



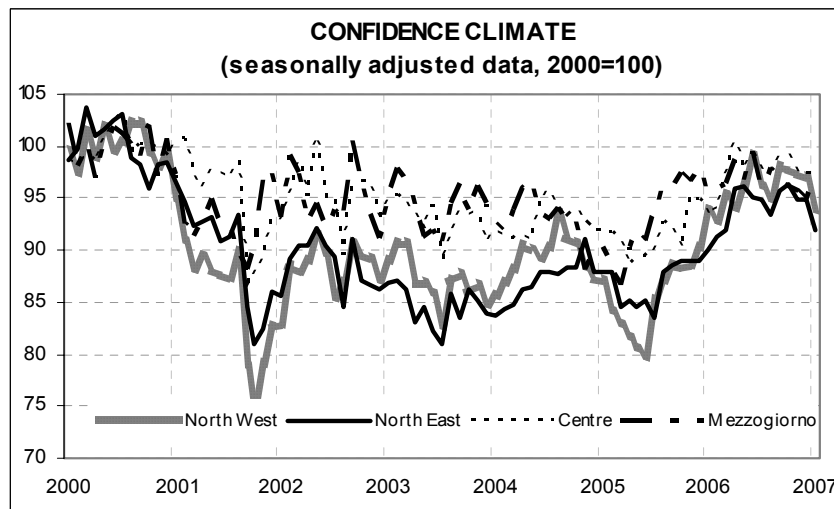
Date: **January 29, 2007**  
TEL.: **06/444821**

## MANUFACTURING FIRMS' CONFIDENCE DECLINES IN JANUARY

- The seasonally adjusted confidence index (2000=100) lowered to 94.4 from 96.1 in the previous month, due to the worsening in opinions on the level of orders and in expectations on short-term productive activity. Inventories, instead, slightly diminished
- The evolution of confidence was rather patchy across sectors: the index actually increased from 97.5 to 98.2 for investment goods, but declined from 98.9 to 94.7 and from 94.7 to 92.3, respectively, for consumer and intermediate goods
- The deterioration in confidence recorded at the national level was the result of diverging trends across areas: the seasonally adjusted index worsened in the North and the Centre (in the North West the indicator declined from 96.9 to 93.9, in the North East from 95.0 to 92.0 and in the Centre from 97.5 to 97.4), whereas it improved in the *Mezzogiorno*, moving from 94.9 to 96.7

## IN THE 4Q 2006 INDUSTRY PLANT UTILIZATION STABILIZES AND OBSTACLES TO PRODUCTION DIMINISH

- The traditional ISAE quarterly survey pointed to basic stability in the industrial cycle: the rate of plant utilization remained at its highest level since the first quarter of 2001 and, accordingly, the opinions on the number of work hours stabilized
- Assessments on the flow of new orders and on the length of production assured by current order books, as well as expectations for the volume of exports sent slightly unfavourable signals
- Finally, the share of firms recording the existence of factors limiting productive activity declined: the relevance of financial constraints and other obstacles increased, while that of insufficient demand and of the shortage of labour force and of materials/commodities diminished
- Italian firms considered that their "competitive position" stayed virtually unchanged: opinions remained the same with respect to the domestic market, slightly improved for the EU market, but marginally worsened regarding the non-EU markets



**Data on February shall be released on February 22, 2007**

*The next ISAE surveys are scheduled as follows:*

**January 30:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: January), ISAE Monthly Business Services Survey (reference period: January) and ISAE Monthly Survey on Construction (reference period: December 2006)

