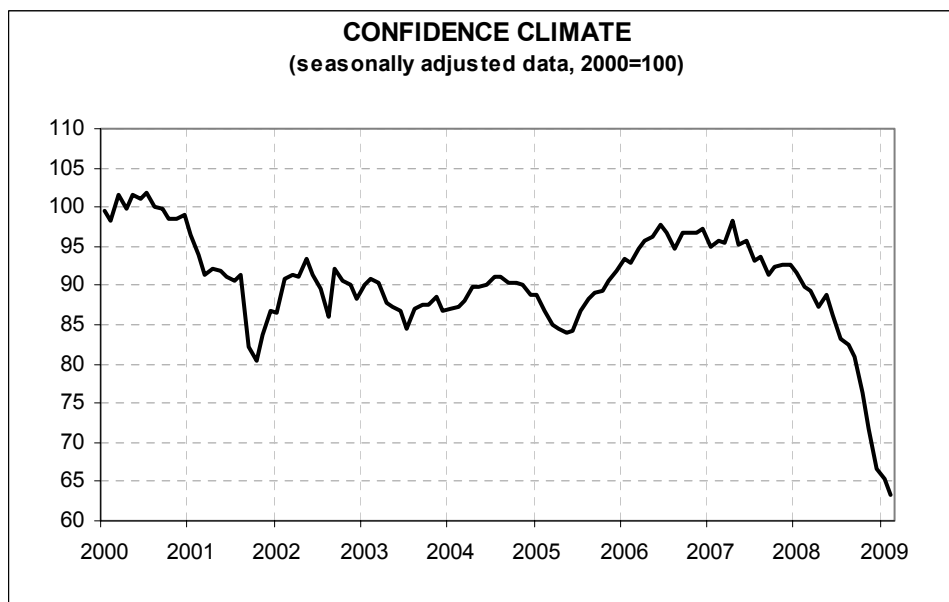




Date: February 26, 2009

MANUFACTURING FIRMS' CONFIDENCE CONTINUES TO FALL IN FEBRUARY

- The seasonally adjusted confidence index (2000=100) came in at 63.2 (from 65.4), dropping below the record low posted in the previous month
- The decrease was mainly due to the contraction of order books, for both domestic and foreign markets, and of production expectations. In February the balance for inventories gave instead a first contrasting signal, sharply falling over the previous month
- However, the share of firms complaining about credit rationing started to increase once more: 6.6% of the sample was denied credit, regardless of offered financing conditions, while 1.4% refused credit terms, with the result of not accessing credit lines
- Confidence declined in all main productive sectors, though at different rates. The fall was particularly sharp for investment goods (the index dropped to 59.4 from 63.1) and more moderate for intermediate and consumer goods (to 56.3 from 58.1 and to 77 from 78.6, respectively)
- Developments were mixed also at the regional level. The index clearly fell in the Centre and the *Mezzogiorno* (in the order, from 73.6 to 67.6 and from 74.5 to 70.5), diminished moderately in North East (from 61.9 to 61.4), and remained unchanged in the North West (at 62.6)
- According to the traditional ISAE quarterly Focus on data by firm size, the plunge in confidence recorded in the last three months mirrored a particularly brisk decline for small firms (with fewer than 100 employees). The trend was negative also for medium and large-sized firms, which however recorded some initial signs of a de-stocking of inventories (more marked for firms employing over 250 people)



Data on March shall be released on March 26, 2009

The next ISAE surveys are scheduled as follows:

February 27: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: February), ISAE Monthly Business Services Survey (reference period: February), and ISAE Monthly Survey on Construction (reference period: January)

March 10: ISAE International Comparison of Consumer and Business Surveys (reference period: February)

