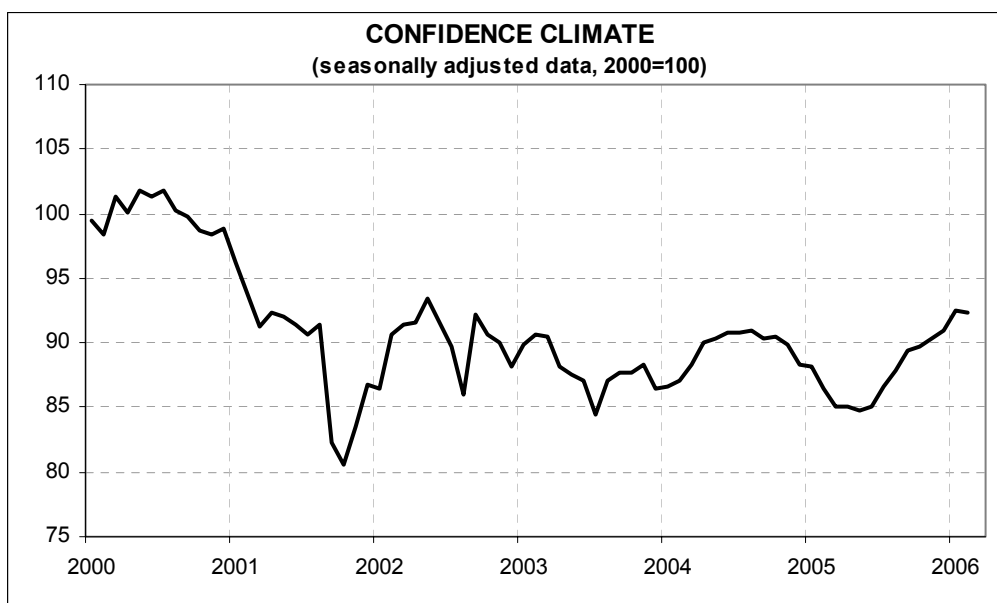




Date: February 24, 2006
TEL.: 06/444821

MANUFACTURING FIRMS' CONFIDENCE REMAINS VIRTUALLY UNCHANGED IN FEBRUARY

- After eight successive increases, in February the seasonally adjusted index (2000=100) edged down to 92.3 from 92.5 in the previous month, though still remaining at its highest level since October 2004
- Inventories continued to decline and the assessment on orders remained stable, whereas short-term forecasts on production worsened
- Among the variables excluded from the definition of confidence, the assessment on the level of production deteriorated, while short-term forecasts on the Italian overall economic situation improved. Furthermore, firms expected an increase in selling prices
- Business sentiment continued to improve in the intermediate goods sector (the index rose from 90.7 to 91.6), remained virtually unchanged for investment goods (at 95.2, compared to 95.1), while it worsened for consumer goods (easing from 92.2 to 91.5)
- In particular, confidence declined more in the chemical, rubber and plastic sectors and in the "other sectors", such as wood, paper and printing and other manufacturing industries, than in the traditional sectors (food and beverage, textiles, leather, footwear, non-metallic mineral products) and in machinery and motor vehicle sectors
- On a regional basis, negative indications came from the North West, where the index decreased from 93.1 to 91.8. Confidence continued to improve instead in the North East (from 89.6 to 90.8), the Centre (from 93 to 93.6) and the *Mezzogiorno* (from 95.4 to 96.1)



Data on March shall be released on March 28, 2006

The next ISAE surveys are scheduled as follows:

February 28, 2006: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: January 2005) and ISAE Monthly Business Services Survey (reference period: February 2006)

March 1, 2006: ISAE Survey on Construction (reference period: January 2006)

March 6, 2006: ISAE International Comparison of Consumer and Business Surveys (reference period: February 2006)

