



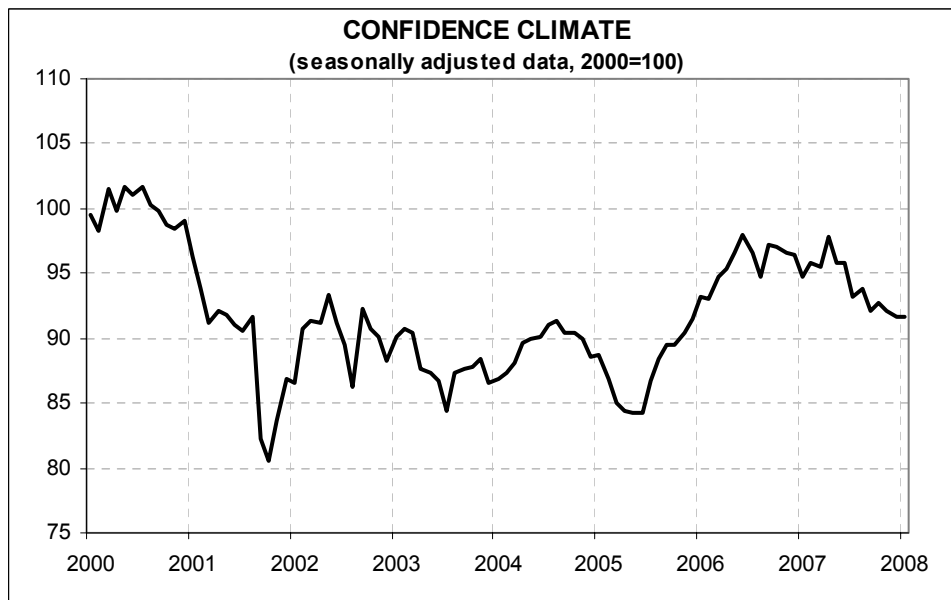
Date: **January 29, 2008**
TEL.: **06/444821**

IN JANUARY MANUFACTURING FIRMS' CONFIDENCE STAYS VIRTUALLY UNCHANGED

- The seasonally adjusted confidence index (2000=100) came in at 91.6, compared to 91.7 in the previous month
- Overall the survey gave however slightly negative indications. A decline characterized domestic and foreign demand, the level of production, and expectations for orders and production. General economic prospects also worsened, reaching their lowest level in the last two years. The only positive note came from the de-stocking of inventories
- However, the breakdown of data by sector pointed to some disparities: the index lowered in the investment and consumer goods sectors (from 95.6 to 94.1 and from 94.4 to 94.1, respectively), whereas it recovered for intermediate goods (from 88.1 to 88.6)
- Basic stability recorded at the national level was the result of differing trends across the country: the index remained unchanged in the North West (at 93), declined in the North East and the *Mezzogiorno* (from 88.3 to 87.4 and from 94.1 to 93.6), but improved moderately in the Centre (from 93.1 to 93.4)

IN THE 4Q 2007 PLANT UTILIZATION CONTINUES TO DECREASE

- Less negative indications came from the length of production assured by current order books and by the number of work hours, which remained stable compared to the previous quarter
- The flow of new orders recovered, expectations for the volume of exports stabilized, and the number of firms signalling the existence of factors limiting productive activity declined, mainly because of lower demand constraints
- Firms' competitive position started to improve once more in both domestic and EU markets, as well as in non-EU ones



Data on February shall be released on February 26, 2008

The next ISAE surveys are scheduled as follows:

January 30, 2008: 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)

February 7, 2008: 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)

