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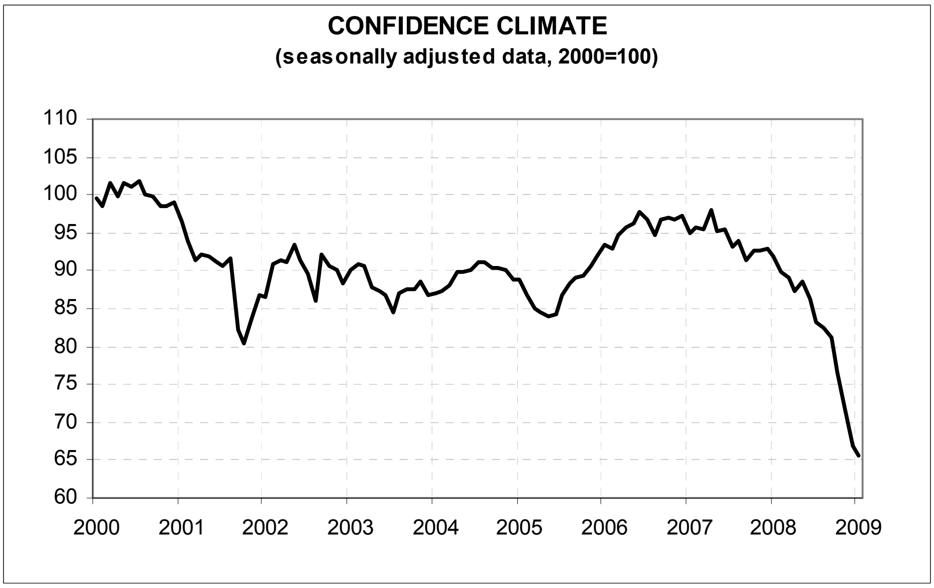
MANUFACTURING FIRMS' CONFIDENCE WORSENS IN JANUARY

- **The seasonally adjusted confidence index (2000=100) fell to 65.5 from 66.8 in the previous month, confirming the survey's all-time low**
- **Both domestic and foreign demand deteriorated. The opinions on the level of inventories and short-term production prospects remained unchanged at historical negative values**
- **However, at sector and regional level, results were mixed. The indicator continued to decline for intermediate and consumer goods (from 60.7 to 58.1 and from 78.7 to 78.4, respectively), while it recovered slightly for investment goods (from 62.8 to 63.9)**
- **At the regional level, the index diminished in the North East, the North West and the Centre (in the order, from 63.2 to 61.7, from 64 to 62.8, and from 75.8 to 74.4), but moderately bettered in the *Mezzogiorno* (from 74.1 to 74.8)**
- **Questions about credit access conditions gave slightly less negative indications. The share of firms considering a worsening with respect to the previous month decreased**

IN THE 4Q 2008 INDUSTRIAL PLANT UTILIZATION SENDS HIGHLY NEGATIVE SIGNALS

- **The rate of operating capacity decreased from 75.4% to 69.9%, reaching the survey's all-time low. Accordingly, also the number of work hours plunged and the share of respondents considering their rate of capacity utilization "more than adequate" increased**
- **The flow of new orders and the length of production assured by order books diminished. Moreover, firms indicated the existence of increasing obstacles limiting productive activity related to insufficient demand**
- **Short-term expectations for the volume of exports also abruptly fell and firms' perception of their competitive position worsened**



Data on January shall be released on February 26, 2009

The next ISAE surveys are scheduled as follows:

January 30, 2009: *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 11, 2009: *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)

