



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



Reference period: First Quarter 2009

released on May 11, 2009

In the first quarter of 2009 the crisis in business confidence became even sharper in the Euro Area. The fall was common to all main European countries and it did not spare Italy; while opposite results emerged for the Milan Area, where firms in both the manufacturing and business services sectors were less pessimistic than at the end of 2008.

More specifically, the confidence of the manufacturing sector fell a further 9 points in the whole Euro Area and Italy, plummeting to its minimum level since the beginning of the 1990s. The drop in demand was linked to another increase in stocks in the Euro Area; while stocks remained stable on standard levels in Italy. As a consequence, firms continued to reduce their expectations on production for the next 3 months.

On the contrary, firms in the Milan Area registered substantial stability in terms of orders, thanks to foreign demand mainly. Stocks continued to drop, positioning themselves around standard levels, and consequently forecasts on production became less negative than in the previous quarter. Also, opinion on the general economic situation for the next 3 months recovered in this area, unlike in the whole Italy, confirming the overall less unfavourable tone of the expectations of Milan Area entrepreneurs.

In line with the manufacturing sector, in the business services sector, too, a difference emerged among firms' opinions at the national level and in the Milan Area. In Italy confidence continued to decline, due to a new drop in current orders and to expectations about orders and the economic situation. On the contrary, entrepreneurs in the Milan Area signalled a drop in current orders, but also reported a recovery in expectations on orders and on the Italian economic trend.

In the past, Milan Area trends frequently forecast the changes of the national economic cycle. This time indications collected by Milan Area surveys seem to suggest an end to the most negative phase of the economic cycle, which appears to stabilize now on the low levels of the previous months and to show some first signals of recovery.

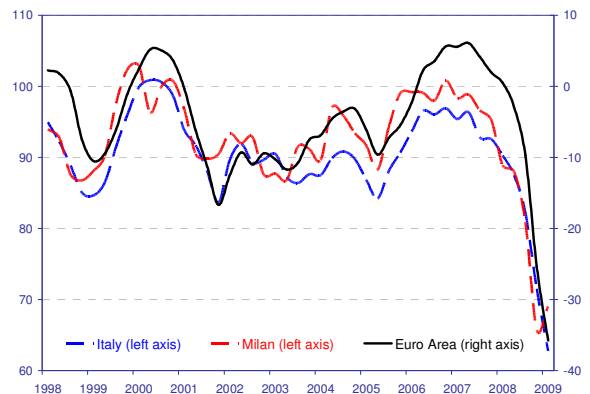
The next survey, related to the Second Quarter of 2009, shall be released in July 2009.

Manufacturing sector

Confidence Climate¹

In the first quarter of 2009 manufacturing confidence plunged in the whole Euro Area and in Italy, but it showed signals of recovery in the Milan Area. The confidence index fell from -25 to -36 in the Euro Area and the reduction spread to all main European economies: from -27 to -40 in Germany, from -30 to -37 in France and from 72 to 63 in Italy. Instead, confidence in the Milan Area grew from 66 to 69, although still remaining on very low levels.

Confidence Climate – Manufacturing Sector



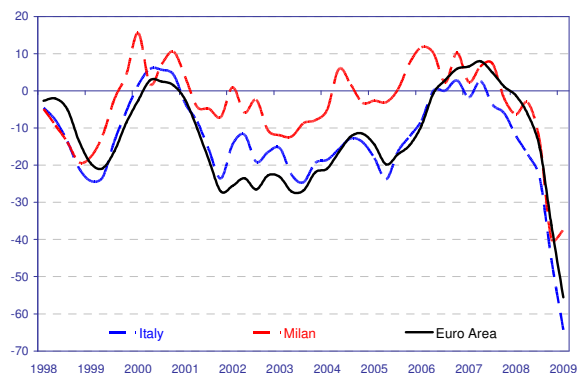
Confidence climate (seasonally adjusted data)	Euro Area	Germany	France	Italy	Milan
second quarter 2008	-3	1	-4	88	88
third quarter 2008	-10	-8	-12	82	81
fourth quarter 2008	-25	-27	-30	72	66
first quarter 2009	-36	-40	-37	63	69

ASSESSMENTS:

Orders Assessment

In the Euro Area and in the main European countries entrepreneurs' assessments of current demand worsened sharply, with the relative balances plunging to their minimum value since the 1990s. In the Milan Area the balance recovered a bit from its historical minimum registered in the previous quarter, growing from -40 to -37.

