



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



ASSOLOMBARDA

Reference period: Second Quarter 2010

*released on 30<sup>th</sup> July 2010*

In the second quarter of 2010 the recovery in manufacturing firms confidence<sup>1</sup> continued. The growth was extended to all major countries of the Euro Area (Italy included); in the Milan Area, instead, confidence slid a bit with respect to the first quarter. In business services sector the index remained substantially stable on the values of the last quarter at national level, while in the Milan Area it decreased to the values of mid-2009.

More in detail, in the Euro Area the climate confidence index of manufacturing firms grew from -12 to -7, reaching its highest level since the second quarter of 2008. Similarly, the indicator (index base 2005=100 since this quarter) increased from 94.2 to 96.2 in Italy, also in this case reaching its maximum level since the first half of 2008. On the contrary, in the Milan Area the index fell slightly, however standing on the level of the third quarter of 2007.

In the Euro Area the recovery in confidence was due to the improvement in assessments on orders, in particular on foreign markets (benefiting from euro's weakness). Inventories fell on levels considered normal and short-term production forecast improved. Also in Italy, the growth of the confidence is connected to the recovery of orders, while inventories and production expectations were stable on the last quarter level. In the Milan Area stocks the mild decrease in the confidence is caused by a reduction in production prospects (on end-2009's levels), while orders grew a little and stocks continued to fall (showing for the fourth consecutive quarter a level below normal ones).

In the business services sector, after the strong recovery of the last quarter, confidence of the Italian firms (index base 2005=100) settled on an average value of 94.5 from 94.8 of the last quarter, while in the Milan Area it dropped down to -27.7 from -0.6. Italian firms are more optimistic about demand assessment and forecasts, but answers showed also worsened expectations on the Italian economy. On the contrary, in the Milan Area firms signalled a decrease in demand assessment and forecast, while they were more optimistic about the future trend of the Italian economy.

*The next survey, related to the third Quarter of 2010, shall be released in October 2010.*

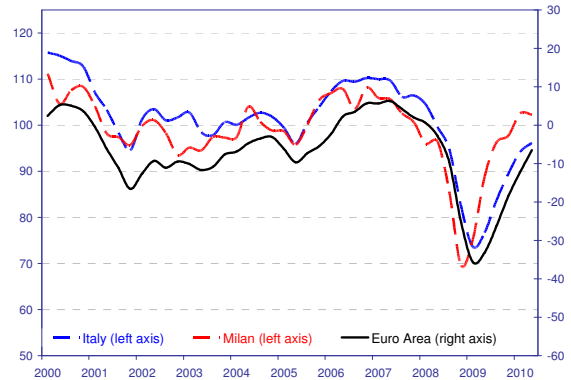
<sup>1</sup> Starting May 2010, ISAE disseminates Italian Market Manufacturing and Services Sectors Confidence Survey data elaborated according to the ATECO 2007 classification of economic activity.

## Manufacturing sector

- Confidence Climate<sup>2</sup>**

Manufacturing confidence continued to recover and in the Euro Area it grew to -7 (from -12). The increase was particularly strong in Germany (-12 to -1) and milder in France (-13 to -12); in Italy the index grew from 94.2 to 96.2, while in the Milan Area confidence reduced slightly with reference to the previous quarter (from 103 to 102).

Confidence Climate – Manufacturing Sector



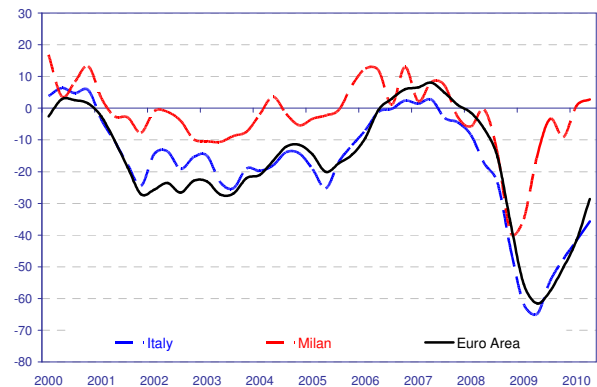
Confidence climate (seasonally adjusted data)	Euro Area	Germany	France	Italy	Milan
third quarter 2009	-26	-30	-26	84	96
fourth quarter 2009	-19	-21	-17	89	98
first quarter 2010	-12	-12	-13	94	103
second quarter 2010	-7	-1	-12	96	102

### ASSESSMENTS:

- Orders Assessment**

In Europe the confidence improvement was essentially due to orders increase, and Germany seemed to drag the recovery in this phase. On the contrary, the raise in demand appeared weaker in the Milan Area.

