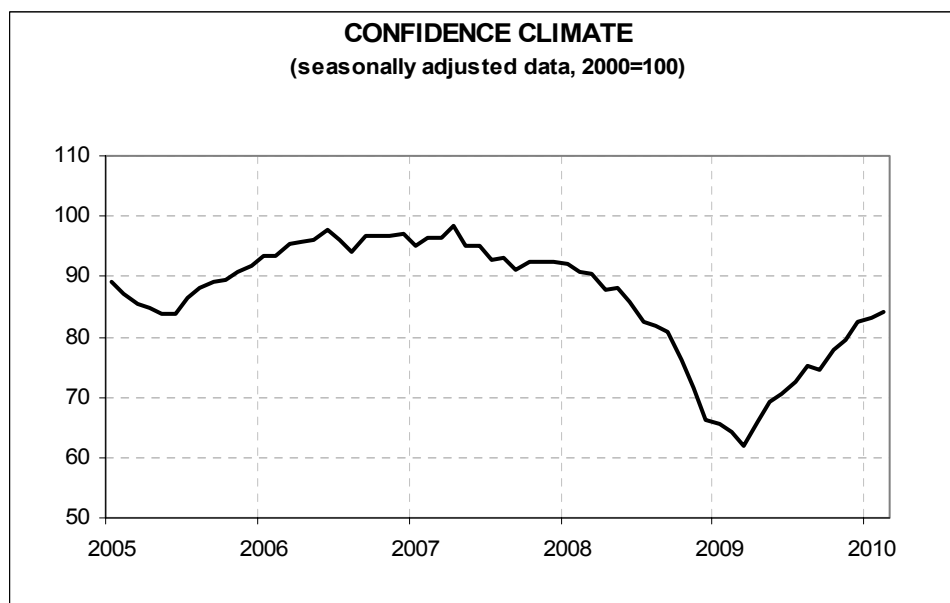




Date: February 25, 2010

## MANUFACTURING FIRMS' CONFIDENCE CLIMBS FURTHER IN FEBRUARY

- The seasonally adjusted index increased to 84 (from 83.2), recording its fifth consecutive rise and reaching the best result since June 2008
- Improvement distinguished both the opinions on the current state of order books and, mostly, production prospects. Inventories started to build up once more, remaining however below considered normal levels
- Nonetheless, in February the revival in confidence did not characterize all productive sectors. The index improved for intermediate goods, recovering more than two points (from 80.4 to 82.9). Instead, confidence continued to worsen in the investment and consumer goods sectors, where the index reached 78.9 and 87.4 respectively (from 79.1 and 88.9)
- Differences emerged also at regional level: confidence heightened from 82.6 to 83.8 in the North West and from 80.3 to 81.7 in the North East; the indicator declined, in contrast, from 86.1 to 85.2 in the Centre and from 86.7 to 85.2 in the *Mezzogiorno*
- According to the traditional ISAE quarterly focus on data by firm size, the recovery in confidence in the last three months mainly characterized small firms (with fewer than 100 employees) and medium-sized ones (firms employing 100-250 people). The upturn was instead more modest for large firms



**Data on March shall be released on March 25, 2010**

*The next ISAE surveys are scheduled as follows:*

**March 24, 2010:** ISAE Monthly Consumer Survey (reference period: March)

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))