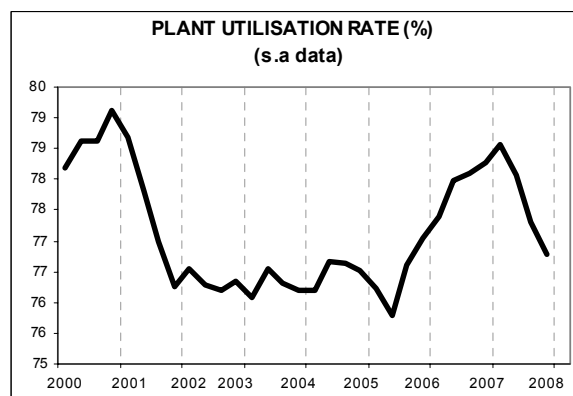
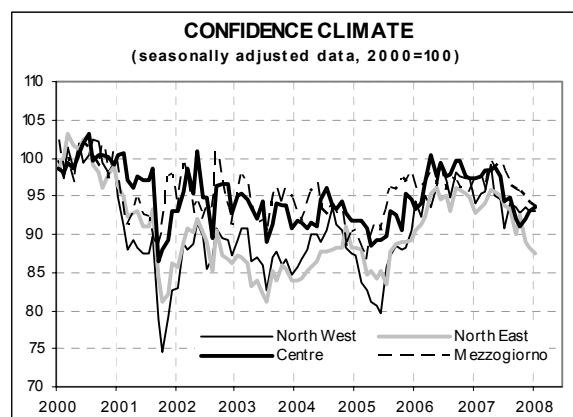
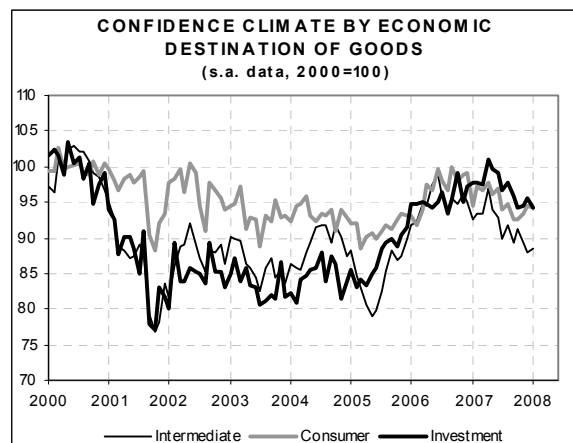
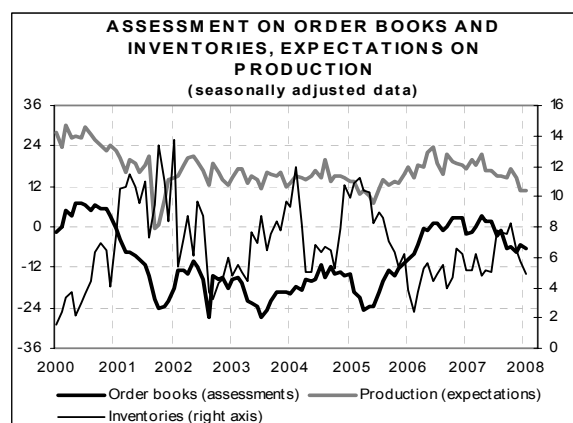
General results

The ISAE Survey, carried out on a panel of about 4000 firms between January 2 and January 21, pointed to stability for the confidence index of manufacturing and mining firms. In January, the indicator remained at 91.6 (compared to 91.7 in the previous month).

The opinions on the trend for total orders stayed the same, though firms indicated a fall in both domestic and foreign markets¹. Production expectations diminished, but inventories, which were the only positive note, shrunk. Prospects for the general economic situation declined to their lowest level in the last two years, in line with the worsening in the consensus forecasts for the international business cycle. However, the breakdown of data by sector and by geographic area recorded some disparities. The index lowered for investment and consumer goods (from 95.6 to 94.1 and from 94.4 to 94.1, respectively), whereas it recovered for intermediate goods (from 88.1 to 88.6). As for geographic data, confidence remained stable in the North West (at 93), declined in the North East and the *Mezzogiorno* (from 88.3 to 87.4 and from 94.1 to 93.6), while it improved instead moderately in the Centre (from 93.1 to 93.4).