Orders Assessment - Manufacturing Sector



Orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
third quarter 2009	-58	-58	-61	-54	-3
fourth quarter 2009	-50	-50	-55	-48	-9
first quarter 2010	-42	-40	-47	-42	1
second quarter 2010	-29	-20	-38	-36	3

<sup>2</sup> 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 referring to the Euro Area, Germany and France are seasonally adjusted using the Dainties method. The European Commission performs the Euro Area aggregation using gross value added at constant prices.

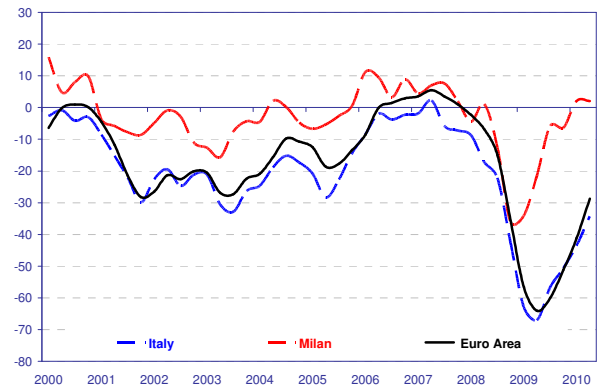
Data referring to Italy and the Milan Area are seasonally adjusted by ISAE and Assolombarda using the Tramo-Seats method and the index base is 2005=100.

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

**Foreign Orders Assessment**

The demand recovery was in particular due to the foreign market side, and in Germany the relative balance grew from -39 to -22, on its highest level since the second quarter of 2008. In this period, the improvement probably benefited from the euro weakness. In Italy, the balance climbed from -44 to -34, while in the Milan Area it remained stable on last quarter's value.

Foreign Orders Assessment– Manufacturing Sector

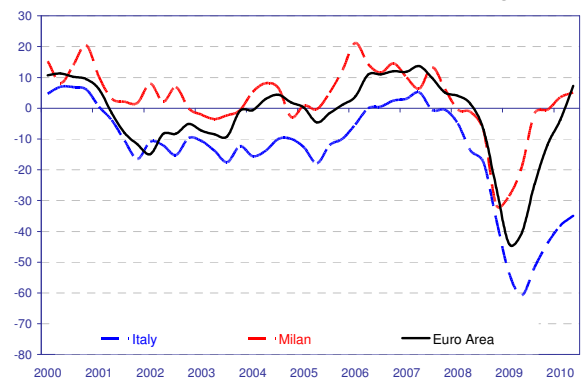


foreign orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
third quarter 2009	-60	-60	-70	-57	-6
fourth quarter 2009	-51	-52	-56	-51	-6
first quarter 2010	-41	-39	-47	-44	2
second quarter 2010	-29	-22	-42	-34	2

**Production Assessment**

Firms reacted to the demand increase expanding the production: in the Euro Area the balance turned to be positive for the first time after the second quarter of 2008, positioning to 7 (from -4). Also in this case, the growth is particularly strong in Germany (from 5 to 19). Production improved also in Italy, but firms continued to consider production levels dwindling (the balance grew from -38 to -35, remaining negative). In the Milan Area, production continued to expand, reaching the values of the end of 2007.

Production Assessment - Manufacturing sector

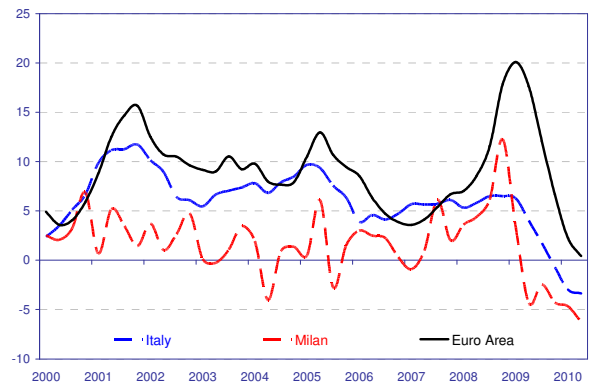


Production (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
third quarter 2009	-25	-16	-19	-52	-2
fourth quarter 2009	-12	-2	-5	-44	0
first quarter 2010	-4	5	8	-38	4
second quarter 2010	7	19	21	-35	5

**Inventories**

European firms seemed to have finished their inventories adjustment process, after the strong and undesirable growth registered during the crisis: the balance reached 0 (from 2) in the whole Euro Area, 1 in Germany (from 8) and -1 in France (from -6) and remained stable on 3 in Italy. On the contrary, this process still didn't happened in the Milan Area: the balance reduced again (from -6 to -5), remaining below normal levels for the fifth consecutive quarter.

