



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



Reference period: Fourth Quarter 2009

*released on 4 February 2010*

In the fourth quarter of 2009, signs of recovered confidence were strengthened in the manufacturing and the business services sectors. In manufacturing, the recovery boosted the Euro Area confidence to its highest level since the third quarter of 2008. In Italy, confidence earned six points, also in this case reaching its maximum value since July-September 2008. In the Milan Area the rise was milder, and the index achieved its highest value since the beginning of 2008. Similarly, in the business services sectors the confidence of both Italian and Milan Area firms recovered markedly, reaching their historical maximum for the last two years (since the fourth quarter 2007 in Italy and since the third quarter 2007 in Milan).

More specifically, at the European level, business confidence grew from -26 to -19, thanks to the improvement in orders assessments, to the new stock decrease and to the rise in production assessments; whose balance became positive again for the first time since the second quarter of 2008, pointing out a majority of positive expectations by European firms. Confidence also rose in Italy, increasing from 74 to 80: manufacturing companies claimed an improvement in the level of orders. Moreover stock reduction continued, and consequently, short-term production expectations grew, reaching a positive balance near its maximum values since the third quarter of 2008. In the Milan Area business confidence increased from 89 to 91, pulled by a strengthening of production assessment (maximum value since the beginning of 2008) and by new stock shrinkage that was widely below normal levels for three consecutive quarters. Contrary to the European and Italian trends, in the Milan Area orders decreased after a strong climb in the last quarter.

In the business services sectors, confidence soared from -4 to 1, near the values of the fourth quarter of 2007: in this case, demand assessments were stable at negative levels (even if they were higher than in the first half of the year), whereas short-term expectations bettered clearly. Firms were still pessimistic about employment assessments. In the Milan Area, the index significantly recovered, reaching positive values (from -9 to 16) after nine quarters. Assessments on current orders again became positive, while expectations remained negative. Also expectations on the Italian economy and on employment improved.

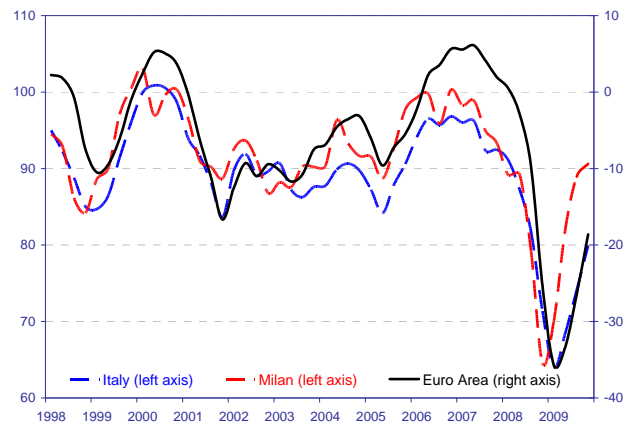
*The next survey, related to the First Quarter of 2010, shall be released in April 2010.*

## Manufacturing sector

- Confidence Climate<sup>1</sup>**

In the fourth quarter of 2009 manufacturing confidence in the whole Euro Area soared again from -26 to -19, its highest value since the third quarter of 2008. The recovery was remarkable and widespread: the index rose from -30 to -21 in Germany, from -26 to 17 in France and from 74 to 80 in Italy. In the Milan Area the increase was milder: business confidence grew from 89 to 91, reaching its maximum level since the beginning of 2008.

Confidence Climate – Manufacturing Sector



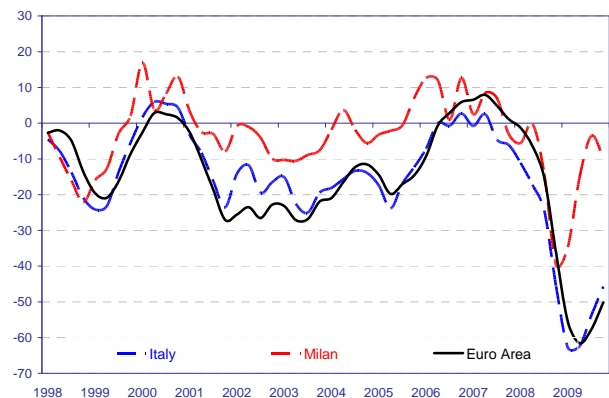
Confidence climate (seasonally adjusted data)	Euro Area	Germany	France	Italy	Milan
first quarter 2009	-36	-40	-37	64	70
second quarter 2009	-33	-39	-31	68	82
third quarter 2009	-26	-30	-26	74	89
fourth quarter 2009	-19	-21	-17	80	91