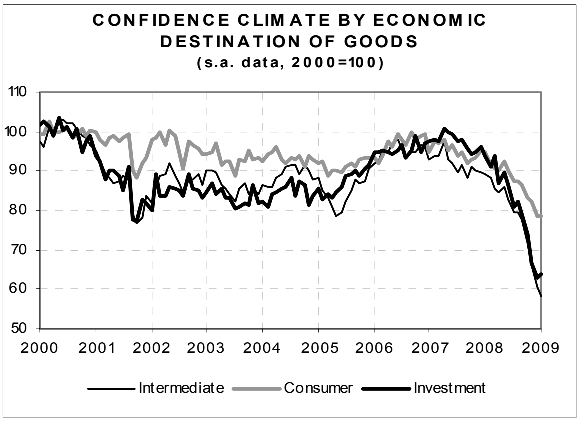
General results

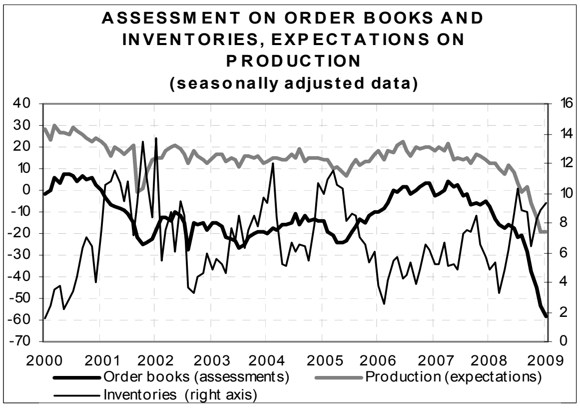
According to the ISAE Survey, carried out between January 7 and January 22 on a panel of about 4,000 firms, the confidence climate of manufacturing and mining firms declined further in January, reaching 65.5 (compared to 66.8 in the previous month).

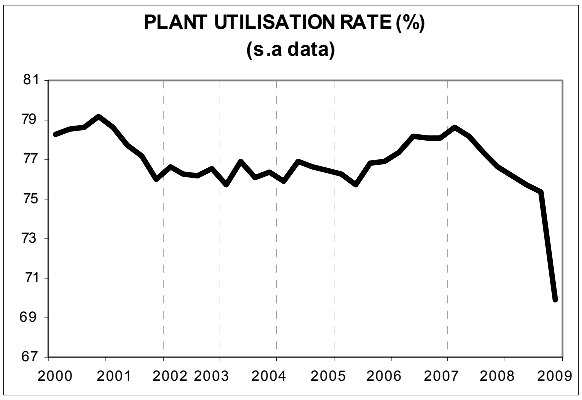
Firms' opinions on the current level of orders and demand in general continued to worsen, while inventories of finished products and short-term production expectations remained unchanged at historical low levels. The crisis did not characterize all productive sectors in the same way: the index mainly fell for producers of consumer and intermediate goods (from 78.7 to 78.4 and from 60.7 to 58.1, respectively), while it recovered, albeit slowly, for investment goods (from 62.8 to 63.9). Questions about credit access conditions sent slightly less negative signals. The share of firms considering a worsening with respect to the previous month decreased.

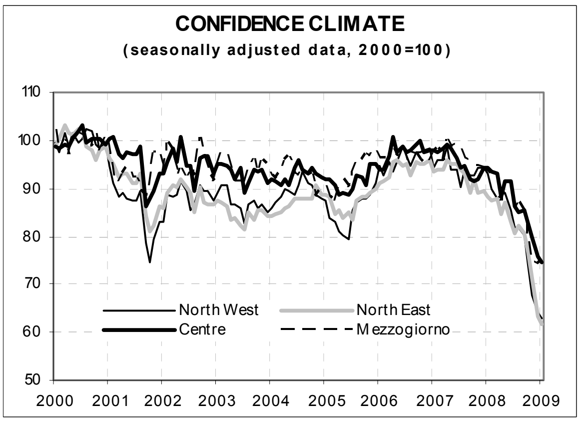
The traditional ISAE quarterly survey on operating capacity gave instead highly unfavourable indications. In the fourth quarter of 2008, the rate of plant utilization plunged to the survey's all-time low. Also the number of work hours and the length of production assured by order books contracted. Moreover, firms confirmed the existence of obstacles limiting productive activity due to insufficient demand and indicated the persistence of capacity overhang.