Inventories - Manufacturing Sector



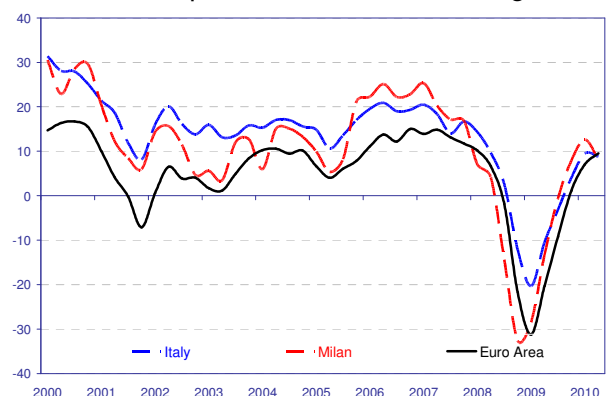
<b>Inventories</b> (seasonally adjusted balances)	<b>Euro Area</b>	<b>Germany</b>	<b>France</b>	<b>Italy</b>	<b>Milan</b>
<b>third quarter 2009</b>	12	21	6	2	-2
<b>fourth quarter 2009</b>	7	14	-1	-1	-4
<b>first quarter 2010</b>	2	8	-6	-3	-5
<b>second quarter 2010</b>	0	1	-1	-3	-6

**SHORT-TERM EXPECTATIONS:**

**Production Expectations**

In line with demand and inventories, production expectations improved also in the second quarter of 2010 in the Euro Area (from 7 to 10); German firms were more optimistic (from 11 to 17), while in France (from 2 to 1) and in Italy (9) the balance remained substantially stable on first quarter's level. On the contrary, in the Milan Area the balance reduced from 13 to 8.

Production Expectations - Manufacturing Sector

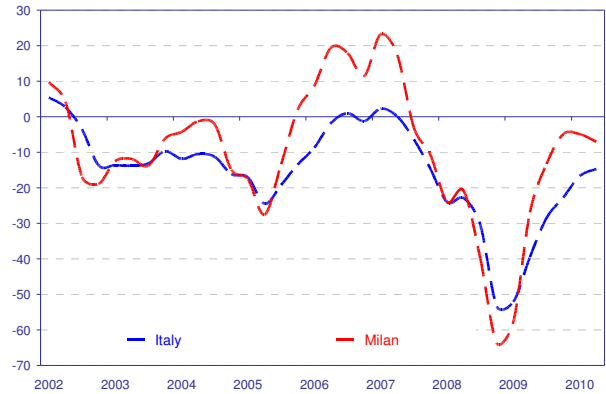


<b>Production expectation</b> (seasonally adjusted balances)	<b>Euro Area</b>	<b>Germany</b>	<b>France</b>	<b>Italy</b>	<b>Milan</b>
<b>third quarter 2009</b>	-9	-12	-11	-3	-1
<b>fourth quarter 2009</b>	1	2	2	4	8
<b>first quarter 2010</b>	7	11	2	9	13
<b>second quarter 2010</b>	10	17	1	9	8

- Expectations Regarding the Economic Situation<sup>3</sup>**

Nevertheless, Italian firms continued to be concerned about the general economic situation in the short-term. In Italy the balance slid from -15 to -17, moving away from its historically lowest value registered in the end of 2008. Instead, in the Milan Area the balance reduced from -5 to -7, however remaining on end-2007's levels.

Economic Situation Expectations - Manufacturing Sector



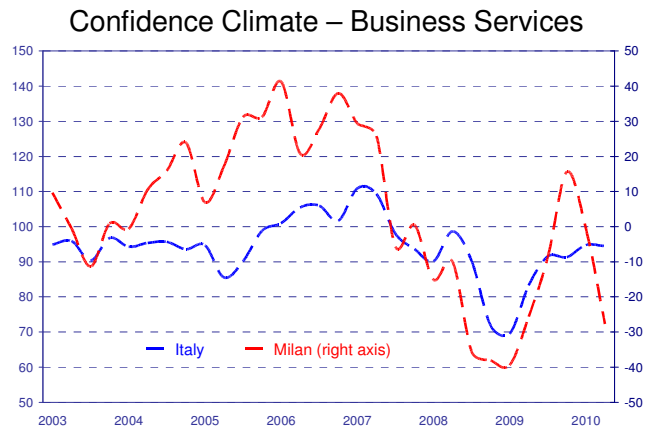
Expectation on the economic situation (seasonally adjusted balances)	Italy	Milan
<b>third quarter 2009</b>	-29	-13
<b>fourth quarter 2009</b>	-23	-5
<b>first quarter 2010</b>	-17	-5
<b>second quarter 2010</b>	-15	-7

<sup>3</sup> The variable is not collected at the European level.