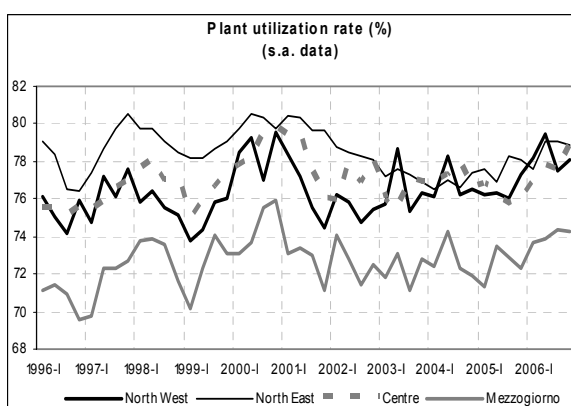
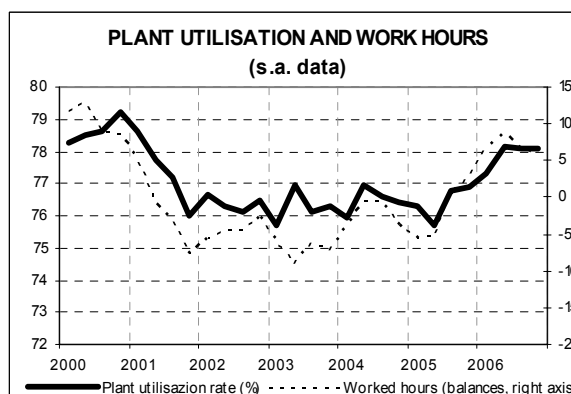
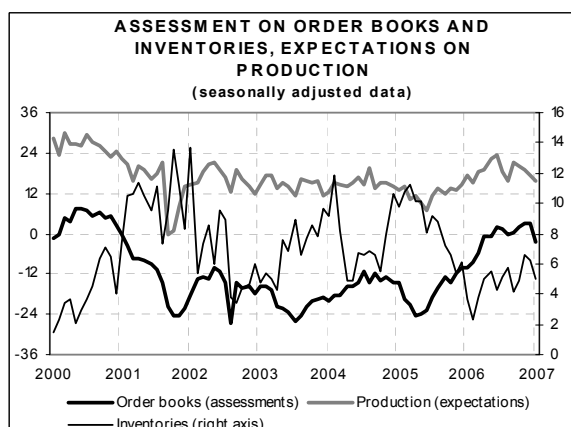
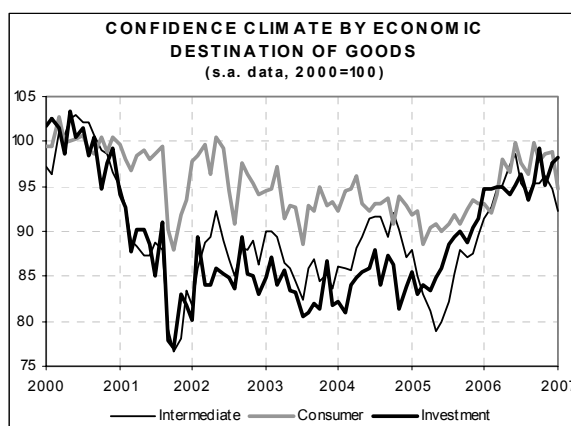
**February 7:** ISAE International Comparison of Consumer and Business Surveys (reference period: January)

The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site [www.isae.it](http://www.isae.it))

## General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between January 2 and January 22, pointed to a decline in the seasonally adjusted confidence index of manufacturing and mining firms. In January, the indicator lowered to 94.4 from 96.1 in December, reaching the lowest level since February 2006: assessments on orders and expectations for short-term productive activity worsened, notwithstanding a slight reduction in inventories. The evolution of confidence was rather patchy across sectors. The index increased from 97.5 to 98.2 for investment good, but declined from 98.9 to 94.7 and from 94.7 to 92.3, respectively, for consumer and intermediate goods. Moreover, the traditional ISAE quarterly survey pointed to basic stability in the industrial cycle in the fourth quarter of 2006: the rate of plant utilization remained at its highest level since the first quarter of 2001 and the opinions on the number of work hours stabilized. Assessments on the flow of new orders and on the length of production assured by current order books, as well as expectations on the volume of exports sent moderately unfavourable signals. Instead, the share of firms reporting the existence of factors limiting production declined: the relevance of financial obstacles and other factors increased, but the importance of insufficient demand and of the shortage of labour force and of materials/commodities diminished. Finally, Italian firms considered that their “competitive position” stayed virtually stable: the opinions remained unchanged with respect to the domestic market, slightly improved for the EU market, but, marginally worsened regarding the non-EU markets.