### ASSESSMENTS:

- Orders Assessment**

In the Euro Area and in Italy the recovered confidence was due above all to an increase in demand levels: the balances recovered in the same way, even if they remained on historically low levels. On the contrary, in the Milan Area demand reduced after the peak of the third quarter of 2009.

Orders Assessment - Manufacturing Sector



Orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
first quarter 2009	-56	-54	-59	-63	-35
second quarter 2009	-62	-62	-65	-62	-15
third quarter 2009	-58	-58	-61	-54	-4
fourth quarter 2009	-50	-50	-54	-46	-10

<sup>1</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.

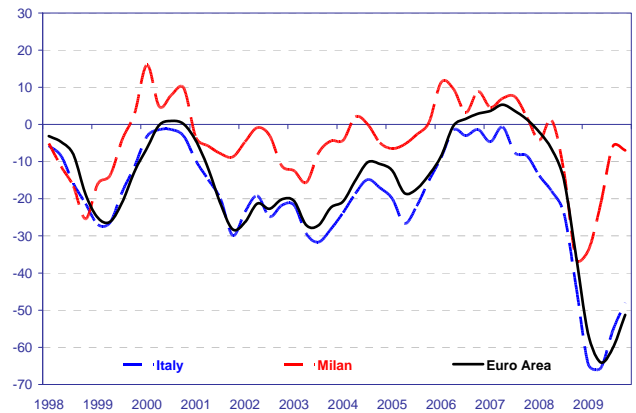
Data referring to Italy and the Milan Area are seasonally adjusted by ISAE and Assolombarda using the Tramo-Seats method and the index base is 2000=100.

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

**Foreign Orders Assessment**

In the all Euro Area and in the main European countries, Italy included the increase in orders concerned especially the foreign side, even if balances were still widely negative. On the contrary in the Milan Area foreign demand slid compared to the previous quarter.

Foreign Orders Assessment– Manufacturing Sector

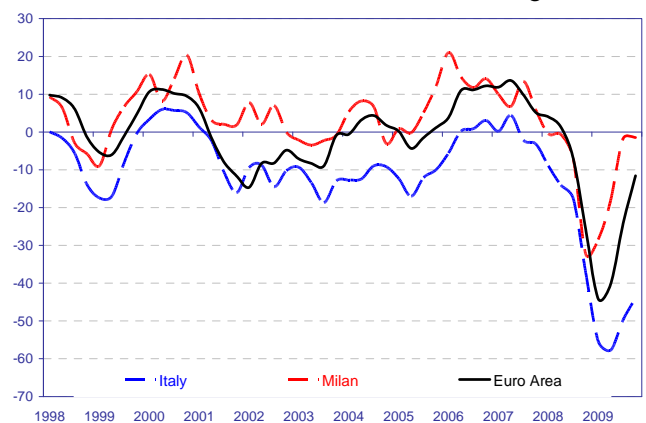


foreign orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
first quarter 2009	-57	-51	-68	-65	-34
second quarter 2009	-64	-62	-72	-66	-21
third quarter 2009	-60	-60	-70	-55	-6
fourth quarter 2009	-51	-52	-56	-48	-7

**Production Assessment**

In the Euro Area, production levels soared again in the fourth quarter: the balance grew strongly in France and in Germany, mildly in Italy. On the contrary, in the Milan Area production remained substantially stable on the quite negative balances of the third quarter.