## BUSINESS SERVICES<sup>4</sup>

- Confidence Climate<sup>5</sup>**

In Italy, after the first quarter climb, the business services sectors confidence was substantially stable: the index (2005=100) was 94.5 from 94.8 of the previous period, remaining near the maximum value of the second quarter of 2008. Whilst, in the Milan Area the index worsened for the second time and returned on the value of the half of 2009 (-27.7 from -0,6).

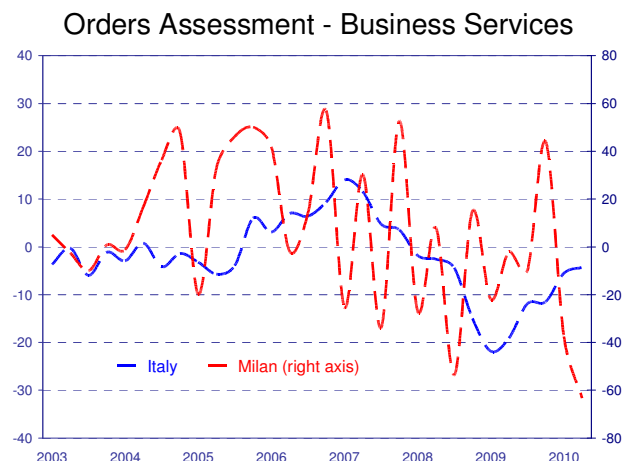


Confidence Climate	Italy (seasonally adjusted data)	Milan (raw data)
third quarter 2009	91.5	-8.7
fourth quarter 2009	91.3	15.6
first quarter 2010	94.8	-0.6
second quarter 2010	94.5	-27.7

### ASSESSMENTS:

- Orders Assessment**

At the national level, the recovery of the assessment on orders continued in the second quarter: the balance grew from -6 to -4, returning on the second quarter 2008 level. On the contrary, in the Milan Area the entrepreneur indicated a new worsening that moved the balance from -38 to -63.



Orders	Italy (seasonally adjusted balances)	Milan (raw balances)
third quarter 2009	-12	-10
fourth quarter 2009	-11	44
first quarter 2010	-6	-38
second quarter 2010	-4	-63

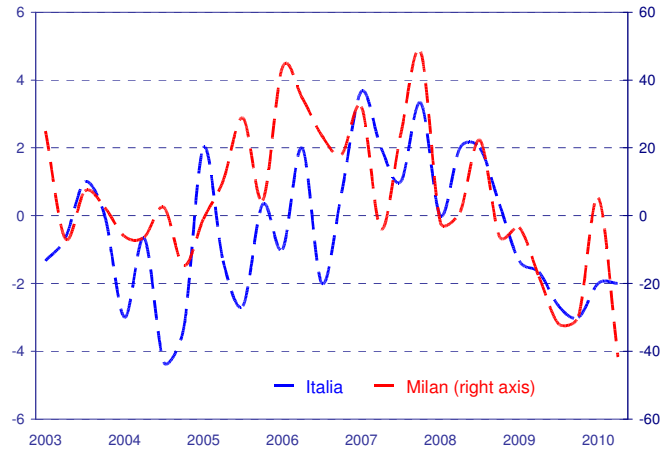
<sup>4</sup> The sector includes: information technology, engineering, marketing and advertising, administrative and executive consulting.

<sup>5</sup> The confidence climate is the arithmetic average with the balances of the following variables: assessment and expectation of orders, expectation about the economic situation.

**Employment Assessment**

The Italian sector firms showed a substantial stability of employment: the balance was -2 as in the first quarter. On the contrary, in the Milan Area the assessment dropped from +35 to -42, the minimum value since the beginning of the survey.

