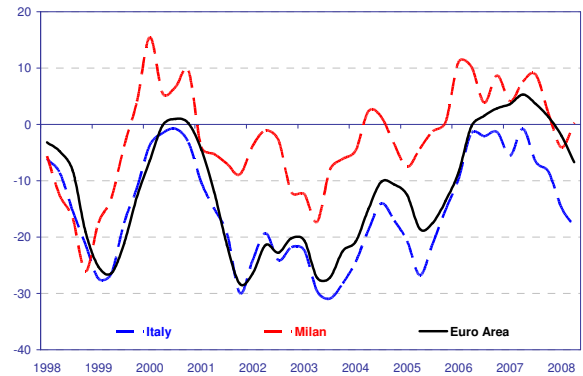
Data referred to Italy and the Milan Area are seasonally adjusted by ISAE and Assolombarda using Tramo-Seats method and the index base is 2000=100.

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. Instead, in the Milan Area the increase of foreign orders led the improvement of demand.

Assessment on Foreign Orders – Manufacturing Sector

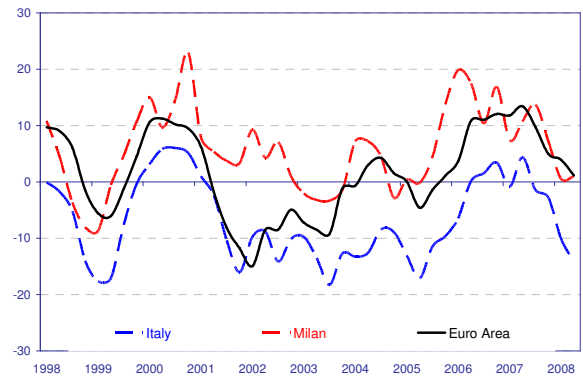


foreign orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
third quarter 2007	4	9	7	-7	9
fourth quarter 2007	1	5	4	-8	2
first quarter 2008	-2	4	0	-15	-4
second quarter 2008	-7	1	-4	-18	0

• **Production Assessment**

The decrease in demand came with a downsizing in production assessments: the deterioration was strong in Italy and in France, while in Germany and in the Milan Area balances stand firm on levels of the previous period.

Production Assessment- Manufacturing sector

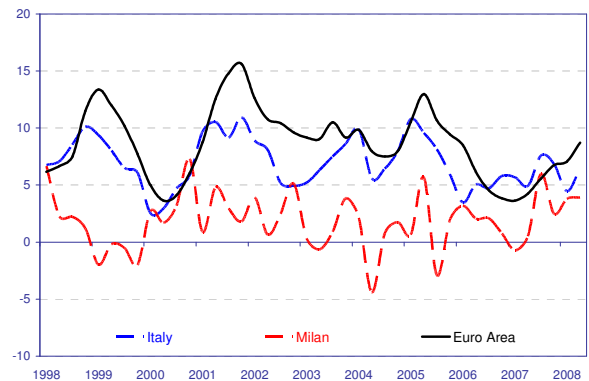


Production (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
third quarter 2007	10	9	17	-1	14
fourth quarter 2007	5	3	15	-3	7
first quarter 2008	4	4	14	-10	1
second quarter 2008	1	4	9	-14	1

Inventories

In the Euro Area inventories grew: in France they reached their highest levels for the last three years, and in Italy they rose above the long-term average. Instead, inventories were stable in Germany (for the third consecutive period) and in the Milan Area.

Inventories - Manufacturing Sector



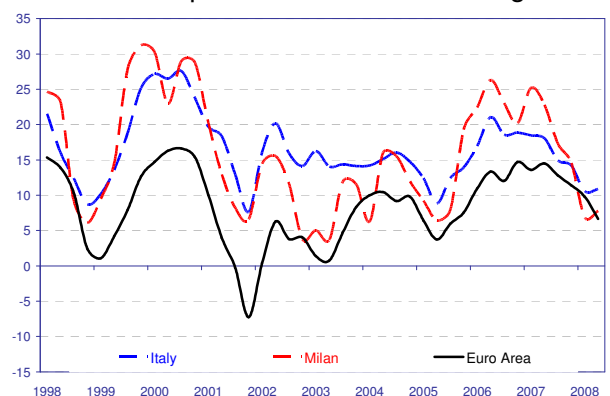
Inventories (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
third quarter 2007	6	3	10	8	6
fourth quarter 2007	7	6	9	7	2
first quarter 2008	7	6	10	4	4
second quarter 2008	9	6	15	6	4

SHORT-TERM EXPECTATIONS:

Production Expectations

At the European level, also production expectations showed signals of deterioration: the balance worsened in the whole Euro Area and, among main countries, in Germany and France. On the contrary, in Italy they remained firm on the value of the first quarter and grew slightly in the Milan Area.