At the regional level, results were mixed. The index diminished in the North West, the North East and the Centre (in the order, from 64 to 62.8, from 63.2 to 61.7, and from 75.8 to 74.4), but moderately bettered in the *Mezzogiorno* (from 74.1 to 74.8). The rate of capacity utilization worsened instead all over the country.



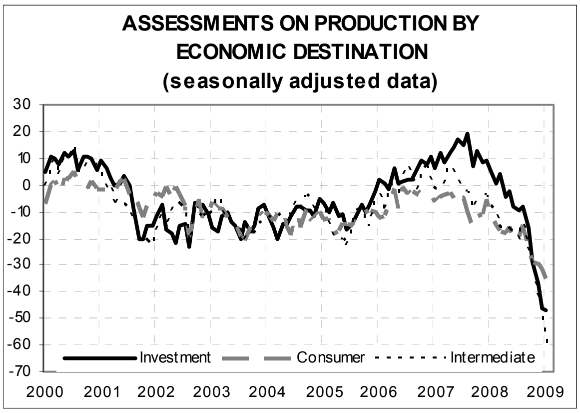


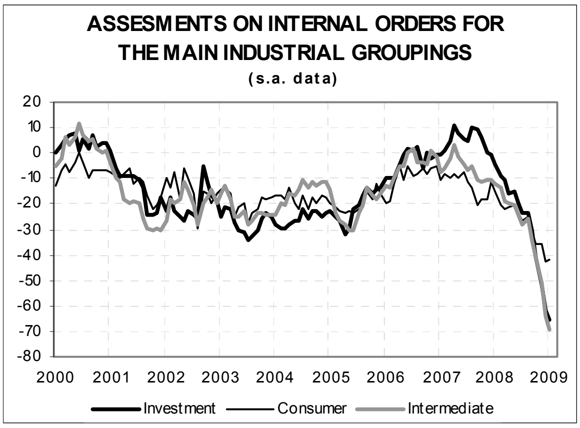


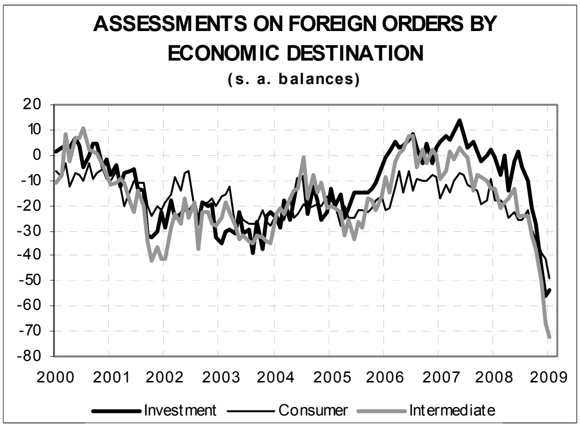


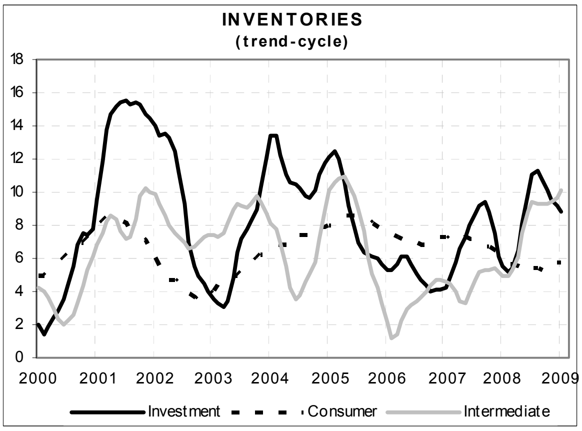
Situation in the reference period (January 2009)