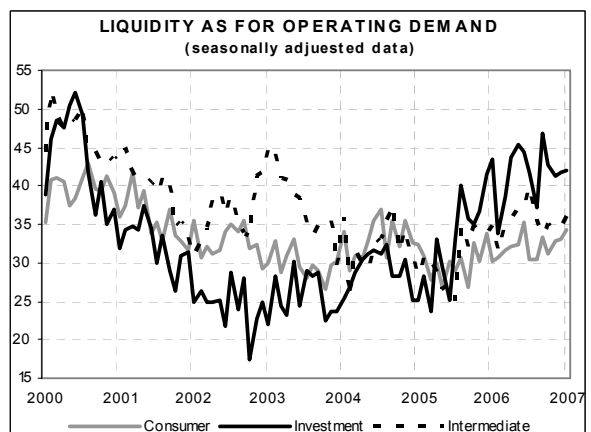
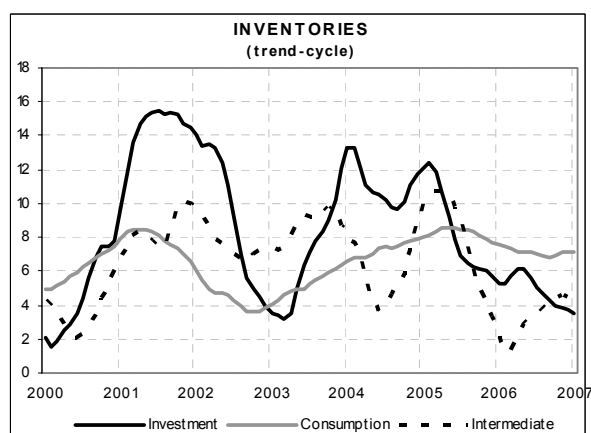
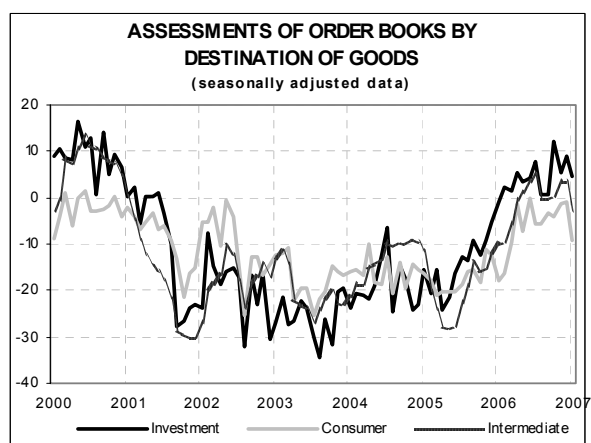
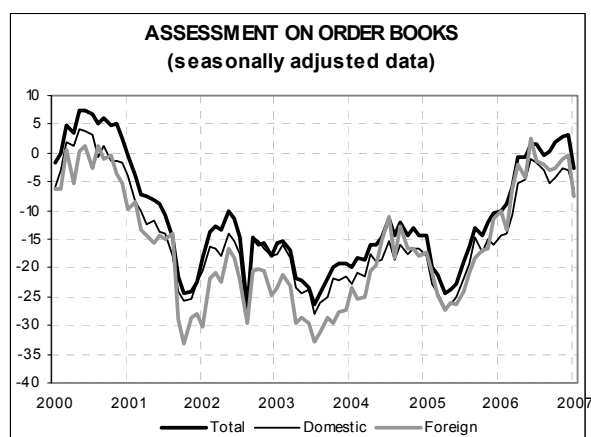
The deterioration in confidence recorded at the national level was the result of diverging trends across areas: the seasonally adjusted index worsened in the North and the Centre (in the North West the indicator declined from 96.9 to 93.9, in the North East from 95.0 to 92.0 and in the Centre from 97.5 to 97.4), whereas it improved in the *Mezzogiorno*, moving from 94.9 to 96.7.