Orders Assessment - Manufacturing Sector



Orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
second quarter 2008	-6	1	-7	-17	-3
third quarter 2008	-15	-9	-17	-23	-14
fourth quarter 2008	-36	-30	-41	-46	-40
first quarter 2009	-56	-54	-59	-64	-37

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 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.

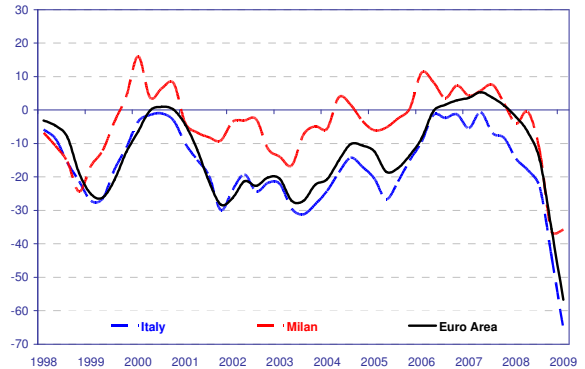
Data referring to Italy and the Milan Area are seasonally adjusted by ISAE and Assolombarda using the Tramo-Seats method and the index base is 2000=100.

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

Foreign Orders Assessment

The deterioration in total orders reflected an extremely negative performance of foreign demand in the Euro Area and in Italy. On the contrary, in the Milan Area assessment of foreign orders stabilized around its minimum levels registered in the last quarter of 2008.

Foreign Orders Assessment– Manufacturing Sector

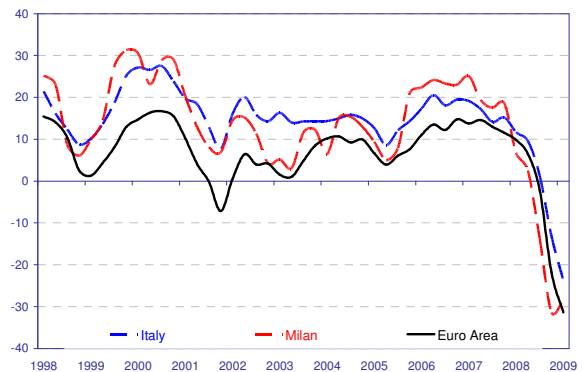


foreign orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
second quarter 2008	-7	1	-4	-18	-1
third quarter 2008	-15	-7	-19	-23	-12
fourth quarter 2008	-36	-30	-44	-44	-36
first quarter 2009	-57	-51	-68	-65	-36

Production Assessment

The decrease of demand came with a steep reduction of industrial production in both the Euro Area and Italy; while in the Milan Area production confirmed the values of the previous quarter, in line with the performance of foreign orders.

Production Assessment - Manufacturing sector

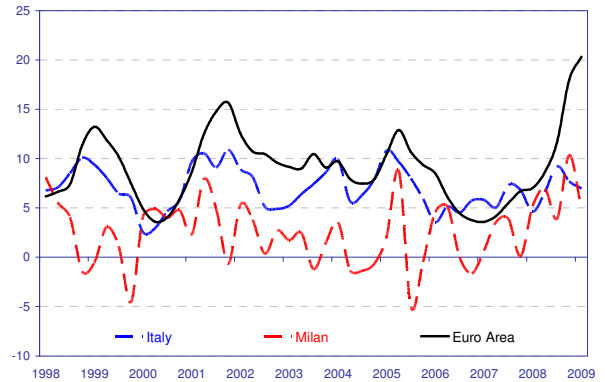


Production (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
second quarter 2008	1	4	9	-14	4
third quarter 2008	-7	-8	0	-17	-10
fourth quarter 2008	-26	-28	-18	-37	-31
first quarter 2009	-44	-45	-44	-56	-31

Inventories

Stocks continued to grow in the whole Euro Area, in Germany and in France. On the contrary, stocks declined in Italy and, above all, in the Milan Area: the balance went down from 8 to 7 in Italy and from 10 to 5 in the Milan Area.