In January, manufacturing firms gave more negative assessments, compared to the previous month, on most company variables. The balance for the opinions on orders decreased four points (from -54 to -58, a level unseen since the start of the nineties). Both domestic and foreign demand deteriorated (the related balance diminished from -56 to -59 and from -54 to -59, respectively). Firms' assessments on the level of production and company liquidity declined as well (from -43 to -49 and from 11 to 10). Inventories of finished products, instead, held steady (at 9), remaining above their long-term average. The worsening of the current situation characterized all firms, though it was more marked for producers of intermediate goods. In detail, for the latter, the opinions on orders fell six points for both the domestic and the foreign components (from -64 to -70 and from -67 to -73). Assessments on the level of production plummeted (from -51 to -59) and inventories increased (from 8 to 12). Instead, the opinions on the level of company liquidity improved (from 6 to 10). In the consumer goods sector, the evaluation of orders and demand in general fell two points (from -39 to -41), in the presence of a slight recovery in the domestic component (from -43 to -42) and a sharp fall in the foreign one (from -41 to -49). Assessments on the level of production and company liquidity worsened further (from -32 to -35 and from 15 to 10), while inventories dropped (from 7 to 5). Lastly, for producers of investment goods, opinions on orders remained stable at the very negative level posted in the previous month (the balance came in at -62), in the presence of a four-point fall in domestic demand (from -61 to -65) and a two-point rise in foreign demand (from -56 to -54). The level of production and inventories of finished products declined, albeit moderately (moving from -46 to -47 and from 9 to 7), while company liquidity remained unchanged (at 11, as in December).