### Situation in the reference period (January 2007)

The opinions of the level of order books worsened markedly (from 3 to -3, the lowest level since last spring), driven by a sharp decline in both domestic and foreign markets (from -3 to -6 and from 0 to -8, respectively). The level of production also deteriorated (moving from 3 to -3), whereas inventories declined somewhat (from 6 to 5) and the ratio of available liquidity to operational requirements stabilized (at 36).

At the industry level, a general worsening in entrepreneurs' opinions emerged. In the investment goods sector, the balance related to orders actually lowered from 9 to 4, mainly because of the sharp drop in domestic orders (from -1 to -2), which more than outweighed the moderate improvement posted by foreign orders (from 3 to 5). Also the level of production worsened (from 8 to 3), while inventories remained stable at their previous month level (at 3) and the ratio of available liquidity to operational requirements also held steady. For consumer goods, the opinions on orders deteriorated (from -1 to -9), because of the decline in both domestic (from -5 to -10) and foreign demand (from -9 to -18, its lowest level since last February). Also the level of production and the ratio of available liquidity to operational requirements diminished (from -3 to -7 and from 33 to 32, respectively) and inventories slightly built up. In the intermediate goods sector, instead, a worsening in the opinions on demand (from 3 to -3; from -2 to -7 in the domestic market and from 0 to -10 in foreign markets) and on the level of production (from 2 to -3) came along with a decline in inventories (from 6 to 3) and with stability for liquidity (at 35).



### Outlook for the following three months

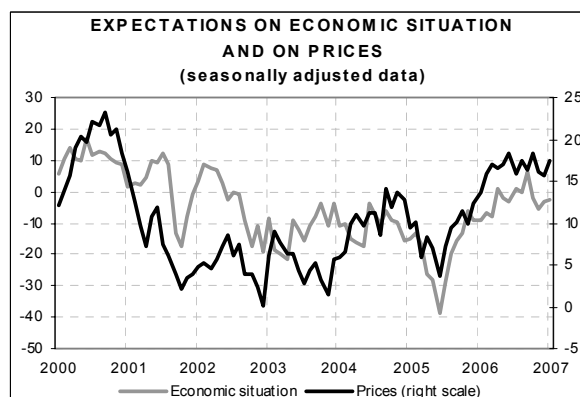
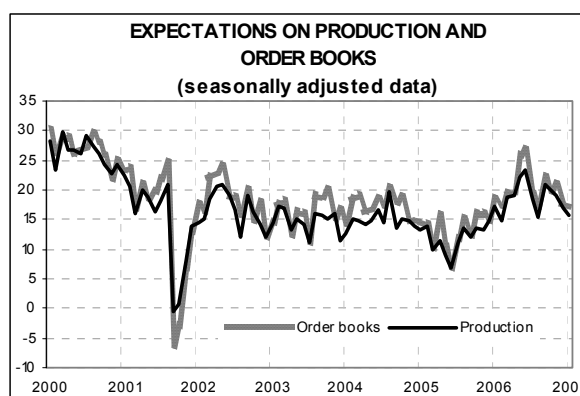
Surveyed firms were somewhat more pessimistic for the following months about expectations for developments in main company variables (orders, production, prices and employment). The general prospects for the Italian economy remained instead unchanged and forecasts for liquidity improved.

The balance referring to expectations for orders, production and employment lowered from 18 to 17, from 17 to 16 and from 3 to 2, respectively. Furthermore, the number of entrepreneurs who anticipated an increase in selling prices for the following three months grew (the balance moved from 16 to 17), and general expectations for the Italian economic situation stabilized (at -3). Prospects for liquidity improved instead: the balance expanded from 0 to 3.