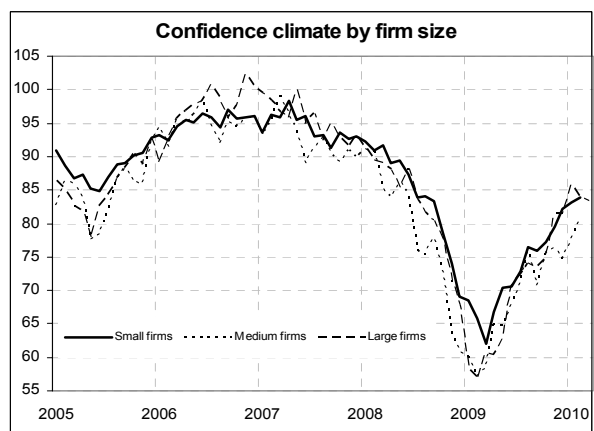
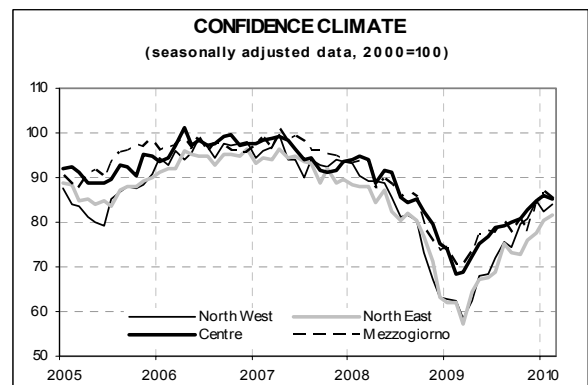
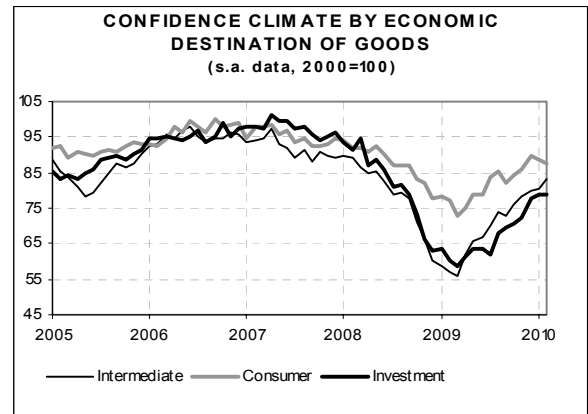
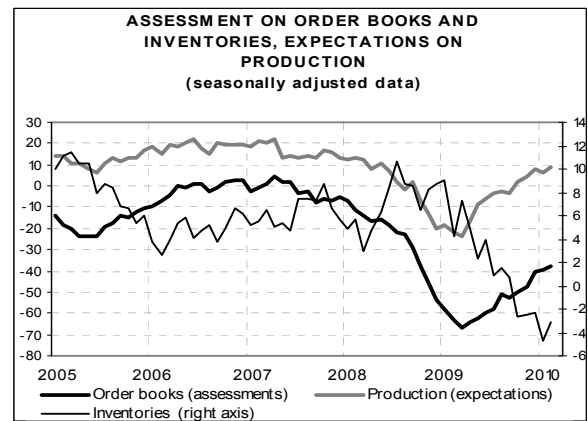
## General results

According to the ISAE Survey, carried out between February 1 and February 16 on a panel of about 4,000 firms, the seasonally adjusted confidence index of manufacturing and mining firms increased for the fifth straight month in February, reaching 84 (from 83.2 in the previous month), the best result since June 2008. Improvement distinguished the opinions on the current state of order books and short-term production prospects. Inventories started to build up once more, remaining however below considered normal levels.

Nonetheless, in February the revival in confidence did not characterize all productive sectors. The index rose for intermediate goods, recovering more than two points (from 80.4 to 82.9). Confidence, instead, continued to worsen in the investment and consumer goods sectors, where the index lowered to 78.9 and 87.4 respectively (from 79.1 and 88.9).

Differences emerged also at regional level: confidence heightened from 82.6 to 83.8 in the North West and from 80.3 to 81.7 in the North East; the indicator declined, in contrast, from 86.1 to 85.2 in the Centre and from 86.7 to 85.2 in the *Mezzogiorno*.