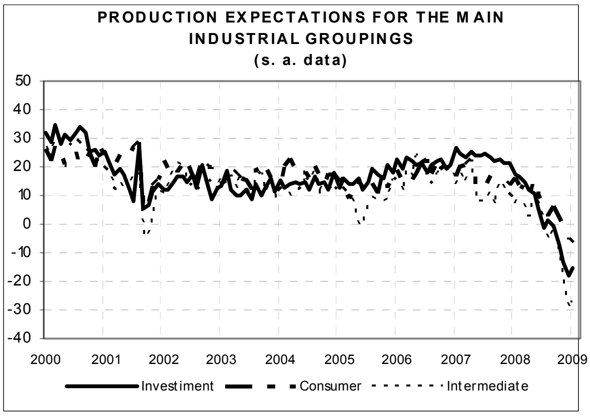


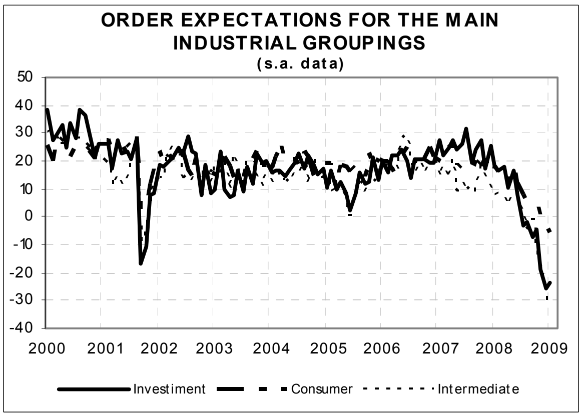
Outlook for the following three months

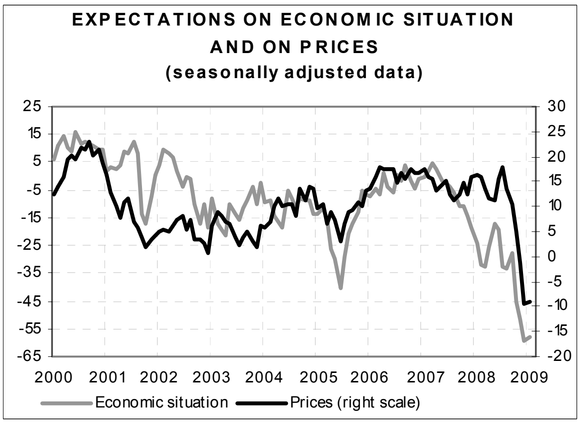
In January, short-term prospects for main company variables and for the country's general economic conditions stayed broadly constant, at the values recorded in the previous month. The balances related to expectations for orders, demand, production, prices and employment stood, in the order, at -20, -20, -19, -9 and -23. Instead, forecasts for company liquidity continued to deteriorate though only slightly, moving from -28 to -29, whereas those on the country's economic situation moderately recovered (from -59 to -58). At the sector level, firms' expectations were mixed. Optimism prevailed among producers of investment and intermediate goods. Instead, consumer goods' firms were pessimistic about expectations for demand (the balance dropped from -4 to -6), production (from -6 to -7) and the general economic situation (from -57 to -55). They were also disappointed about prospects for company liquidity, prices and employment (the related balance lowered from 15 to 10, from 2 to -2 and from -18 to -21, respectively). Producers of investment goods upgraded their forecasts, with respect to December, for production (from -18 to -16), orders (from -26 to -23), and employment (from -20 to -17). The balance for future selling prices went back in positive territory (moving from -1 to 3). Expectations for the general economic situation also improved (from -67 to -60), while those for company liquidity remained unchanged. For manufacturers of intermediate goods, recovery characterized expectations for demand (from -31 to -28), production (from -29 to -27), company liquidity (from 6 to 10) and employment (from -29 to -26). Firms in this sector were also less pessimistic about prospects for the country's general economic situation (from -67 to -61). Lastly, the balance for selling price expectations rose slightly, though remaining markedly negative (from -18 to -17).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Oct. 2008	76,5	-38	6	-6
Nov. 2008	71,7	-45	8	-12
Dec. 2008	66,8	-54	9	-19
Jan. 2009	65,5	-58	9	-19





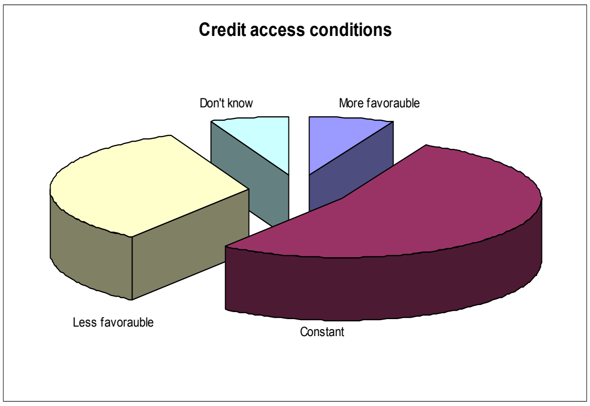


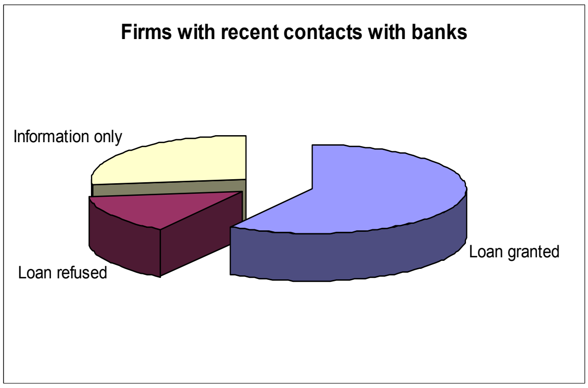
Credit access conditions

In January, firms' opinions on credit access conditions improved. The share of firms considering deterioration for credit access declined from 43% to 33.6% of the sample. The fall was particularly sharp for small-sized firms (from 41% to 31%). Firms mostly complaining about increasingly unfavourable credit access conditions were again those in the North West (36.4% of the sample) and the Centre (35%). Those in the North East and the *Mezzogiorno* gave a slightly less negative evaluation.

Among firms that based their opinions on actual contacts with banks (which represented about 44% of the sample), 59% were granted a loan, a higher percentage than in December 2008 (52.3%). However the proportion of credit rationed firms also increased (from 13.3% to 14%), while the share of those that contacted credit institutions for information purposes only diminished (from 34.5% to 27.1%). As for firms which were denied credit, the proportion diminished in the North East (from 14.3% to 10.4%) and the *Mezzogiorno* (from 14.7% to 13.3%), but rose instead in the North West (from 12.7% to 14.6%) and the Centre (from 11.9% to 19.6%). According to firm size, in January difficulties in obtaining credit increased for large firms (23.8% of those which contacted banks did not obtain the loan, compared to 5.6% in the previous month), but declined for small and medium-sized ones.