Production Assessment - Manufacturing sector

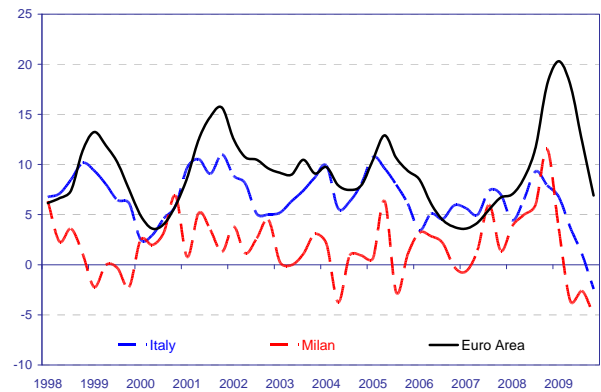


Production (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
first quarter 2009	-44	-45	-44	-55	-28
second quarter 2009	-40	-37	-38	-58	-18
third quarter 2009	-24	-16	-19	-50	-2
fourth quarter 2009	-12	-2	-5	-44	-1

**Inventories**

Stock continued to drop: the reduction was deeper in the whole Euro Area and in particular in France and Germany, while the decrease was slighter in Italy. Also in the Milan Area stock continued to fall and the relative balance slid to its historical minimum.

Inventories - Manufacturing Sector



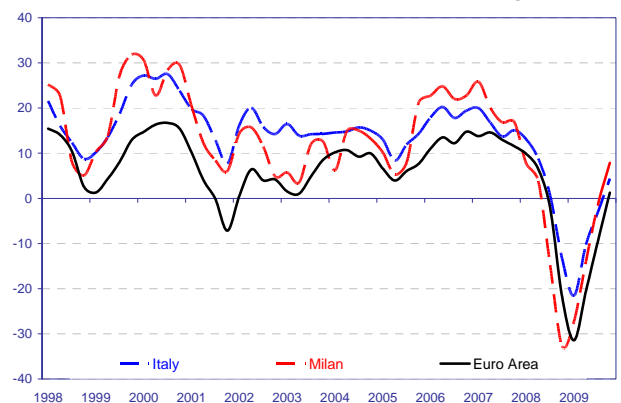
Inventories (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
first quarter 2009	20	26	22	7	4
second quarter 2009	18	28	10	4	-4
third quarter 2009	12	21	6	1	-3
fourth quarter 2009	7	14	-1	-2	-5

**SHORT-TERM EXPECTATIONS:**

**Production Expectations**

Production forecasts recovered even more strongly than production assessments: in the Euro Area, in the main European countries and in the Milan Area balances peaked to positive values.

Production Expectations - Manufacturing Sector

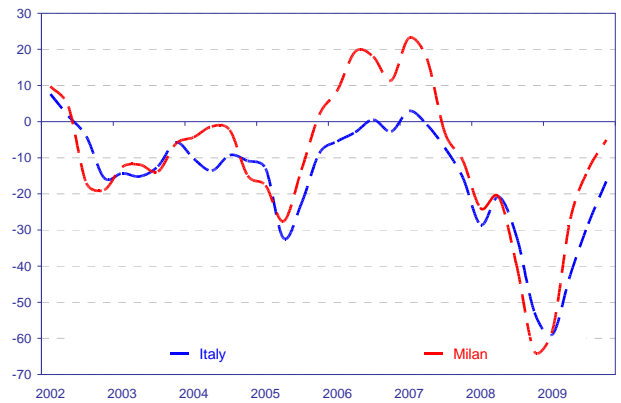


Production expectation (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
first quarter 2009	-31	-40	-30	-22	-27
second quarter 2009	-21	-27	-19	-10	-14
third quarter 2009	-9	-12	-11	-3	-1
fourth quarter 2009	1	2	3	4	8

- Expectations Regarding the Economic Situation<sup>2</sup>**

In Italy and in the Milan Area firms were really less pessimist also about the economic situation in the short-term. In Italy the balance recovered from -28 to -17, fairly near the values of the end of 2007. In the Milan Area, the balance grew from -13 to -5, its highest level since the end of 2007.