Production Expectations - Manufacturing Sector

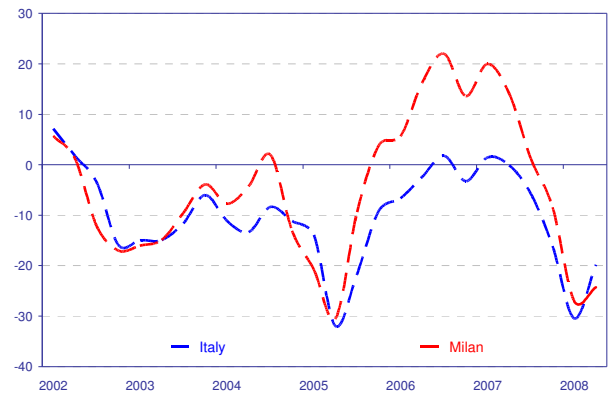


Production expectation (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
third quarter 2007	13	13	14	15	17
fourth quarter 2007	11	10	15	14	15
first quarter 2008	10	9	15	11	7
second quarter 2008	7	6	11	11	8

- Expectations on the Economic Situation²**

In the second quarter entrepreneurs' opinions on the general economic situation were less pessimistic: in both territories balances improved from the historical low levels of the first quarter of the year.

Expectations on the Economic Situation - Manufacturing Sector



Expectation on the economic situation (seasonally adjusted balances)	Italy	Milan
second quarter 2007	-6	1
third quarter 2007	-16	-8
fourth quarter 2007	-30	-27
second quarter 2008	-20	-24

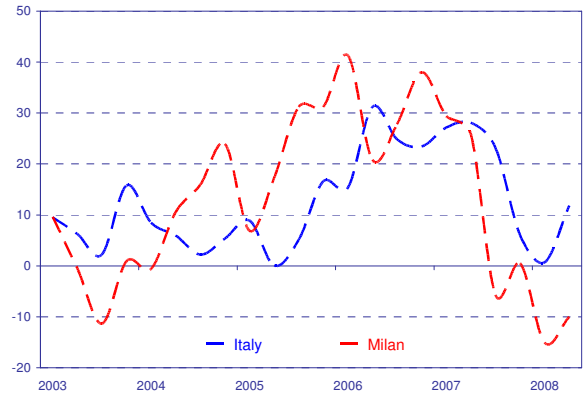
² The variable is not collected at the European level.

BUSINESS SERVICES³

- Confidence Climate⁴**

After the plunge of the first quarter, confidence climate improved on national level, moving over the value of the fourth quarter of 2007. In the Milan Area the index slightly increased from its lowest level reached in the previous period; anyway, it remained on historical low level.

Confidence Climate – Business Services



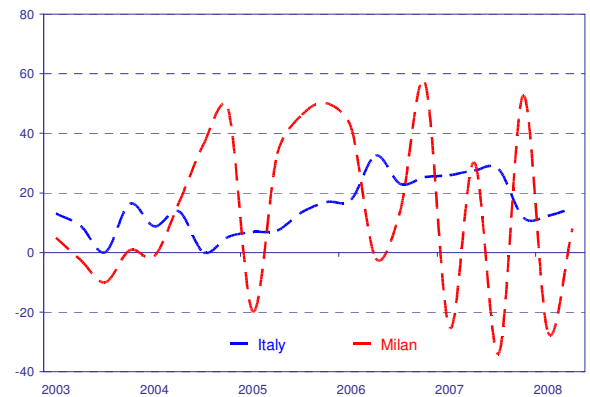
Confidence Climate (raw data)	Italy	Milan
third quarter 2007	23.2	-5.7
fourth quarter 2007	6.0	0.5
first quarter 2008	0.7	-15.1
second quarter 2008	11.8	-10.0

ASSESSMENTS:

- Assessment on Orders**

In line with the expectations expressed in the previous quarter, assessments on orders improved again in Italy, even if they remained under the level of the third quarter of 2007. In the Milan Area, assessment on orders still showed a fluctuating trend, very difficult to understand: balance climbed after the plummeting of the first quarter.