The failure to obtain bank credit continued to be mainly caused by explicit denial by banks (10.9% of the cases, compared to 11% in December). The share of firms which rejected funding because of too onerous credit terms started to increase once more (from 2.3% to 3.1%), mainly among large-sized firms.



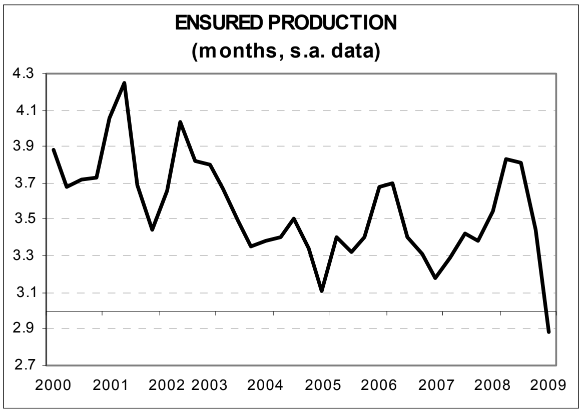


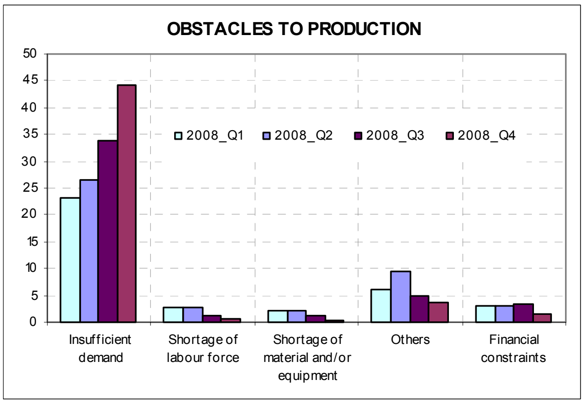
Reasons for credit refusal

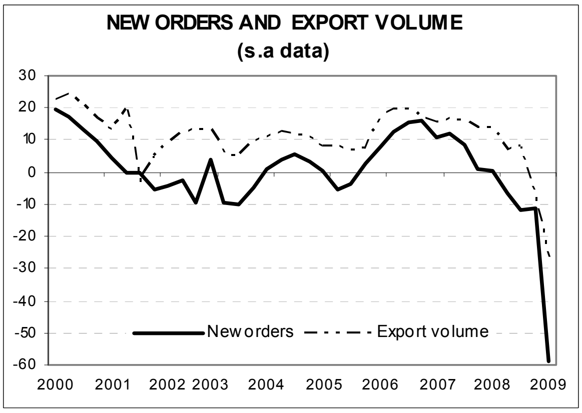
		March	June	September
Denied by the bank	Total	4.3	3.3	5.8
	Small	4.3	3.3	5.9
	Medium	5.6	3.2	7.6
	Large	4.5	5.7	4.8
Client's refusal	Total	5.3	3.6	2.2
	Small	5.6	3.9	2.4
	Medium	1.8	2.4	0.0
	Large	4.3	0.0	1.6
		november	december	January
Denied by the bank	Total	11.0	11.0	9.7
	Small	10.9	11.6	10.1
	Medium	16.7	14.5	11.3
	Large	7.0	3.4	11.7
Client's refusal	Total	3.4	2.3	3.1
	Small	3.0	2.2	2.3
	Medium	2.2	5.5	4.5
	Large	7.2	2.2	12.1