Economic Situation Expectations - Manufacturing Sector



Expectation on the economic situation (seasonally adjusted balances)	Italy	Milan
<b>first quarter 2009</b>	-59	-58
<b>second quarter 2009</b>	-42	-27
<b>third quarter 2009</b>	-28	-13
<b>fourth quarter 2009</b>	-17	-5

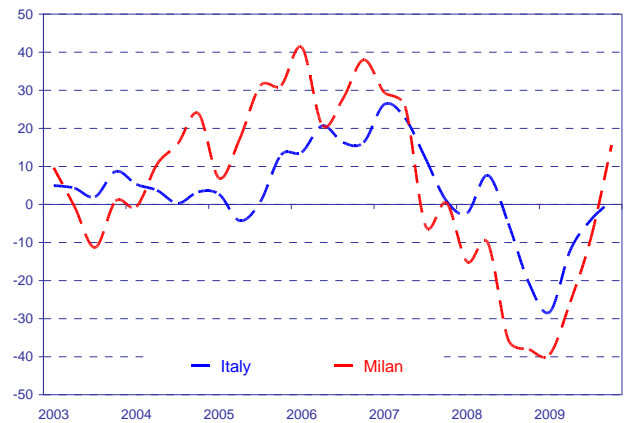
<sup>2</sup> The variable is not collected at the European level.

## BUSINESS SERVICES<sup>3</sup>

- **Confidence Climate<sup>4</sup>**

The confidence improvement extended also to the business services sectors: in Italy the index became positive from -4 to 1 (the same of the last quarter of 2007). Also in the Milan Area the index became positive after nine quarters, growing from -9 to 16.

Confidence Climate – Business Services



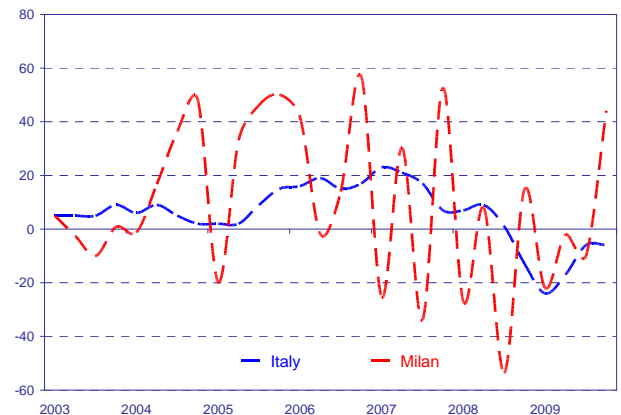
Confidence Climate	Italy (seasonally adjusted data)	Milan (raw data)
first quarter 2009	-28,3	-39,4
second quarter 2009	-12,0	-25,6
third quarter 2009	-4,0	-8,7
fourth quarter 2009	1,0	15,6

### ASSESSMENTS:

- **Orders Assessment**

At the national level orders assessments did not change, remaining stable at -6. On the contrary, in the Milan Area firms indicated a sharp improvement, showing an extremely positive balance.

Orders Assessment - Business Services



Orders	Italy (seasonally adjusted balances)	Milan (raw balances)
first quarter 2009	-24	-22
second quarter 2009	-17	-2
third quarter 2009	-6	-10
fourth quarter 2009	-6	44

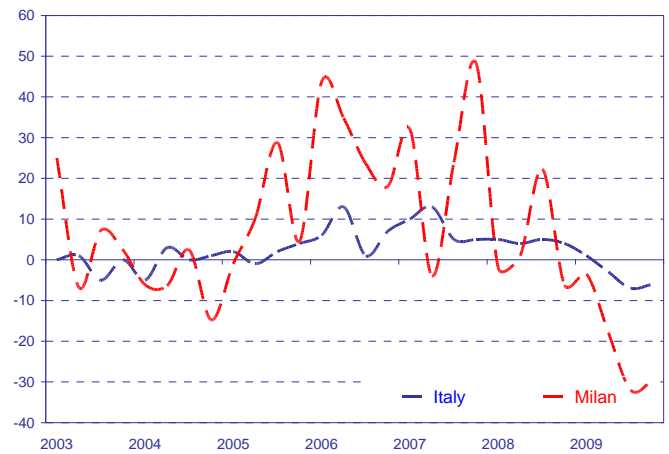
<sup>3</sup> The sector includes: information technology, engineering, marketing and advertising, administrative and executive consulting.

<sup>4</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**

For the first time in 2009 employment assessments improved mildly, both in Italy and in the Milan Area.