The traditional ISAE quarterly survey on operating capacity showed that in the fourth quarter of 2007 plant utilization rate continued to diminish. Moreover, the share of firms considering capacity utilization to be “more than enough” increased. Less negative indications came from the length of assured production and by the number of work hours, which remained stable with respect to the previous quarter. Furthermore, the flow of new orders recovered, expectations for the volume of exports stabilized, and the number of firms signalling the existence of factors limiting productive activity declined. Finally, firms’ competitive position started to improve once more.

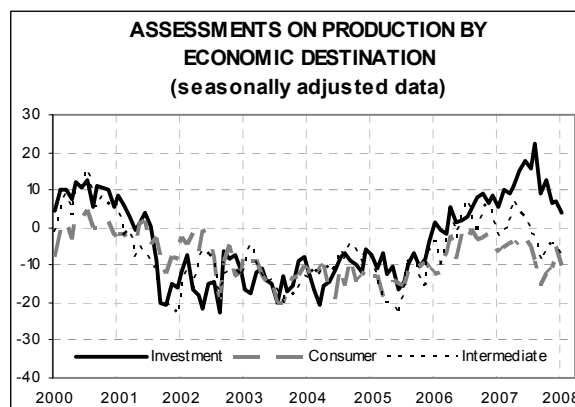
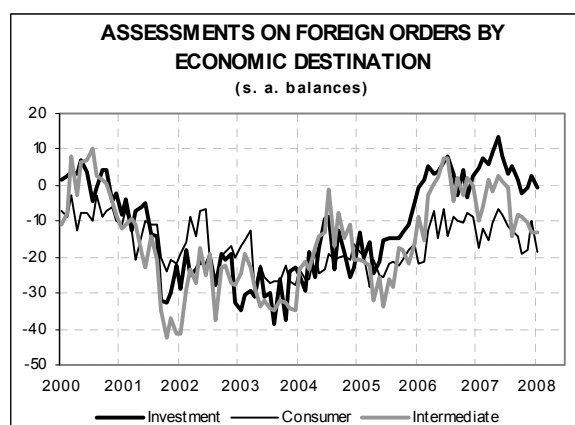
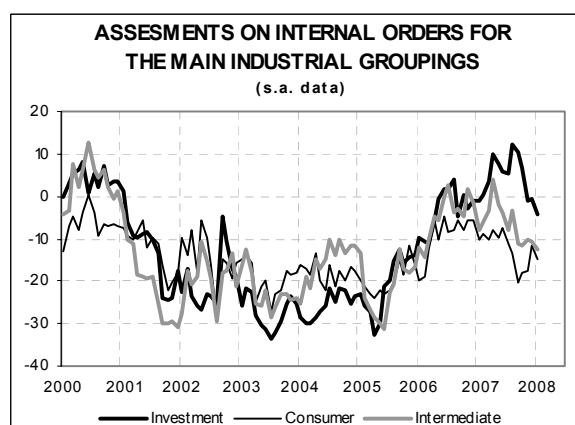
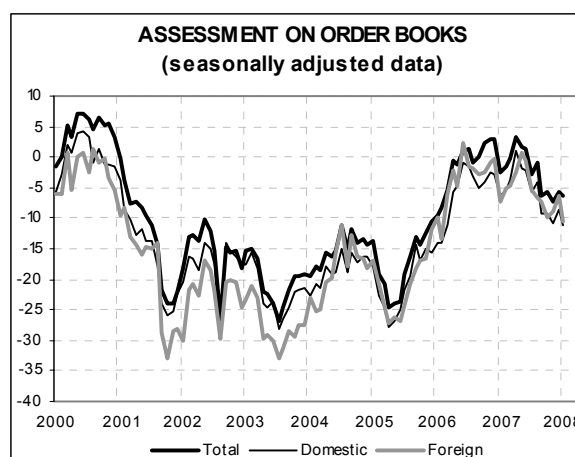
¹ The ISAE questionnaire asks for separate replies for domestic and foreign orders and for total demand. The series are independently seasonally adjusted with the TRAMO-SEATS method. This methodology can, in some cases, produce contradicting results between developments in overall demand and those in its components (domestic and foreign).