Inventories - Manufacturing Sector



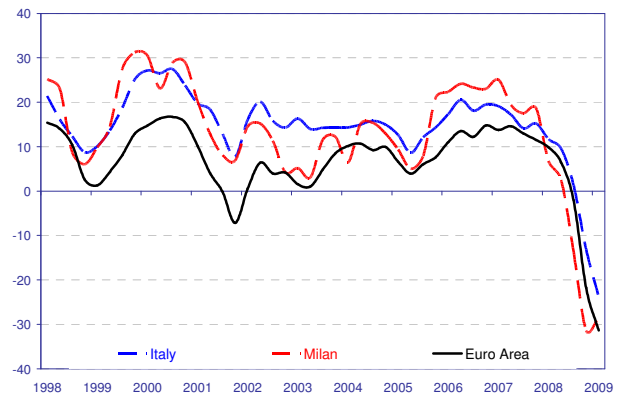
Inventories (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
second quarter 2008	9	6	15	7	7
third quarter 2008	12	10	16	9	4
fourth quarter 2008	18	20	23	8	10
first quarter 2009	20	26	23	7	5

SHORT-TERM EXPECTATIONS:

Production Expectations

In line with orders and stocks, European and Italian firms expected further reductions of production activity in the upcoming months. Confirming the more positive tone of the entrepreneurs of the Milan Area, production expectations recovered from -31 to -28, however continuing to show very low values.

Production Expectations - Manufacturing Sector

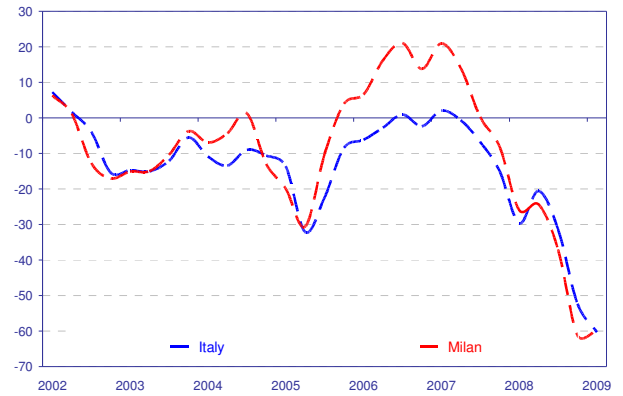


Production expectation (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
second quarter 2008	7	6	10	10	2
third quarter 2008	-2	-6	-2	1	-14
fourth quarter 2008	-22	-29	-25	-13	-31
first quarter 2009	-31	-40	-30	-24	-28

- Expectations Regarding the Economic Situation²**

Italian firms continued to be very pessimistic about the economic situation for the next months, with the relative balance dropping to its historically minimum level. Instead, Milan Area entrepreneurs' opinions on the Italian situation stabilized around the level of the previous quarter, after two consecutive periods of decline.

Economic Situation Expectations - Manufacturing Sector



Expectation on the economic situation (seasonally adjusted balances)	Italy	Milan
second quarter 2008	-21	-24
third quarter 2008	-31	-37
fourth quarter 2008	-52	-61
first quarter 2009	-60	-60

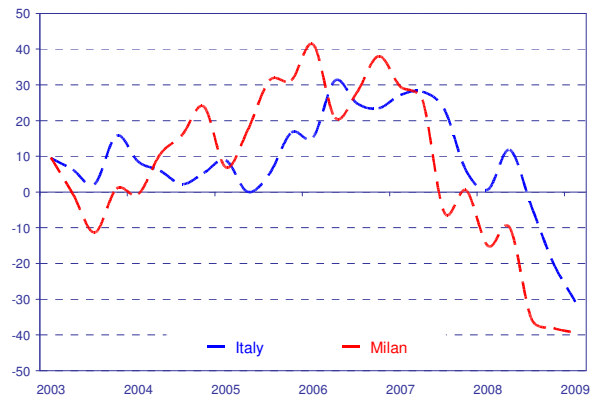
² The variable is not collected at the European level.