Employment Assessment - Business Services



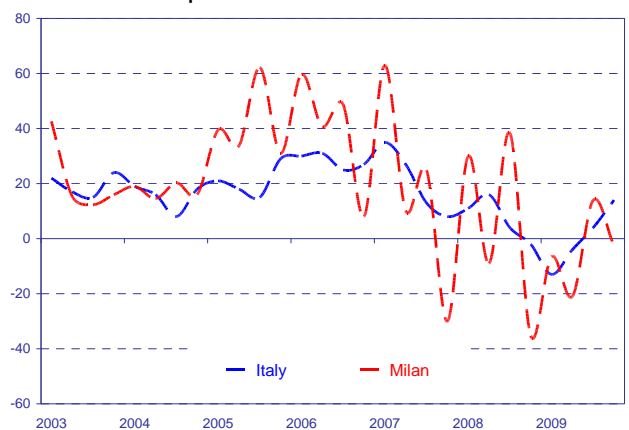
Employment	Italy (seasonally adjusted balances)	Milan (raw balances)
first quarter 2009	1	-4
second quarter 2009	-3	-18
third quarter 2009	-7	-32
fourth quarter 2009	-6	-30

**SHORT-TERM EXPECTATIONS:**

**Orders Expectations**

The recovered confidence in Italy is due essentially to an improvement in short-term orders expectation, with the relative balance near to the values of the first half of 2008 (from 4 to 14). On the contrary, in the Milan Area, orders forecasts reduced again after the peak of the previous quarter.

Orders Expectations - Business Services

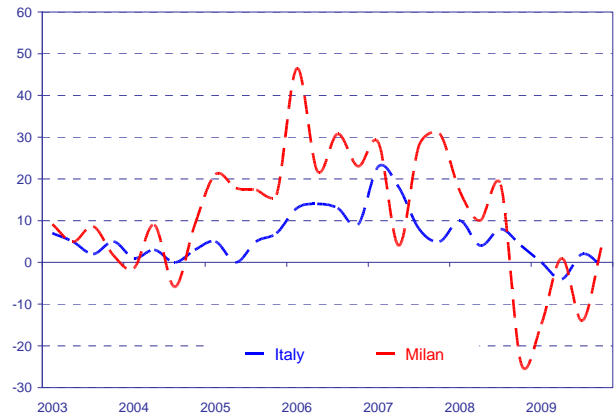


Expectation on Orders	Italy (seasonally adjusted balances)	Milan (raw balances)
first quarter 2009	-13	-7
second quarter 2009	-4	-21
third quarter 2009	4	14
fourth quarter 2009	14	-3

**• Employment Expectations**

In Italy, employment expectations declined: the relative balance became negative (from 2 to -1), after the improvement of the previous period. On the contrary, in the Milan Area forecasts on employment bettered, reaching a positive balance.

Employment Expectations - Business Services

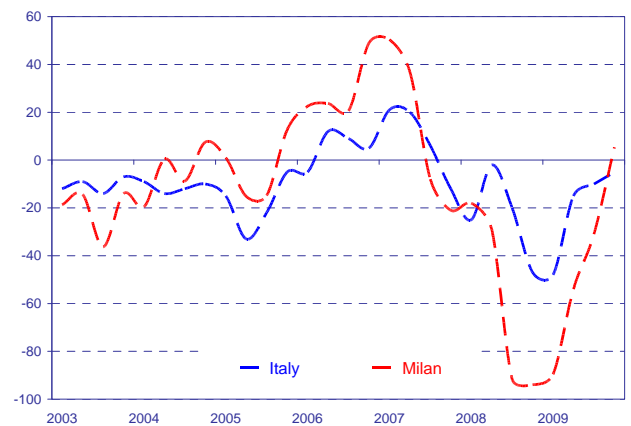


Expectations on Employment	Italy (seasonally adjusted balances)	Milan (raw balances)
first quarter 2009	-0	-15
second quarter 2009	-4	1
third quarter 2009	2	-14
fourth quarter 2009	-1	5

**• Expectations Regarding the Economic Situation**

In Italy entrepreneurs expected an improvement in the economic situation: the balance continued to grow (from -10 to -5). The recover is even stronger in the Milan Area, where the balance became positive after nine consecutive quarters.

Economic Situation Expectations – Business Services



Expectations on the Economic Situation	Italy (seasonally adjusted balances)	Milan (raw balances)
first quarter 2009	-48	-90
second quarter 2009	-15	-54
third quarter 2009	-10	-31
fourth quarter 2009	-5	5

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