Forecasts were favourable for investment goods but more cautious for consumer and intermediate goods. In the investment goods sector, expectations actually improved for orders (from 18 to 27), production (from 22 to 28, the highest value since September 2000), the economic trend (from -1 to 0) and employment (from 7 to 9), while those for a rise in selling prices declined (to 13 from 17 in the previous month). Forecasts for company liquidity worsened instead (from 2 to 1). For consumer goods, expectations for orders stabilized (the balance stayed at 19) and those for production, liquidity and employment worsened (in the order, from 19 to 16, from 4 to 3 and from -1 to -3). On the contrary, firms were more optimistic about the country's general economic situation and expected a decline in selling prices (the balance lowered from 17 to 16). Lastly, in the intermediate goods sector, a deterioration characterized expectations for orders (from 16 to 11), production (from 16 to 11) and employment (from 4 to 1), whereas forecasts for the general economic situation and company liquidity bettered (from -9 to -3 and from -3 to 4, respectively). Instead, firms did not expect significant differences with regard to the previous survey for selling prices (the balance remained at 19).

### Manufacturing firms' confidence climate and balances of indicator-building series

	Confidence climate	Order-book level	Inventories	Expectations on production
Oct. 2006	97.1	2	5	20
Nov. 2006	96.6	3	7	19
Dec. 2006	96.1	3	6	17
Jan. 2007	94.4	-3	5	16

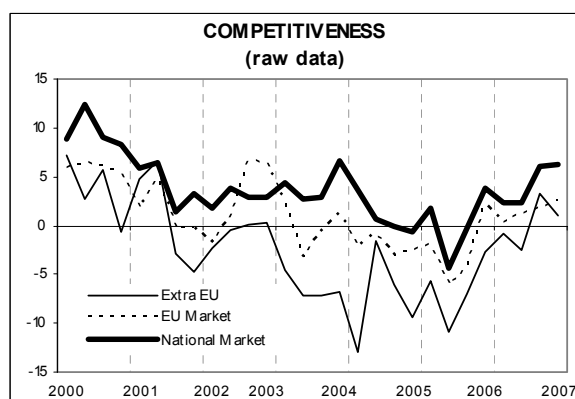
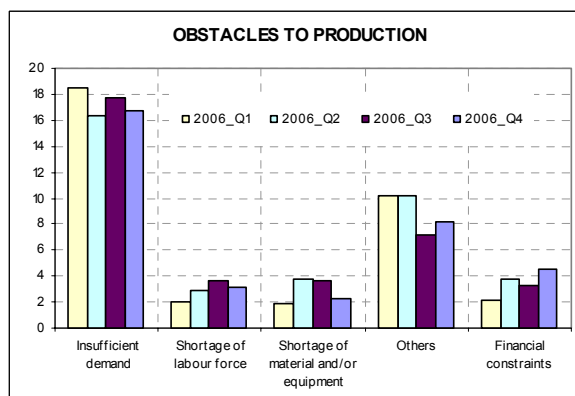
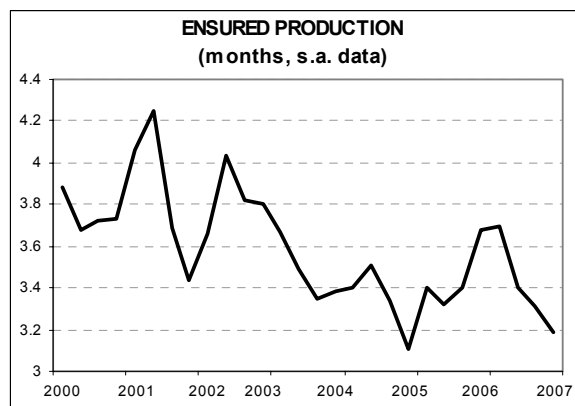
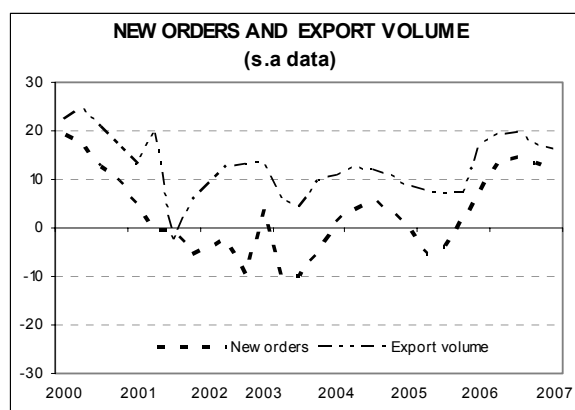