BUSINESS SERVICES³

- **Confidence Climate⁴**

In the Business Services Sectors the confidence continued to slump in Italy; in the Milan Area the index, although registering a decrease in the first quarter, stabilized around the low levels of the last quarter of 2008.

Confidence Climate – Business Services



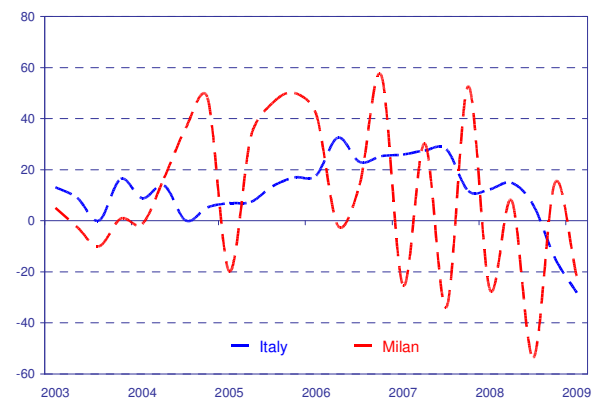
Confidence Climate (raw data)	Italy	Milan
second quarter 2008	11,8	-10,0
third quarter 2008	-4,2	-35,6
fourth quarter 2008	-20,0	-38,1
first quarter 2009	-30,7	-39,4

ASSESSMENTS:

- **Orders Assessment**

The assessments of orders deteriorated both at the national level and in the Milan Area: the balance for the Italian firms' opinions decreased to -28 from -15, while in the Milan Area it dropped to -22 from 15.

Orders Assessment - Business Services



Orders (raw balances)	Italy	Milan
second quarter 2008	15	8
third quarter 2008	6	-54
fourth quarter 2008	-15	15
first quarter 2009	-28	-22

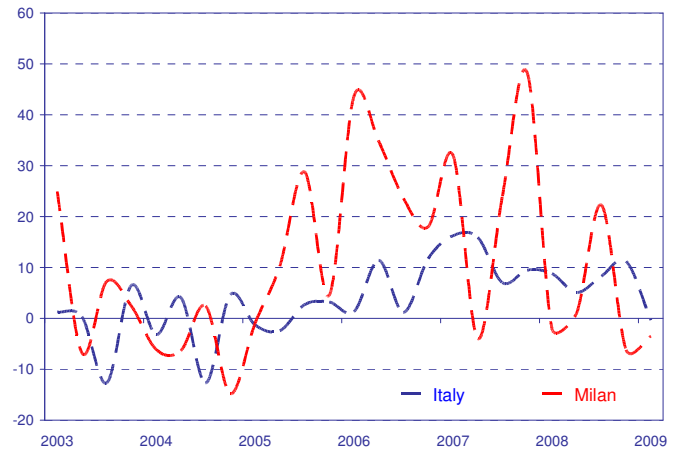
³ The sector includes: information technology, engineering, marketing and advertising, administrative and executive consulting.

⁴ 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 assessments on employment showed different trends between the national level and the Milan Area. In Italy the balances fell from 11 to 0, the lowest value since the second quarter of 2005; while in the Milan Area the firms' assessments slightly recovered and the balance moved to -4 in line with the value of the second quarter of 2007.