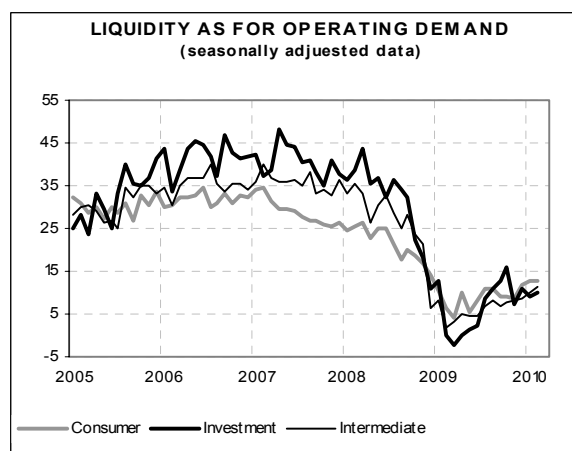
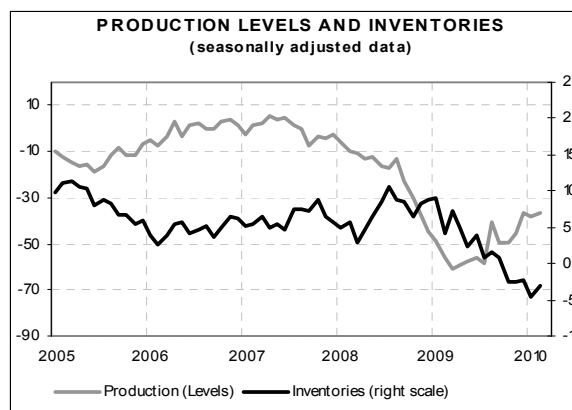
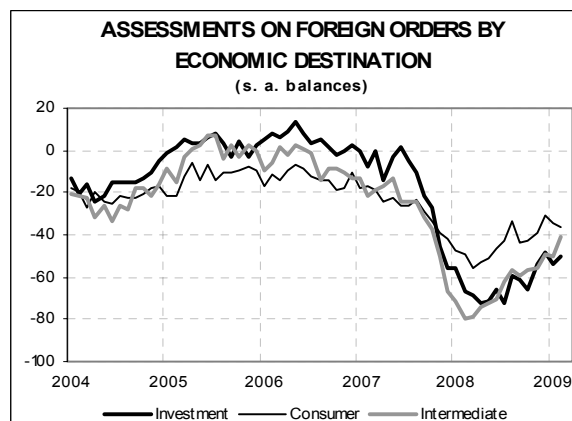
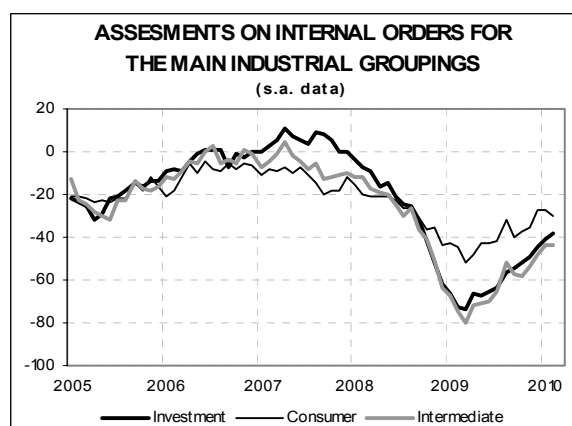
According to the traditional ISAE quarterly focus on data by firm size, the recovery in confidence in the last three months mainly characterized small firms (with fewer than 100 employees) and medium-sized ones (firms employing 100-250 people). The upturn was instead more modest for large firms.



### Situation in the reference period (February 2010)

In February, manufacturing firms' assessments on the level of order books remained positive for the second month running. The related balance moved from -39 to -38. The improvement in demand distinguished both domestic and, mainly, foreign markets (the balance rose from -37 to -36 and from -44 to -41, respectively). Also the opinions on the level of production started to increase once more (from -38 to -37), while the ratio of liquidity to operational requirements remained stable at 11. Following the signs of de-stocking recorded in the last months, inventories went back up to -3 (from -5).

At sector level, assessments on main company variables bettered mainly for intermediate goods, for which the balance for orders moved from -44 to -41, thanks mainly to the recovery in foreign demand (from -50 to -41; domestic demand held steady at -43). Also the opinions on the level of production and on liquidity available for operational requirements recuperated (from -43 to -40 and from 10 to 11, respectively). Inventories continued to show a marked de-stocking (from -4 to -6). For producers of investment goods, the opinions on orders retraced part of the fall posted in January (rising from -50 to -49), due to widespread improvement for both the domestic and the foreign components of demand (from -41 to -38 and from -54 to -50, respectively). Also the level of production and company liquidity moderately bettered (from -47 to -46 and from 9 to 10), while inventories built up (from -8 to -3). For producers of consumer goods, instead, the worsening of assessments on orders (from -28 to -30), which characterized both domestic and foreign demand (from -27 to -30 and from -34 to -37), came along with a restocking of inventories (from -2 to 0), a fall in the opinions on the level of production (from -26 to -28), and steadiness for liquidity (the balance stayed at 13).