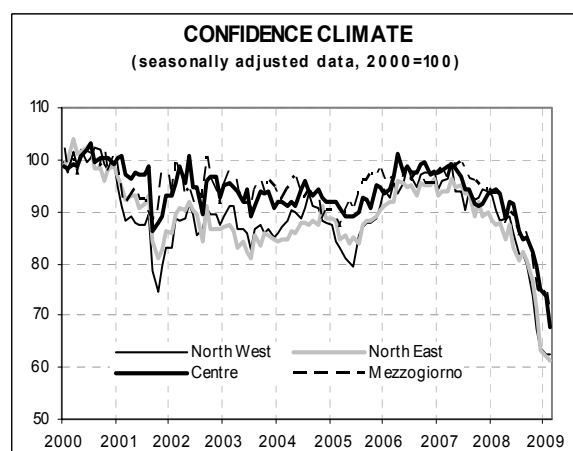
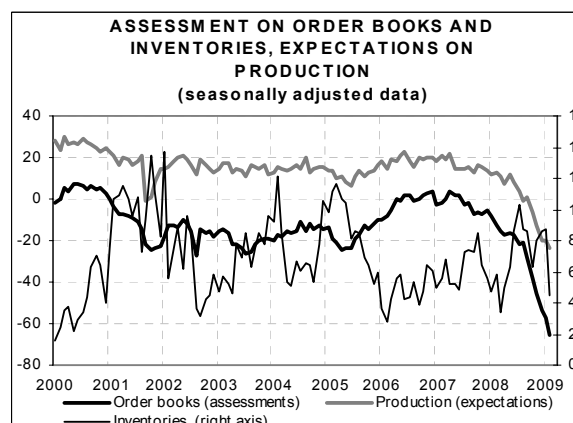
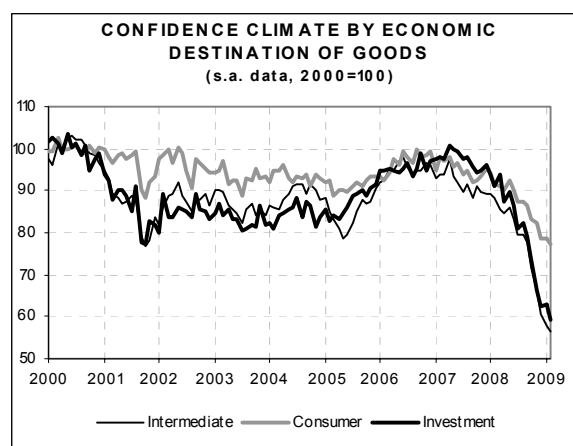
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

According to the ISAE Survey, carried out between February 2 and February 19 on a panel of about 4,000 firms, the confidence climate of manufacturing and mining firms declined further in February, reaching 63.2 (from 65.4 in the previous month). The decrease was mainly due to the contraction of order books and of demand in general, for both domestic and foreign markets, and of production expectations. The balance for inventories gave instead a positive signal, sharply falling over the previous month (from 9 to 5). Nevertheless, the share of firms complaining about credit rationing started to increase once more: 6.6% of the sample was denied credit, regardless of offered financing conditions, while 1.4% refused credit terms, but with the result of not accessing credit lines.

Confidence declined in all main productive sectors, though at different rates. The fall was particularly sharp for investment goods (the index dropped from 63.1 to 59.4) and more moderate for intermediate and consumer goods (from 58.1 to 56.3 and from 78.6 to 77, respectively). Developments were mixed also at the regional level. The index diminished markedly in the Centre and the *Mezzogiorno* (in the order, from 73.6 to 67.6 and from 74.5 to 70.5), moderately in North East (from 61.9 to 61.4), and remained unchanged in the North West (at 62.6).