Employment Assessment - Business Services



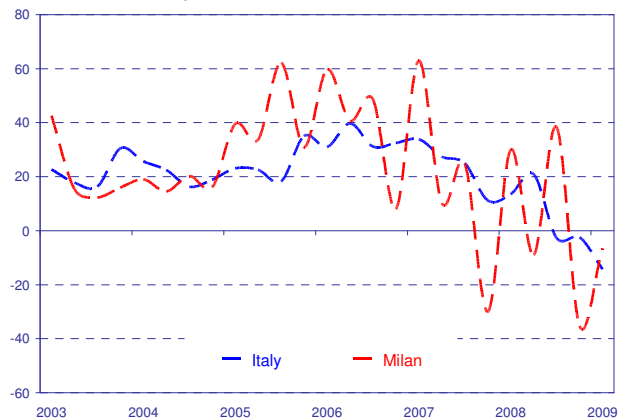
Employment (raw balances)	Italy	Milan
second quarter 2008	5	1
third quarter 2008	8	22
fourth quarter 2008	11	-24
first quarter 2009	0	-4

SHORT-TERM EXPECTATIONS:

• Orders Expectations

Also strong differences of opinion emerged regarding the expectations of orders. At the national level the balance continued to decrease from -2 to -14; in the Milan Area firms were less pessimistic and the balance moved from -35 to -7.

Orders Expectations - Business Services

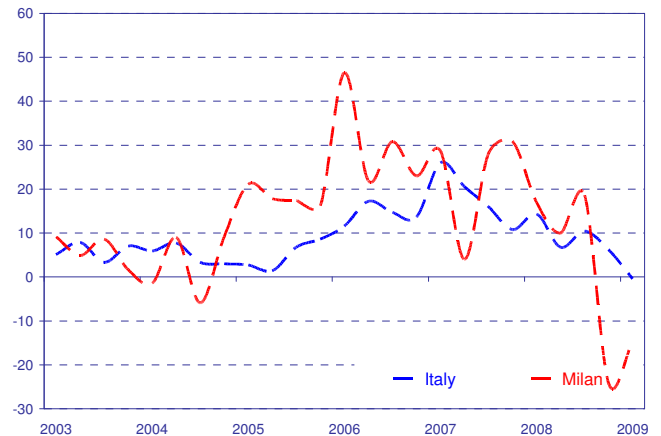


Expectation on Orders (raw balances)	Italy	Milan
second quarter 2008	21	-9
third quarter 2008	-3	38
fourth quarter 2008	-2	-35
first quarter 2009	-14	-7

- Employment Expectations**

A similar divergence emerged also regarding the employment expectations. The balance dropped from 6 to 0 in Italy, while it improved from -24 to -15 in the Milan Area.

Employment Expectations - Business Services

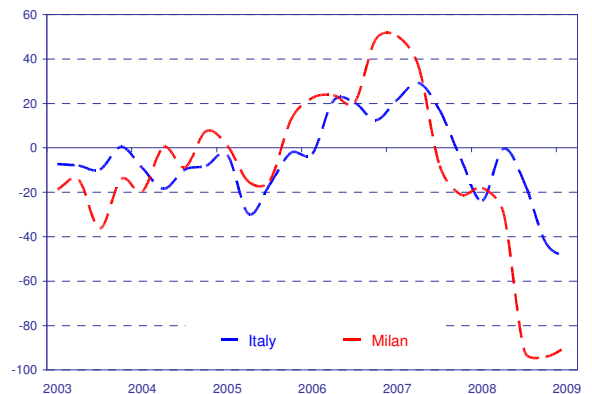


Expectations on Employment (raw balances)	Italy	Milan
second quarter 2008	7	10
third quarter 2008	10	19
fourth quarter 2008	6	-24
first quarter 2009	0	-15

- Expectations Regarding the Economic Situation**

In line with the other indicators, expectations regarding the economic situation were different in the Milan Area and in Italy overall. The balance fell from -43 to -50 in Italy, while it recovered from -94 to -90 in the Milan Area.

Economic Situation Expectations – Business Services



Expectations on the Economic Situation (raw balances)	Italy	Milan
second quarter 2008	0	-29
third quarter 2008	-16	-92
fourth quarter 2008	-43	-94
first quarter 2009	-50	-90

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