Employment Assessment - Business Services



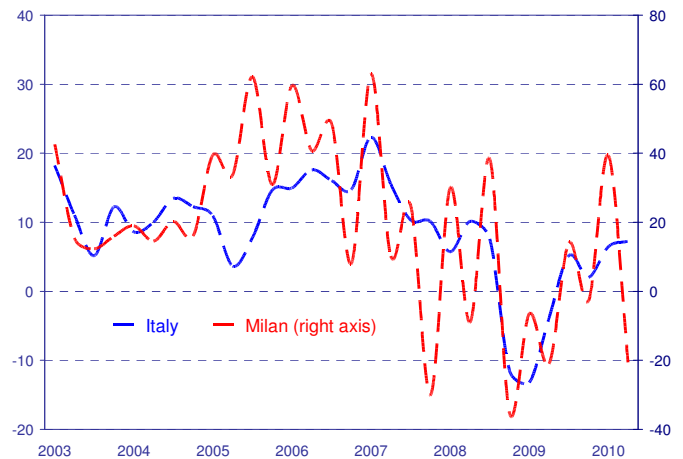
Employment	Italy (seasonally adjusted balances)	Milan (raw balances)
third quarter 2009	-3	-32
fourth quarter 2009	-3	-30
first quarter 2010	-2	5
second quarter 2010	-2	-42

**SHORT-TERM EXPECTATIONS:**

**Orders Expectations**

In Italy, firms were more slightly optimistic about the short term orders expectations: the balance increased from 6 to 7, even in this case on the highest value since the second quarter of 2008. Whilst, in the Milan Area the expectations on orders dropped and returned negative (the balance was -21 as in the second quarter of 2009).

Orders Expectations - Business Services

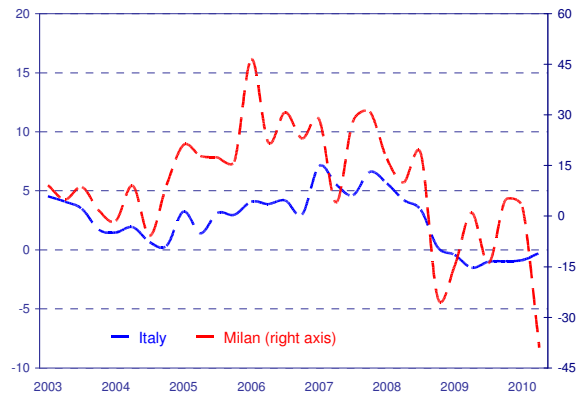


Expectation on Orders	Italy (seasonally adjusted balances)	Milan (raw balances)
third quarter 2009	5	14
fourth quarter 2009	2	-3
first quarter 2010	6	39
second quarter 2010	7	-21

**• Employment Expectations**

In Italy, even the short time employment expectations was substantially stable: the balance moved from -1 to 0; for the first time since the first quarter of 2009, it showed the tendency to not reduce the employment. On the contrary, in the Milan Area the balance dropped from +3 to -39 (the lower value since the beginning of the survey).

Employment Expectations - Business Services

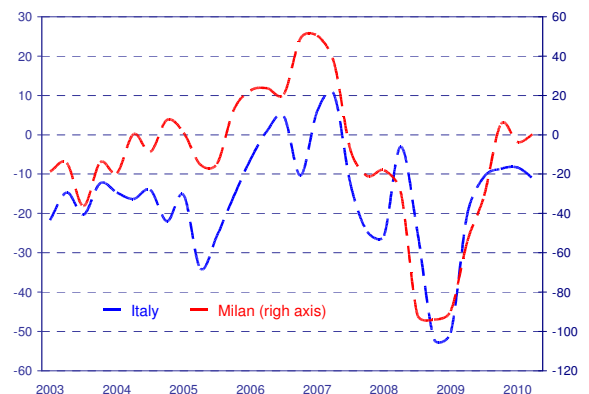


Expectations on Employment	Italy (seasonally adjusted balances)	Milan (raw balances)
third quarter 2009	-1	-14
fourth quarter 2009	-1	5
first quarter 2010	-1	3
second quarter 2010	0	-39

**• Expectations Regarding the Economic Situation**

In Italy, the economic situation expectations stayed negative: the balance reduced from -9 to -11, moving on the low level of the third quarter of 2009. In the Milan Area, the balance improved and returned positive from -4 to +1.

Economic Situation Expectations – Business Services



Expectations on the Economic Situation	Italy (seasonally adjusted balances)	Milan (raw balances)
third quarter 2009	-11	-31
fourth quarter 2009	-9	5
first quarter 2010	-8	-4
second quarter 2010	-11	1

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