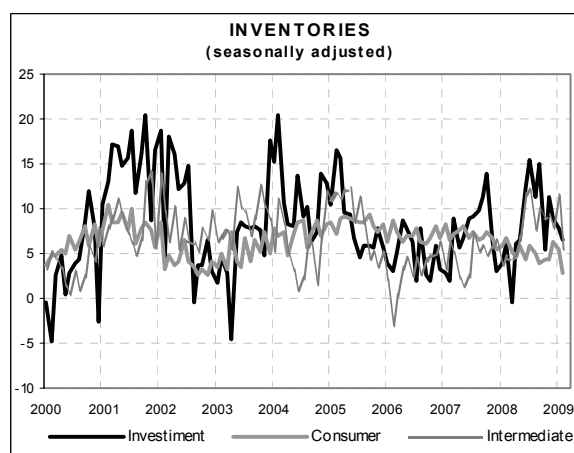
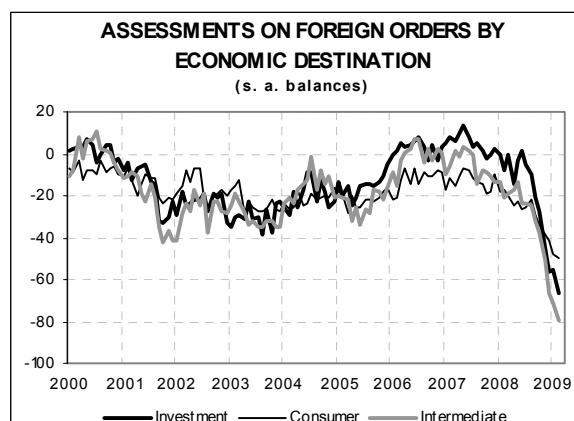
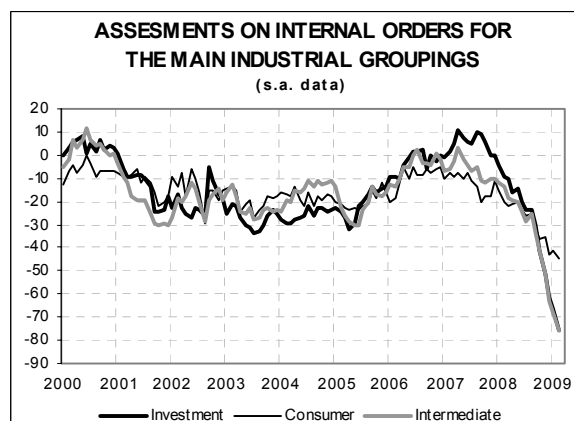
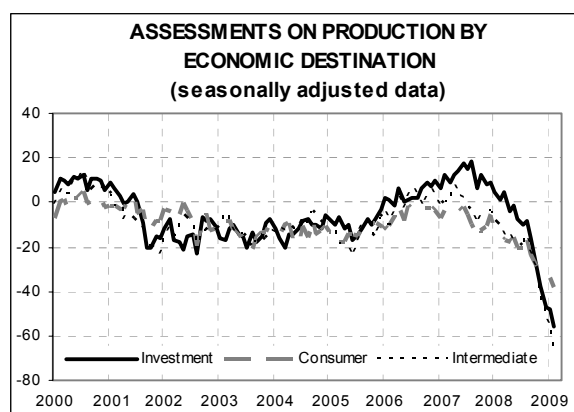
According to the traditional ISAE quarterly Focus on data by firm size, the plunge in confidence recorded in the last three months mirrored a particularly brisk decline for small firms (with fewer than 100 employees). The trend was negative also for medium and large-sized firms, which however recorded some initial signs of a de-stocking of inventories (more noticeable for firms employing over 250 people).



Situation in the reference period (February 2009)

In February, firms' opinions on current orders, production and company liquidity continued to deteriorate. Inventories gave instead a positive indication. In detail, the balance for the opinions on orders declined to -65 (from -58 in January), returning to the historical low posted in 1991. Both the domestic and the foreign components of demand dropped (moving from -59 to -66 and from -59 to -67, respectively). Also firms' assessments on the level of production clearly worsened (from -49 to -56). Inventories shrunk instead for the first time since last October. The related balance moved from 9 to 5, below its long-term average. Following the stability recorded in January, company liquidity started to diminish again, dropping six points (from 10 to 4).

The worsening of the current situation characterized all productive sectors, though it was more marked for producers of investment goods. Indeed, in the consumer goods sector, the evaluation of orders fell slightly with respect to January, moving from -40 to -43 (from -42 to -44 for the domestic component and from -48 to -50 for the foreign one). Assessments on the level of production, company liquidity and inventories also diminished (from -35 to -39, from 11 to 7, and from 5 to 3, respectively). For producers of investment goods, opinions on orders declined more markedly, falling from -63 to -73, because of a sharp drop in domestic orders (from -66 to -76) and a substantial collapse of foreign ones (from -55 to -66). Also the level of production and company liquidity noticeably diminished (from -48 to -65 and from 13 to 0). In this sector, inventories of finished products contracted only moderately (from 8 to 7). Lastly, for producers of intermediate goods, the opinions on orders fell from -68 to -76, due to a decline in both domestic and foreign demand. Also the level of production and company liquidity markedly decreased (from -58 to -68 and from 8 to 2). The de-stocking of inventories (from 11 to 5) was sharper than in the other sectors.