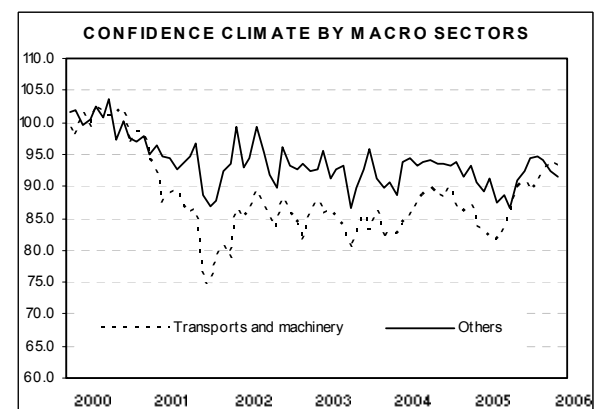
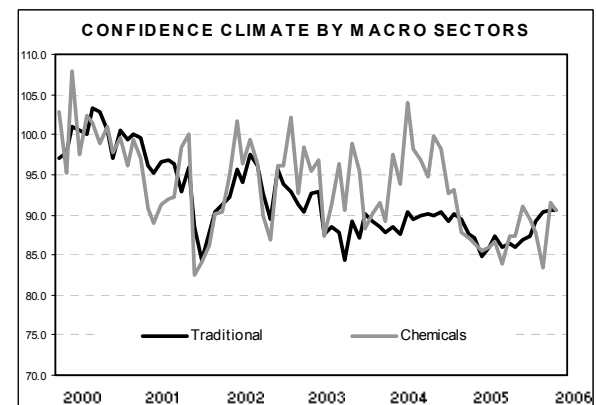
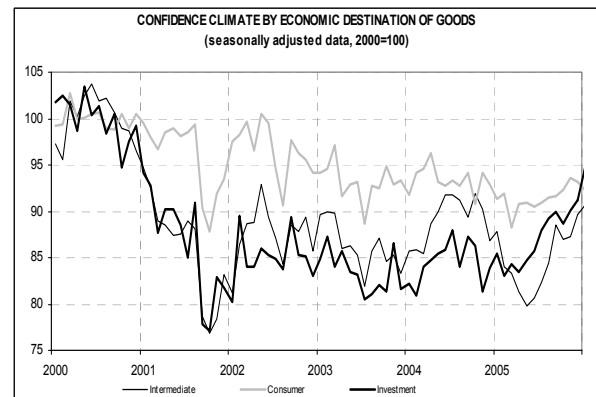
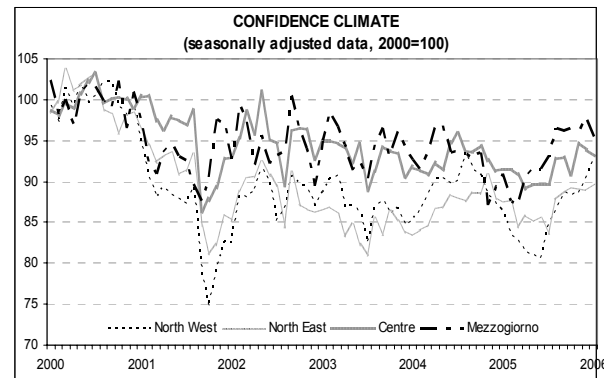
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between February 1 and February 17, 2006, pointed to a virtual standstill in the seasonally adjusted confidence index of manufacturing and mining firms, after eight successive monthly increases. The indicator moved to 92.3 from 92.5 in January, due to a fall in production expectations coupled with stability of demand and a slight decrease in the stock of inventories. Among the variables excluded from the definition of confidence, a worsening characterized the level of output, demand and employment expectations, and the trend of liquidity with respect to operational requirements. A moderate increase, instead, portrayed expectations of a rise in selling prices and the prospects for liquidity and the country's overall economic situation.

In February, confidence developments were particularly not homogenous among sectors: the index decreased for consumer goods (from 92.2 to 91.5), increased for intermediate products (from 90.7 to 91.6), while it remained virtually unchanged for investment goods (at 95.2, compared to 95.1). Specifically, for the main intermediate goods sectors (chemical, plastic and rubber products) the indicator decreased by nearly one point, following the strong improvement posted the previous month. Confidence noticeably fell also in the "other sectors" (wood, paper and printing and other manufacturing products), while it remained practically unchanged for the traditional "Made in Italy" sectors (food and beverage products, textiles, leather, footwear, non-metallic mineral products) and in the machinery and motor vehicle sectors.