Situation in the reference period (January 2008)

In January, firms' evaluation of most company variables worsened: the balance for the opinions on orders stayed at -6, as in the previous month, but domestic and foreign demand lowered from -9 to -11 and from -6 to -11, respectively. Also assessments on the levels of production and on company liquidity deteriorated. The related balances diminished from -1 to -7 and from 33 to 32, reaching in the former case its lowest value since February 2006. The only positive signal came from inventories which declined for the third month running (from 6 to 5, the best reading since June).

The worsening in the current situation mainly characterized final demand sectors, whereas for intermediate goods the opinions remained virtually stable with respect to the previous month. More in detail, for consumer goods opinions on orders worsened from -8 to -12 (from -12 to -15 for domestic orders and from -10 to -18 for foreign ones), and the evaluation of production lowered from -5 to -10. Also company liquidity shrunk (from 27 to 25) and inventories started to accumulate once again (moving from 6 to 7). Likewise, for investment goods the assessments on orders worsened from 4 to 1 (the lowest value since September 2006), due to a decline in both the domestic and foreign components (from -1 to -4 and from 2 to -1, respectively). Also the level of production and company liquidity diminished (from 7 to 4 and from 38 to 36) and inventories built up again (from 3 to 4). Instead, in the intermediate goods sector, the opinions on orders remained unchanged at their previous month level (at -8), mirroring virtual stability for both their domestic (from -11 to -12) and foreign components (at -13, as in December). However, also in this sector, the level of production and company liquidity declined (from -4 to -9 and from 37 to 34, respectively), but inventories continued to shrink (from 6 to 4).



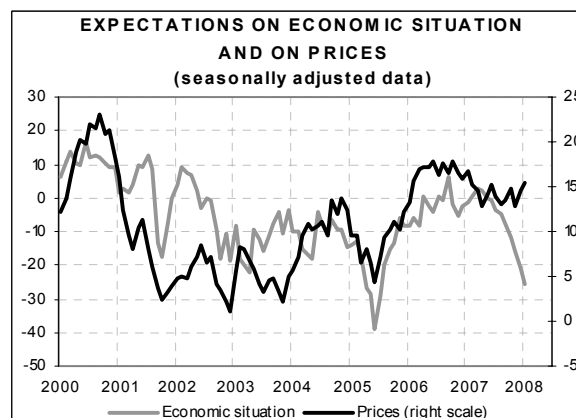
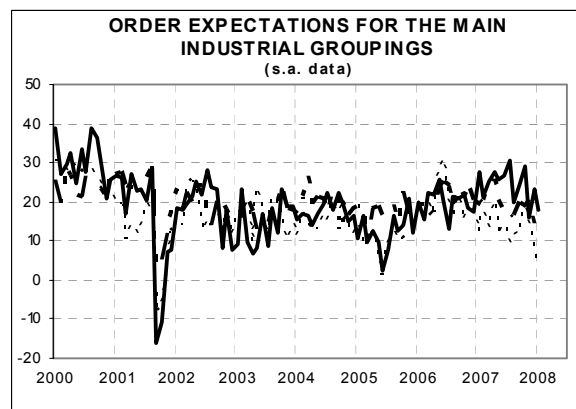
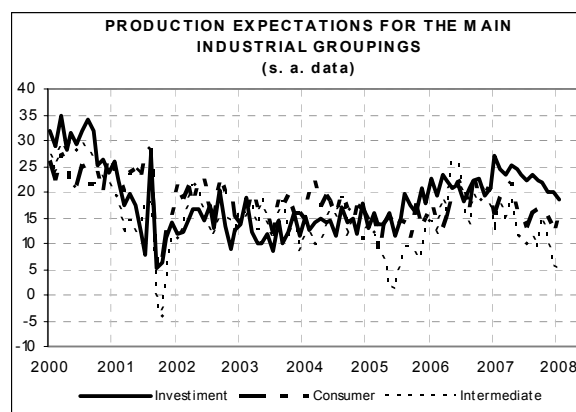
Outlook for the following three months

Also in January short-term prospects about orders, production and employment continued to deteriorate. Moreover, respondents were markedly more pessimistic about short-term forecasts for the Italian economy, in line with the downgrading of the consensus forecasts for the international economic cycle.