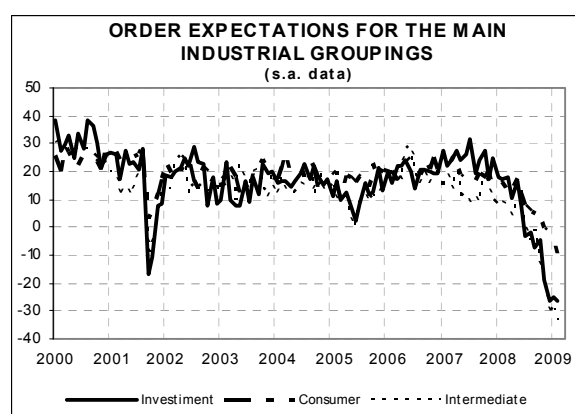
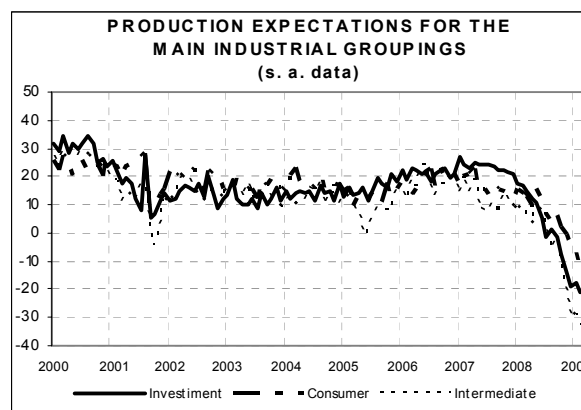
Outlook for the following three months

In February, short-term forecasts for main company variables (production, orders, employment and prices) worsened with respect to the previous month. Uncertainty about short-term prospects for the international cycle led to marked deterioration in short-term predictions for Italy's general economic situation and also for company liquidity. The balances related to expectations for orders, production, and selling prices declined over the previous month (to -20 from -24 for orders and production and from -9 to -12 for selling prices). Firms gave a pessimistic appraisal also for employment in the following three months (from -22 to -29) and for Italy's general economic conditions (from -57 to -60, the lowest level since August 1992). Prospects for company liquidity improved, albeit moderately (from -30 to -29). The trend was not homogeneous at sector level. In the consumer goods sector, respondents were slightly more pessimistic, compared to the previous month, about forecasts for demand, production and company liquidity (from -6 to -9, from -7 to -11, and from -19 to -17). They expected a moderate decline in the employment level (from -20 to -21) and forecast an increase in inflationary pressures (from -1 to 1). The balance for the general economic situation continued to decline (moving from -54 to -60). The deterioration was sharper according to producers of investment goods. The balance for orders stood at -26 (from -25), but expectations for production and employment noticeably dropped (to -21 from -17 and to -26 from -17, respectively). Prospects for liquidity diminished to -30 from -29 and those for general economic conditions fell from -59 to -62, in a situation characterized by a marked decline in future selling prices (from 2 to -6). Also producers of intermediate goods showed widespread pessimism about short-term prospects. Expectations for orders, production and employment diminished from -29 to -33, from -28 to -33, and from -28 to -35, respectively. Forecasts for company liquidity remained unchanged (at -28) for the third straight month. Entrepreneurs confirmed (though with greater emphasis) the

pessimistic predictions, already emerged in the other sectors, for the general economic situation and selling prices. The balance for general economic conditions lowered from -60 to -64 and the one for selling prices declined from -16 to -21.