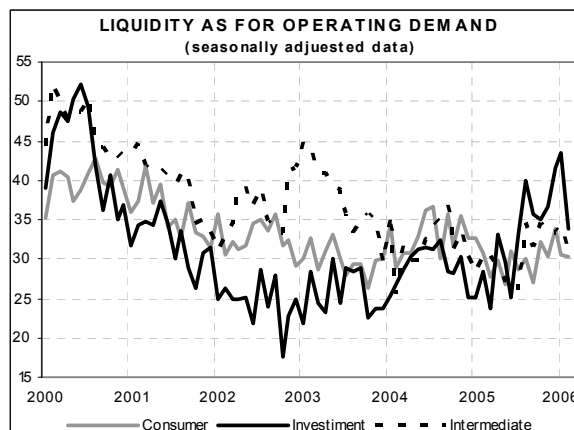
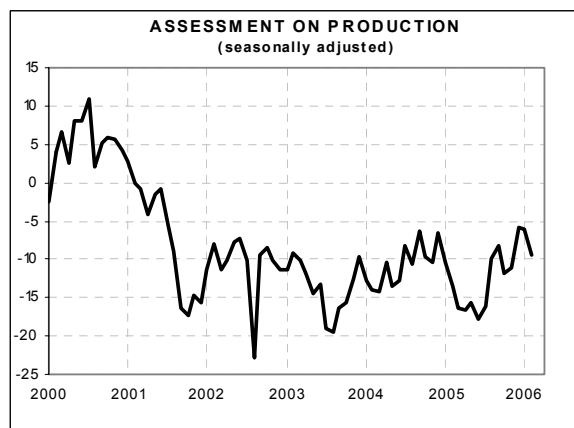
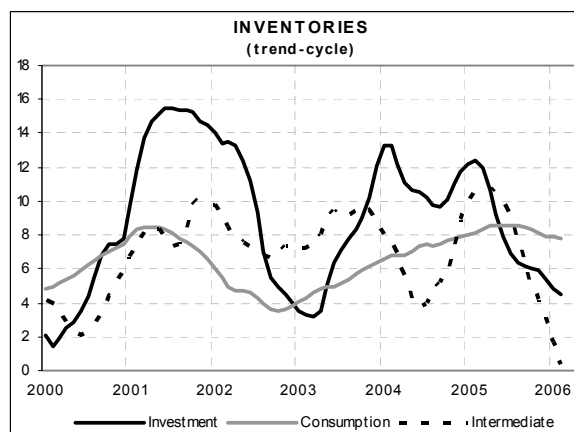
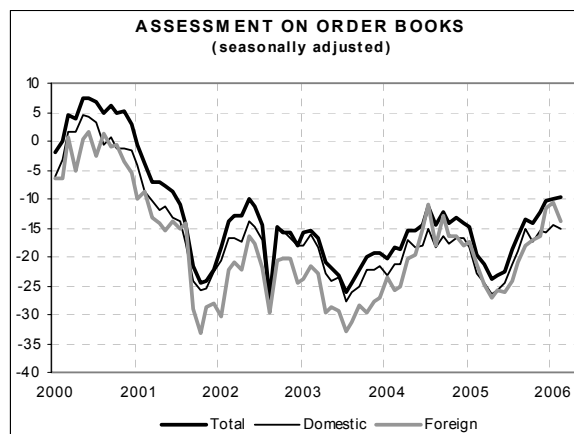
Virtual stability posted at the national level stemmed from the sum of diverging regional trends: a strong worsening of business confidence in the North West (the index dropped from 93.1 to 91.8) was in fact nearly offset by a rise in the North East, the Centre and the *Mezzogiorno* (from 89.6, 93 and 95.4 to 90.8, 93.6 and 96.1, respectively).



Situation in the reference period (February 2006)

In February, the assessment on the trend of the main company variables worsened slightly: the balance for orders and domestic demand remained unchanged at -10 and -15, respectively, while that for foreign demand decreased from -10 to -14. Also the view on production levels and on the trend of the ratio of liquidity to operational requirements deteriorated (from -6 to -9, and from 37 to 32, respectively). The only positive signal came from the stocks of finished goods which continued to decline (from 3 to 2 on balance), coming close to the so-called average normal level.

The industry breakdown of the data pointed to a slight improvement in confidence for the investment and consumer goods sectors. For investment goods firms, the balance for demand was back in positive territory for the first time since June 2001, mainly thanks to the recovery in foreign demand associated with stability in domestic demand. Furthermore, the balance for inventories edged down, while that for the level of production and for the ratio of liquidity to operational requirements deteriorated. As for the consumer goods sector, after the sharp drop experienced in the last few months, demand showed some initial signs of recovery thanks to both domestic and foreign demand. A slight increase was also recorded by the level of production. Inventories increased, while the ratio of liquidity to operational requirements moderately declined. For intermediate goods firms, the assessment on demand (both domestic and foreign) and on the level of production deteriorated. The balance for production also significantly declined. Accordingly, disposable liquidity dropped with respect to operational requirements. Partially offsetting all the above mentioned deteriorations, inventories sharply declined, so that most entrepreneurs considered them to be below normal for the first time since no less than May 1995.