In particular, a decline characterized expectations for orders, production, employment, and the economy in general: the related balances dropped from 13 to 12, from 11 to 10, from 2 to -1, and from -21 to -26, respectively. In the latter case, the balance hit the lowest level since July 2005. Firms did not change their expectations for selling price inflation (the balance remained at 15), but improved those for company liquidity (from 1 to 3). The breakdown of data by sector pointed to some important differences. Producers of consumer goods became more optimistic, with respect to the previous month, about prospects for demand (from 14 to 17), production (from 12 to 15), and company liquidity (from 2 to 5). However, they expected a decline for employment (from -1 to -3) and a strong deterioration for the general economic situation (from -23 to -30). Lastly, prospects for selling prices remained unchanged (the balance stayed at 15). In the intermediate goods sector, expectations remained virtually stable. The balances for orders and the general trend held steady (at 6 and -26, respectively), the one for production eased slightly (from 6 to 5), whereas the balance for liquidity increased (from 0 to 2), and selling price expectations started to rise once more (from 16 to 18). Finally, producers of investment goods gave negative indications. Actually, a decline portrayed expectations for orders (from 23 to 18), production (from 20 to 19), employment (from 8 to 4), and the country's economic situation (from -15 to -17). Lastly, selling price prospects edged down slightly (from 16 to 15), while those for liquidity recovered instead (from 4 to 7).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Oct. 2007	92.8	-6	8	17
Nov. 2007	92.1	-7	7	15
Dec. 2007	91.7	-6	6	11
Jan. 2008	91.6	-6	5	10

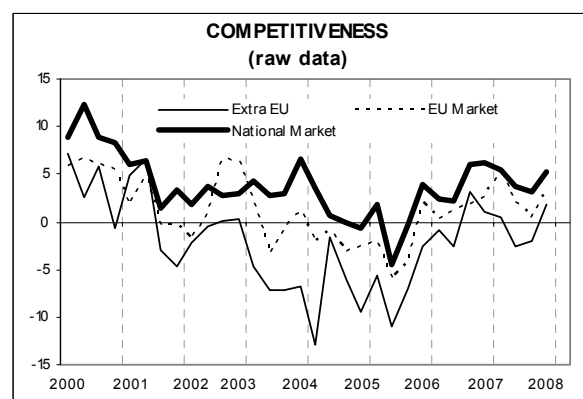
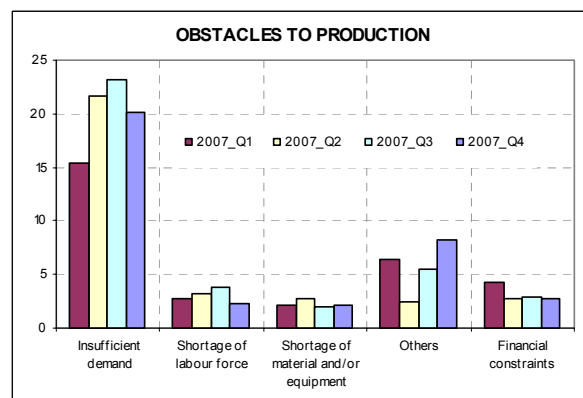
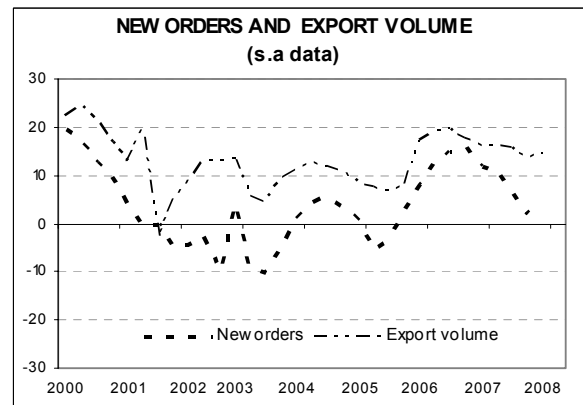
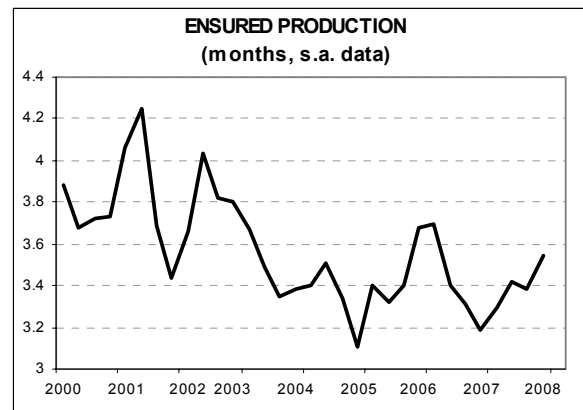