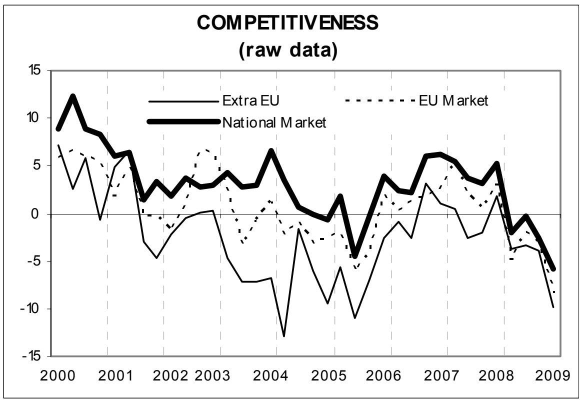
Main quarterly survey results (fourth quarter 2008)

The traditional ISAE quarterly survey on operating capacity showed that in the fourth quarter of 2008 manufacturing firms dramatically cut their capacity utilization rate, in a situation characterized by a larger drop in demand and by competitive difficulties in both domestic and foreign markets. More in detail, operating rates plunged from 75.4% to 69.9%, reaching a record low last seen in 1991. In line with the most recent data on the recourse to the Redundancy Fund (*Cassa Integrazione Guadagni*), also the number of hours actually worked plummeted (the related balance dropped from -9 to -38). Moreover, recovery was not foreseen in the short-term, since the share of firms considering capacity utilization to be "more than enough" increased further. The drop in current and expected productive capacity was due to a further fall in demand. The share of firms considering insufficient demand an obstacle to production continued to increase (from 34% to 44% of the sample, a historical high also in the case), while at the same time a sharp plunge distinguished the flow of new orders (from -11 to -59) and the length of production assured by order books (from 3.4 to 2.9 months). The volume of exports also decreased (from -8 to -26), in the presence of a further decline for the competitive position in both the domestic market (from -3 to -6) and the EU and non-EU ones (from -3 to -8 and from -4 to -10, respectively). Lastly, inventories of raw material and semi-finished products diminished (from -8 to -10).









Regional breakdown of ISAE survey results

At the regional level, the index lowered in the North East, the North West and the Centre (from 63.2 to 61.7, from 64 to 62.8 and from 75.8 to 74.4, respectively) and improved slightly in the *Mezzogiorno* (from 74.1 to 74.8). Pessimism about the current level of demand was widely spread across the country. Inventories, instead, increased further in the North West and the Centre and declined in the North East and the *Mezzogiorno*. Approaches were different also for future production prospects: firms forecast an improvement in the North West, further deterioration in the North East, and stability in the Centre and the *Mezzogiorno*.

North West

Confidence decreased from 64 to 62.8, in the presence of a clearly negative trend for the opinions on orders (from -60 to -63 overall and from -60 to -66 for the foreign component) and further restocking of inventories (the balance rose from 5 to 11). Production expectations showed, instead, signs of recovery (from -26 to -22). Moreover, in the fourth quarter of 2008, the rate of operating capacity markedly lowered (from 76.5% to 70.4%).

North East

In this area, the confidence indicator continued to decline for the third consecutive month, hitting 61.7 (compared to 63.2 in December). The fall was essentially prompted by the worsening in the opinions on the level of demand (from -54 to -61 in general and from -57 to -60 for foreign demand). Also short-term production expectations lowered (from -21 to -24), whereas inventories started to diminish once more (from 14 to 10). Also in this case, the rate of plant utilization clearly fell, dropping from 74.4% to 70%.

Centre

Entrepreneurs' confidence decreased from 75.8 to 74.4, mostly due to deterioration in assessments on orders, demand in general (from -42 to -46) and mainly the domestic component (from -44 to -47), and to the restocking of inventories (from 5 to 6). Production expectations remained stable compared to the previous month (at -10). Operating capacity declined from 74.4% to 71.2%.

Mezzogiorno

In this area, the confidence climate improved slightly, moving from 74.1 to 74.8 and returning to its November 2008 value. The opinions on the level of orders and demand in general continued to worsen (declining overall from -43 to -46, but slumping from -38 to -51 in foreign markets). However, inventories of finished products diminished (from 10 to 5) and production expectations stabilized (at -8). Also in this region, the capacity utilization rate decreased in the fourth quarter of 2008 (from 71.5% to 64.9%).