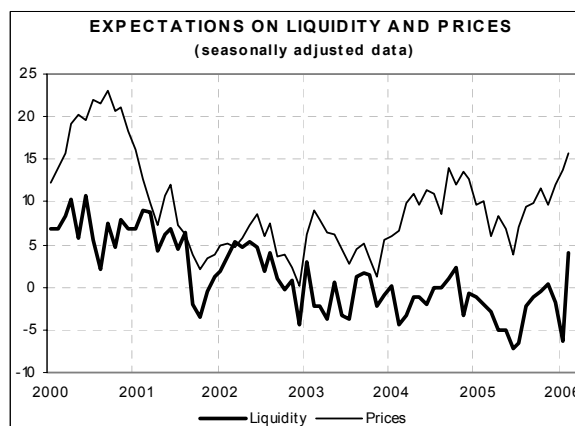
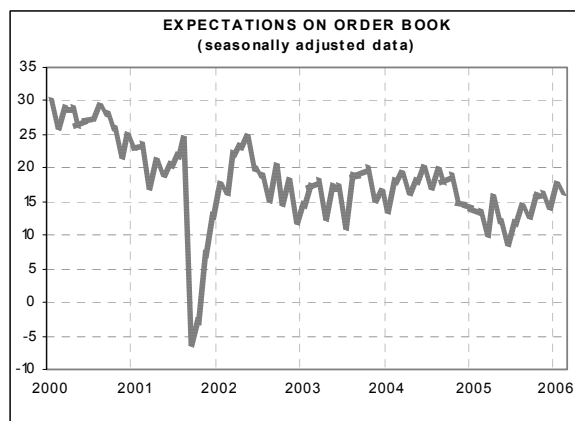
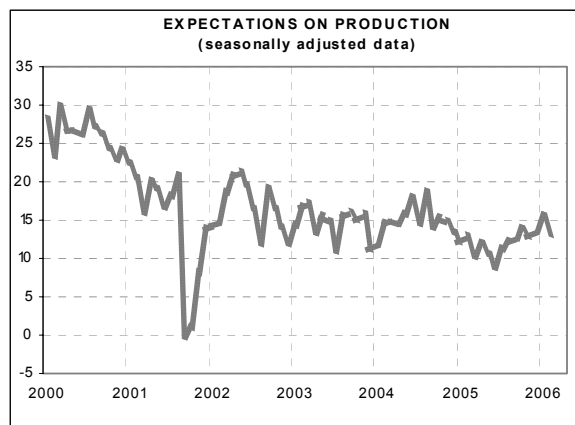
Outlook for the following three months

The balances for order, production and employment expectations dropped (from 17, 16 and 3 to 16, 13 and 1, respectively). In addition, forecasts for an increase in selling prices rose from 14 to 16, and the respondents' view on the country's future economic performance and on liquidity improved from -10 to -7 and from -6 to 4 on balance, respectively.

Forecasts at the industry level showed a somewhat mixed picture. Producers of investment goods gave a pessimistic appraisal of future orders, production and liquidity and, moreover, expected a rise in selling prices. The forecast for the country's overall economic situation was stable, whereas that for employment improved. Conflicting signals also characterized the consumer goods sector. Surveyed firms improved their expectations for demand, liquidity and the country's general economic situation, while they worsened those on production. Expectations on employment remained unchanged. In this sector, as opposed to the national average, firms forecast a slight reduction in selling prices. Producers of intermediate goods were more pessimistic about production and employment expectations. Forecasts for orders and for the overall economic situation were unchanged, while those for liquidity improved. Firms in this sector also expected a rise in selling prices (from 15 to 19).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Nov. 2005	90,4	-12	5	13
Dec. 2005	91,0	-10	6	14
Jan. 2006	92,5	-10	3	16
Feb..2006	92,3	-10	2	13



Regional breakdown of ISAE survey results

In February, confidence developments showed marked differences at the regional level: signs of deterioration recorded in the North West were for the most part offset by a greater optimism in all the other regions.

North West: the decline in confidence was due to both a worsening in the assessment on demand (mainly in the domestic market) and a fall – following three consecutive monthly increases – for production expectations. Nevertheless, most firms showed, for the first time since 1995, a “lower than normal” level of inventories. This feature, if summed to a satisfactory level of demand, could favour a recovery in productive activity over the next months.

North East: in this region the recovery in confidence was mainly the result of an improvement in the assessment on orders (though optimism characterized only the domestic market) and of a continuous fall in inventories, which started three months ago. Production expectations, instead, slightly worsened.

Centre: the moderate increase in confidence was attributable to an improvement in production expectations, along with stability for the view on inventories. The assessment on orders, instead, worsened: in this case, the pessimism in the assessment on total orders resulted from a deterioration for both the domestic and the foreign components of demand.

Mezzogiorno: positive developments in confidence were backed by a marked increase in the assessment on both domestic and foreign orders. Such a recovery more than compensated the negative results posted by production expectations and by the view on inventories.