Main quarterly survey results (fourth quarter 2007)

According to the traditional ISAE quarterly survey, in the fourth quarter of 2007, operating capacity continued to decline (to 76.8% from 77.3%). Moreover, the share of firms considering capacity utilization to be “more than enough” increased (the balance rose from 22 to 23). Less negative indications came instead from the length of production assured by current order books (3.5 months) and from the number of work hours (the related balance came in at 1). Both variables remained practically stable with respect to the previous quarter. Furthermore, the flow of new orders recovered (the balance increased from 2 to 5), expectations for the volume of exports stabilized (at 14), and the share of firms signalling the existence of factors limiting productive activity declined (from 33% to 32% of the total), mainly thanks to lower demand constraints. Finally, firms’ competitive position started to improve once more in both domestic (from 3 to 5) and EU markets (from 0 to 3), as well as in non-EU ones (from -2 to 2). Finally, inventories of raw materials and semi-finished products declined again (the balance lowered from -6 to -8).

Regional breakdown of ISAE survey results

Virtual stability in confidence recorded at the national level was the result of differing trends across areas: the index remained stable in the North West (at 93), declined in the North East and the *Mezzogiorno* (from 88.3 to 87.4 and from 94.1 to 93.6, respectively), but improved slightly in the Centre (from 93.1 to 93.4). Overall respondents became more pessimistic about the level of orders (both domestic and foreign), while they sent contrasting signals regarding production expectations and inventories. The rate of capacity utilization increased in the North East, but diminished in the other areas.



North West

In January, the confidence climate remained virtually stable. The opinions on demand were negative (pessimism characterized both domestic and foreign markets), while the evaluation of inventories of finished products and production expectations stayed virtually unchanged. Lastly, the rate of capacity utilization increased.

North East

In this area the confidence index deteriorated for the third straight month, hitting the lowest value since July 2005. The fall largely stemmed from the worsening in the opinions on demand (which portrayed both its domestic and, mainly, its foreign components) and from the decline in production expectations. The assessments on inventories of finished products remained instead stable. Finally, operating capacity diminished.

Centre

Entrepreneurs' confidence in the Centre bettered for the third consecutive month, thanks to the marked de-stocking of inventories, whereas the opinions on orders (both domestic and foreign) and production expectations deteriorated. Also plant utilization shrunk.

Mezzogiorno

Confidence continued to decline for the seventh month running, reflecting, in this case, the decidedly negative trend recorded by the opinions on orders (in domestic and, above all, foreign markets) and by inventories of finished products. Production forecasts sent instead positive signals. Lastly, the rate of plant utilization decreased.