### Main quarterly survey results (fourth quarter 2006)

The traditional ISAE quarterly survey pointed to basic stability in the industrial cycle. The rate of plant utilization remained at 78.1, its highest level since the first quarter of 2001 and, accordingly, the opinions on the number of work hours also stabilized. Moreover, Italian firms considered that their “competitive position” stayed virtually unchanged: the opinions remained stable with regard to the domestic market (the balance stayed at 6), slightly improved for the EU one (from 2 to 3), but marginally worsened (from 3 to 1) with respect to the non-EU markets.

Firms gave instead positive assessments on the adequacy of operating capacity (the balance declined, reflecting the lowering in the number of entrepreneurs who considered that the rate of capacity utilization was more than adequate with respect to current operating requirements) and on the existence of production constraints (which declined with respect to the previous quarter). In particular, among the mentioned obstacles, the relevance of financial constraints and of other factors increased, but the importance of insufficient demand and shortage of labour force and of materials/commodities diminished.

Moderately unfavourable signals came instead from the assessments on the flow of new orders (the balance declined from 12 to 14) and on the length of production assured by current order books (which edged down from 3.3 to 3.2 months), as well as from expectations on the volume of exports (to 16 from 17). Finally, firms recorded slower de-stocking of raw materials and semi-finished products (the balance moved to -7 from -8 in the third quarter).



## Regional breakdown of ISAE survey results

In January, the deterioration in confidence recorded at the national level reflected diverging trends across areas: the seasonally adjusted index declined in the North and the Centre (in the North West the indicator lowered from 96.9 to 93.9, in the North East from 95.0 to 92.0 and in the Centre from 97.5 to 97.4), whereas it improved in the *Mezzogiorno* (rising from 94.9 to 96.7). In particular, assessments on the level of orders showed overall pessimism (both for domestic and foreign markets), while expectations on production and the opinions on inventories sent contrasting signals. The rate of capacity utilization was stable in the North East and the *Mezzogiorno*, whereas it moderately recovered in the North West and the Centre.

### North West

The confidence indicator worsened for the fourth month running: assessments on demand were negative and production prospects deteriorated. However, for the second straight month, inventories declined and the rate of operating capacity increased.

### North East

Entrepreneurs' confidence started to deteriorate once more in the North East, lowering to the level posted in February-March 2006. The decline stemmed from a worsening in the opinions on demand and from negative assessments on inventories of finished products. Production prospects sent, instead, positive signals. Finally, the rate of capacity utilization showed virtual stability.

### Centre

In this area, the confidence indicator continued to worsen for the third month in a row, remaining nevertheless around its August 2006 level. Also in this case, the decline was due to a deterioration in the opinions on orders, which came along with stability in the balance for inventories of finished products. On the contrary, production prospects improved and the rate of capacity utilization markedly picked up.

### Mezzogiorno

In contrast with the trend in the other areas, in the *Mezzogiorno* entrepreneurs' confidence recovered nearly two points, reaching the level recorded last September. The improvement in the indicator mirrored a decidedly positive trend in production prospects, which was accompanied by a decline in the balance for assessments on demand and by restocking of inventories. Lastly, the rate of capacity utilization remained stable.