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

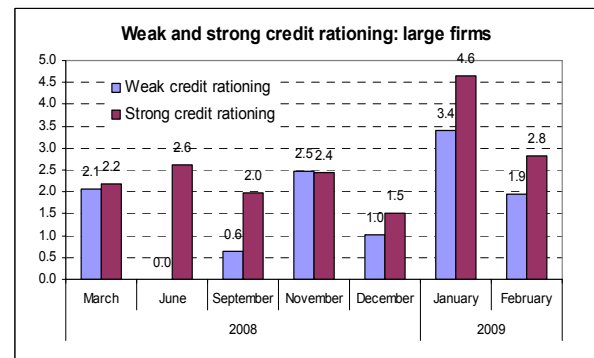
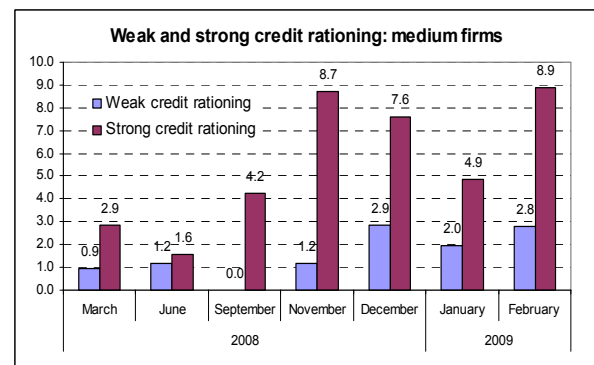
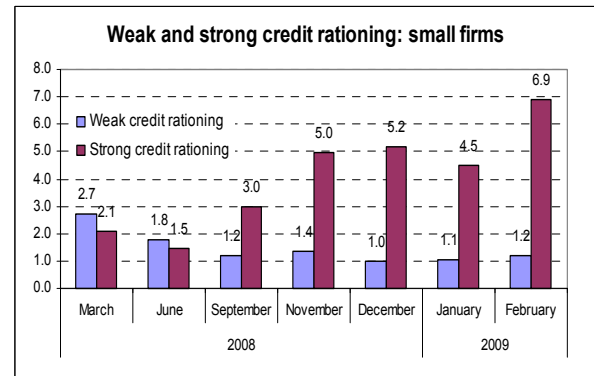
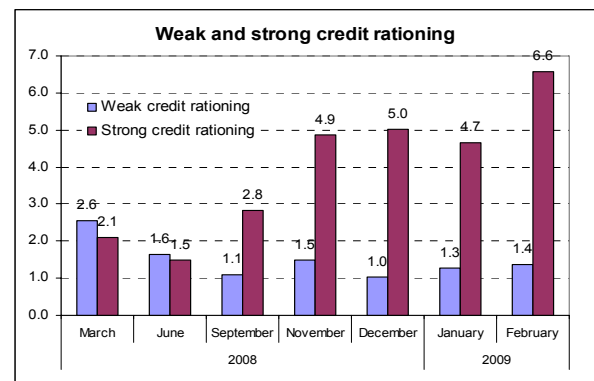
	Confidence climate	Order-book level	Inventories	Expectations on production
Nov. 2008	71,6	-45	8	-13
Dec. 2008	66,7	-54	9	-20
Jan. 2009	65,4	-58	9	-20
Feb. 2009	63,2	-65	5	-24



Credit access conditions

In February, firms' opinions on credit access conditions started to worsen again. The share of firms considering deterioration increased from 33.5% to 40.2% of the sample. The rise was particularly sharp for small and medium-sized firms. Those with more than 250 employees were instead less worried with respect to the previous month. At the regional level, firms complaining about increasingly unfavourable credit conditions were mostly those in the North West and the North East.

According to the Survey findings, in the last months 22.6% of manufacturing firms were granted a loan, while 8% were refused credit. Rationing mainly characterized medium and small-sized firms. At the regional level, firms which were denied credit were mainly those in the North West (8.5%) and the North East (8.1%). The failure to obtain credit continued to be mainly caused by explicit denial by banks (6.6%), thus showing "harsh rationing". In particular, credit institutions seemed to have reduced loans mainly to small and medium-sized firms in all areas. The share of firms which rejected more onerous credit conditions ("soft rationing") remained instead virtually stable at about 1.4%. In the latter case, firms refusing more onerous credit terms were mostly medium and large-sized ones; they were concentrated in the North West and the North East.