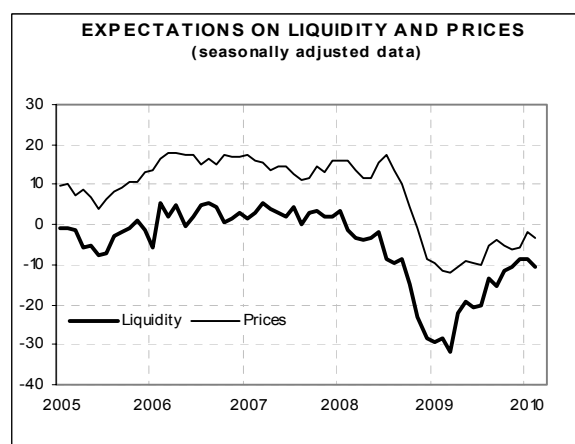
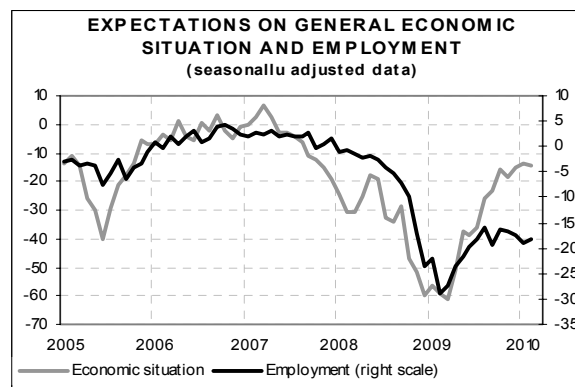
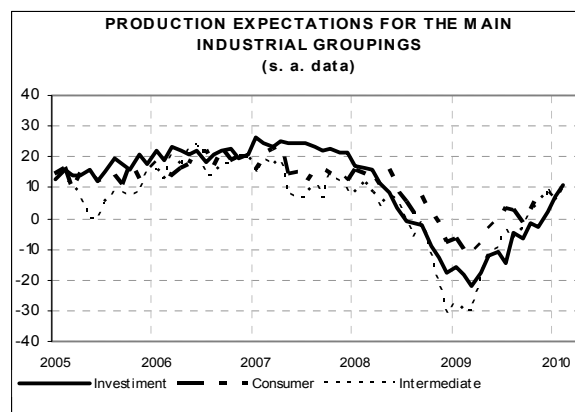
## Outlook for the following three months

In February, improvement characterized forecasts for both the trend in demand and supply and the Italian economy in general, in a scenario also distinguished by lower inflationary pressures. The balances for orders, production and employment increased, in the order, from 5 to 8, from 6 to 9, and from -19 to -18. Also the number of people expecting an increase in selling prices over the following three months diminished (the balance lowered from -2 to -3) and overall projections for the Italian economic situation remained unchanged (at -14). The sole negative signal came from company liquidity, which was expected to decline slightly (from -8 to -11).

Better expectations portrayed producers of intermediate and, above all, investment goods, while consumer goods firms were more cautious. In detail, for firms in the investment goods sector, the balance for orders, production, and the Italian economic situation increased from 4 to 12, from 7 to 11, and from -13 to -11, respectively. Expectations for selling prices declined (from -2 to -4) and those for the level of production and company liquidity worsened slightly (from -11 to -12 and from -11 to -13). For consumer goods, forecasts for orders moderately recovered (from 6 to 7), while those for production remained unchanged (at 6). Expectations for selling prices plunged (from 3 to -2). Lastly, predictions for employment improved (from -20 to -18), notwithstanding clear pessimism for expectations on company liquidity (from -4 to -5) and the country's general economic situation (from -14 to -23). Finally, for producers of intermediate goods, expectations for orders and employment bettered (from 6 to 10 and from -21 to -19), while those for the general economic situation and selling prices held steady (at -17 and -5, respectively). Firms' forecasts for available liquidity worsened instead (from -12 to -11).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Nov. 2009	79.5	-47	-3	4
Dec. 2009	82.5	-41	-2	8
Jan. 2010	83.2	-39	-5	6
Feb. 2010	84.0	-38	-3	9



## Regional breakdown of ISAE survey results

In February, the recovery in confidence posted at the national level was located in the Northern regions: the index increased from 82.6 to 83.8 in the North West and from 80.3 to 81.7 in the North East. Confidence lowered instead from 86.1 to 85.2 in the Centre and from 86.7 to 85.2 in the *Mezzogiorno*.

### North West

The improvement in confidence of entrepreneurs in the North West mainly stemmed from the recovery in foreign orders (the balance rose from -54 to -49) and the increase in production expectations (from 6 to 11). Also inventories showed a slight de-stocking (from -8 to -9).