Assessment on Orders - Business Services



Orders (raw balances)	Italy	Milan
second quarter 2007	28	-34
third quarter 2007	12	53
fourth quarter 2007	12	-27
second quarter 2008	15	8

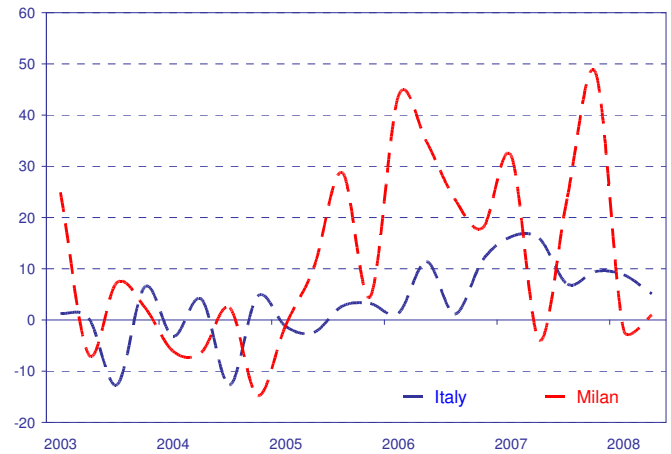
³ The sector includes: information technology, engineering, marketing and advertising, administrative and executive advice.

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 decreased again, while in the Milan Area it grew slightly, after the free fall of the previous quarter.

Assessment on Employment - Business Services



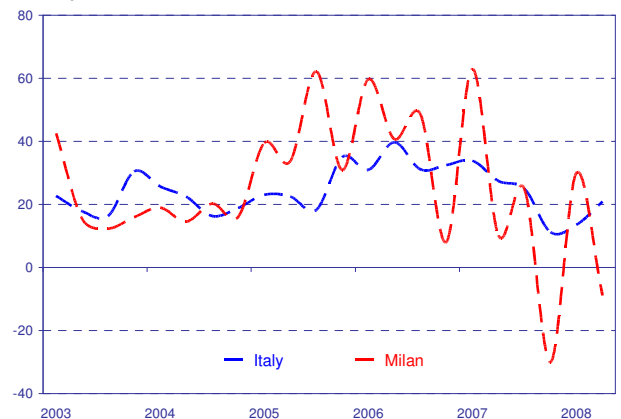
Employment (raw balances)	Italy	Milan
third quarter 2007	7	24
fourth quarter 2007	9	48
first quarter 2008	9	-2
second quarter 2008	5	1

SHORT-TERM EXPECTATIONS:

- Expectations on Orders**

Expectations regarding orders improved for the second consecutive quarter, reaching the value of the third quarter of 2007. On the contrary, in the Milan Area the balance decreased, falling on historically low levels.

Expectations on Orders - Business Services

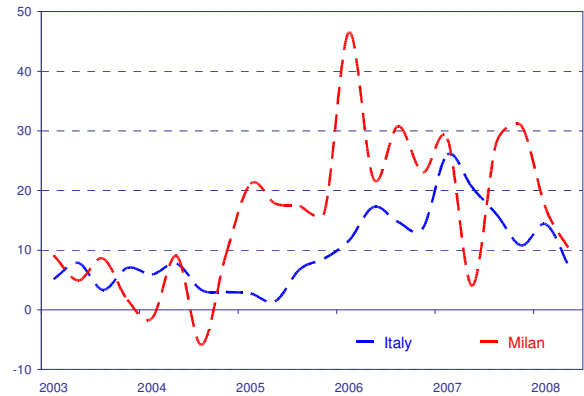


Expectation on Orders (raw balances)	Italy	Milan
third quarter 2007	25	25
fourth quarter 2007	11	-30
first quarter 2008	14	30
second quarter 2008	21	-9

- Expectations on Employment**

Expectations on employment for the next three months deteriorated again both in Italy and in the Milan Area.

Expectations on Employment - Business Services

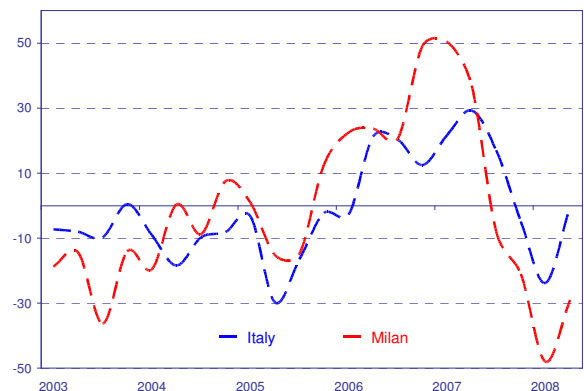


Expectations on Employment (raw balances)	Italy	Milan
third quarter 2007	16	28
fourth quarter 2007	11	31
first quarter 2008	14	17
second quarter 2008	7	10

- Expectations on the Economic Situation**

After the deep drop of the first quarter, probably because of the uncertainty of the electoral period, expectations on economic situation improved both at the national level and in the Milan Area.

Expectations on the Economic Situation – Business Services



Expectations on the Economic Situation (raw balances)	Italy	Milan
third quarter 2007	17	-8
fourth quarter 2007	-5	-21
first quarter 2008	-24	-48
second quarter 2008	0	-29

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).