Focus: Confidence trend by firm size

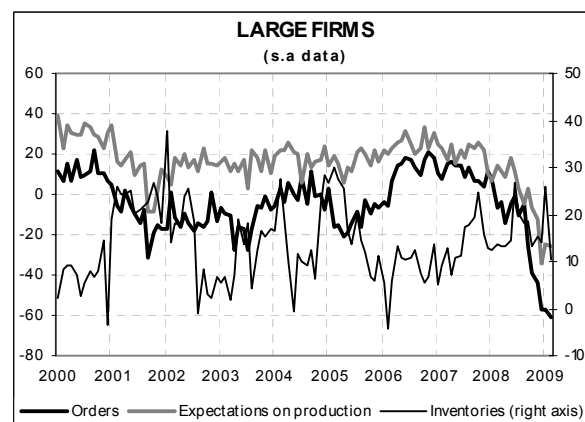
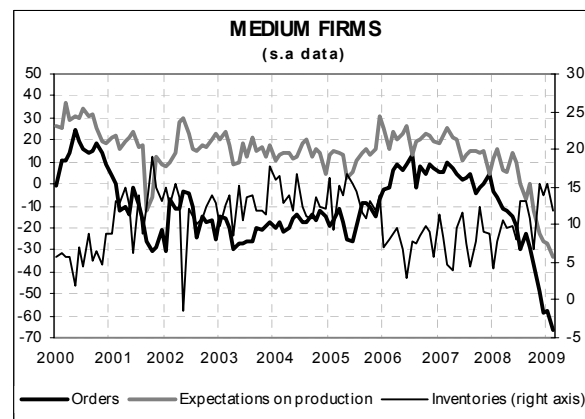
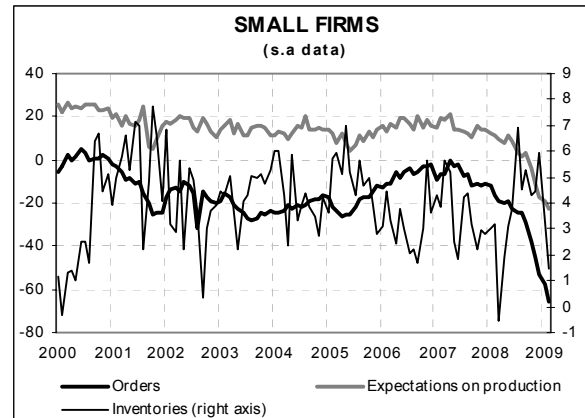
Manufacturing firms' confidence markedly worsened between December 2008 and February 2009. The related indicator was about eight points lower than last November. The splitting out of data by firm size showed that the sharpest deterioration occurred for small firms (with up to 99 employees), but the indicator significantly declined also for medium-sized firms (employing 100-250 persons) and large ones (with more than 250 employees).

In particular, for small firms, the confidence indicator abruptly fell in December (from 74.3 to 69.4) and continued to decline in January and February (to 68.4 and 65.4, respectively). For medium-sized firms the decline in confidence was more moderate in December (from 63.5 to 60), but continued also in the following two months (the indicator hit 59.3 in January and 56 in February). Larger firms showed a slightly different picture: the index actually plunged ten points in December, declined again slightly in January, but bounced back up in February (from 57.2 to 60.6).

As for the variables included in the calculation of the confidence climate, the fall posted between December and February was mainly due to marked pessimism in the opinions on orders, which accordingly came along with a sharp worsening in production expectations. Inventories gave slightly less negative indications. Though remaining above considered normal levels, the related balance declined in January and February, compared to the value posted at the end of 2008, thus going back below its long-term average. The de-stocking of inventories, which characterized all firm sizes, was however deeper for medium and, above all, large-sized firms.

Confidence climate by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
Nov. 2008	71.6	74.3	63.5	68.4
Dec. 2008	66.7	69.4	60.0	58.0
Jan- 2009	65.4	68.4	59.3	57.2
Feb. 2009	63.2	65.4	56.0	60.6



Regional breakdown of ISAE survey results

The fall in confidence posted at the national level was not evenly spread across the country. In February, the seasonally adjusted indicator remained unchanged in the North West, diminished slightly in the North East, and worsened markedly instead in the Centre and the *Mezzogiorno*. In particular, the opinions on demand deteriorated everywhere, while assessments on inventories and production expectations gave, instead, contrasting indications.

North West

Confidence held steady at its January level (62.6). In detail, the balance for the opinions on orders (both domestic and foreign) sharply dropped and production expectations moderately decreased (from -24 to -27). Assessments on inventories of finished products tumbled (from 10 to -2), returning below considered normal levels for the first time since February 2006.

North East

In this area, confidence continued to edge down slightly compared to the previous month (from 61.9 to 61.4). The opinions on orders deteriorated further (more so for domestic demand), while expectations for the level of production remained unchanged (the balance stayed at -24). The evaluation of inventories gave moderately positive indications (the balance lowered from 10 to 9).

Centre

The confidence index diminished from 73.6 to 67.6, mainly because of the worsening in the opinions on orders (both domestic and foreign) and of the sharp drop in production expectations (from -12 to -21). In this case, the share of entrepreneurs considering inventories to be above considered normal levels increased (from 6 to 8).

Mezzogiorno

In this area, the indicator declined nearly four points from the previous month (from 74.5 to 70.5). The fall stemmed from highly unfavourable opinions on the level of orders (which mainly distinguished domestic orders, compared to foreign ones) and from

increasingly negative expectations for production (which fell from -8 to -12). As in the Centre, negative indications also came from assessments on the level of inventories of finished products (from 5 to 7).