### North East

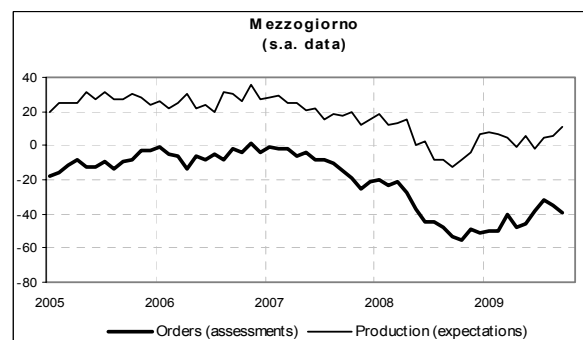
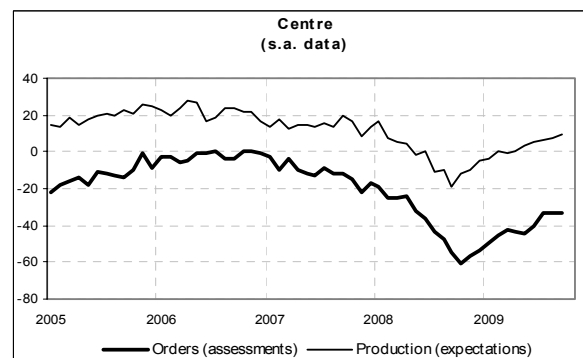
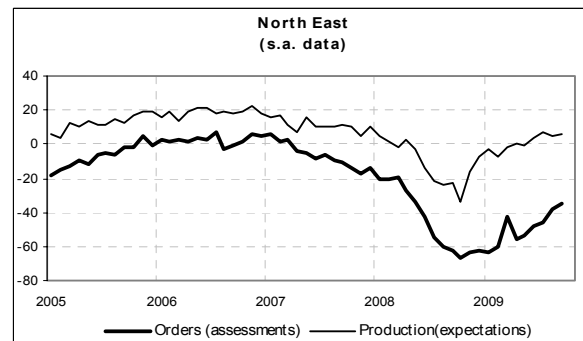
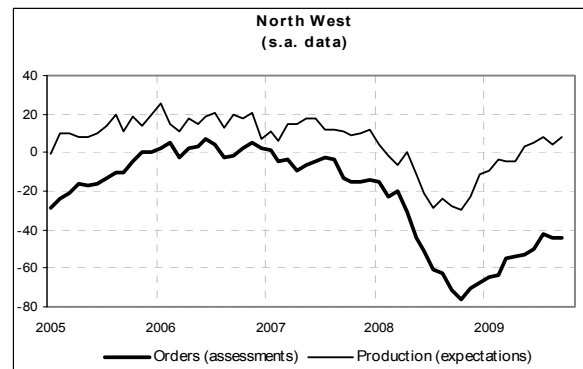
The opinions on the level of order books clearly improved, with regard to both domestic and, mostly, foreign orders (for which the balance rose from -38 to -35 and from -43 to -36, respectively). Production expectations recovered to a lesser extent (from 5 to 6), while the level of inventories of finished products remained unchanged (the balance stayed at 0).

### Centre

In this area, the balance for the opinions on the level of order books remained at -33 (its previous month level). However the balances for the domestic and the foreign components of demand worsened. Inventories built up (from -2 to 3), but forecasts for short-term productive activity improved (from 7 to 10).

### Mezzogiorno

Marked deterioration characterized the opinions on overall order books (from -35 to -39) and in particular for domestic orders (from -29 to -35). Foreign orders remained stable instead (at -47). Marked restocking of inventories (from -9 to -3) came along with a clear recovery in expectations for short-term productive activity (from 6 to 11).



**Focus: Confidence trend by firm size**

In the last three months, manufacturing firms' confidence showed signs of recovery, stabilizing at a level which was more than four points above the value reached last November. At the aggregate level, the clear recovery posted in December was followed by a slow upturn between January and February.

The splitting out of data by firm size showed that in the November–February period confidence rose two points for large firms (with more than 500 employees), but posted a sharper improvement for small (with fewer than 100 employees) and medium-sized ones (employing 100-250 persons). In detail, following an upturn of more than four points in December, confidence of large firms edged down, moving from 83.9 in January to 83.3 in February. This fluctuating trend was due to the clear decline, starting from January, in the opinions on the current level of order books, which was also accompanied by a slight restocking of inventories. However, production expectations practically held steady at a high level. For medium-sized firms, instead, confidence improved during the entire quarter. In February, the opinions on the level of orders remained practically stable, after the sharp recovery recorded in the previous months, while inventories shrunk further and production expectations started to increase once more, following two months of decline. Lastly, for small firms, confidence slowly improved between January and February, after the sharp rebound posted in December. Inventories stockpiled in February, though the opinions on the level of production started to improve once more – following the slowdown posted in January – and though short-term expectations for production turned positive.

**Confidence climate by firm size**

	Confidence Climate	Small Firms	Medium Firms	Large Firms
Nov. 2009	79.5	79.6	76.3	81.4
Dec. 2009	82.5	82.2	74.8	85.9
Jan. 2010	83.2	83.1	77.6	83.9
Feb. 2010	84.0	84.0	81.1	83.3

