



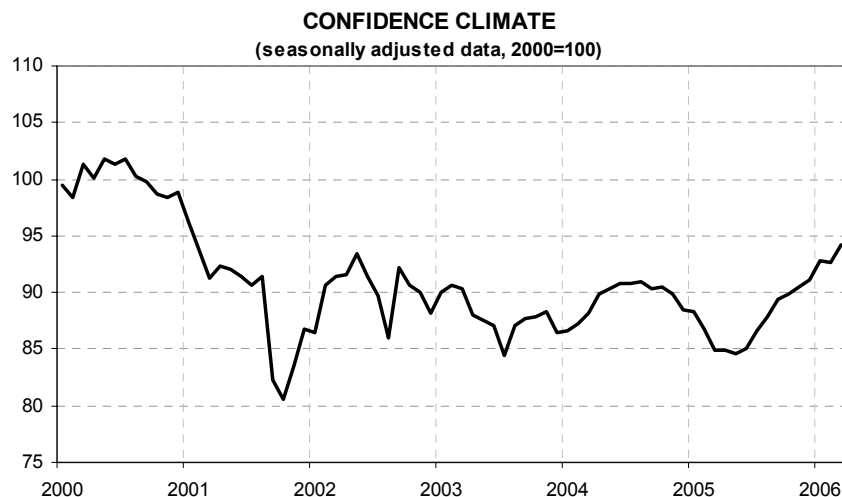
Date: March 28, 2006  
TEL.: 06/444821

## IN MARCH, MANUFACTURING FIRMS' CONFIDENCE CLIMBS TO ITS HIGHEST LEVEL IN FIVE YEARS

- The seasonally adjusted index (2000=100) grew to 94.2 from 92.7 in February. Signs of improvement were especially evident in the assessment on orders (mainly in foreign markets) and in production forecasts, whereas inventories of finished products were back on a slightly upward trend
- Surveyed firms also gave a more confident appraisal of the level of production, and of order and employment expectations, while those on the overall economy edged down, and the ratio of liquidity to operational requirements was considered to have remained unchanged
- At the industry level, business sentiment markedly improved for consumer goods (from 91.5 to 93.7, its highest level since November 2004) and for intermediate goods (from 91.9 to 94.3, the best result since January 2001). A less robust rise was posted instead by the indicator of the investment goods sector (from 95.6 to 96), which nevertheless continued to hover around its highest level since December 2000
- Greater optimism was virtually widespread across regions: confidence improved mostly in the North West and the Centre, moderately increased in the North East, and remained unchanged in the *Mezzogiorno*

## IN THE 1Q 2006 PROSPECTS FOR EXPORT ACTIVITY IMPROVE AND EXPORTING PRICES RISE

- The seasonally adjusted balance of expectations on export turnover performance moved from -1 to 3, and that of the assessment on the current situation rose from 7 to 13. Also the ratio between export and domestic prices increased
- Accordingly, export constraints diminished mainly thanks to a fall in the share of "other factors", probably related to foreign demand developments
- Firms pointed to a fall in competition from the European countries, mainly Germany and France, and from the United States and China. Instead, the share of respondents identifying as competitors countries in the rest of the world increased



**Data on April shall be released on April 27, 2006**

*The next ISAE surveys are scheduled as follows:*

**March 29, 2006:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: February 2006) and ISAE Monthly Business Services Survey (reference period: March 2006)

**March 30, 2006:** ISAE Survey on Construction (reference period: February 2006)

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

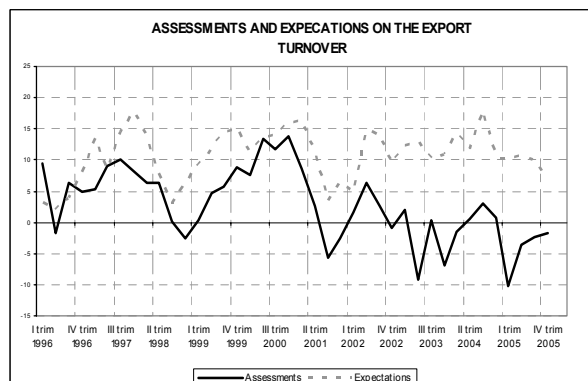
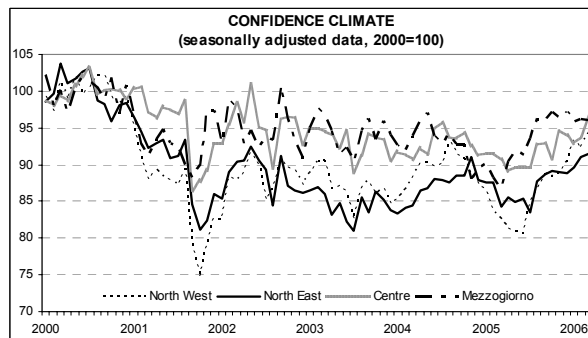
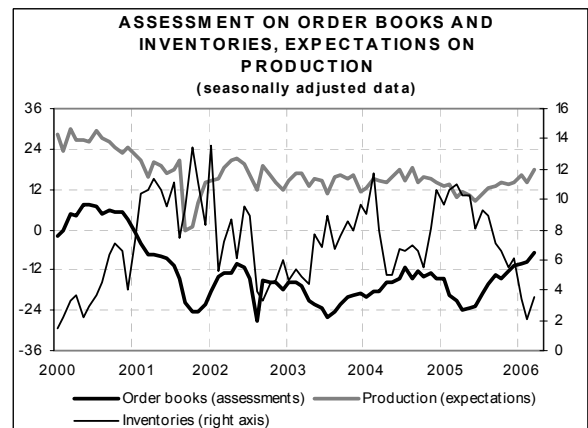
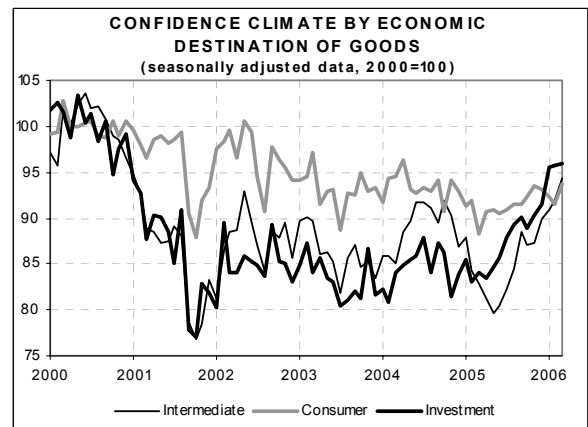
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site [www.isae.it](http://www.isae.it))

## General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between March 1 and March 17, 2006, pointed to an increase in the seasonally adjusted confidence index of manufacturing and mining firms, which moved from 92.7 in the previous month to 94.2, the highest level since February 2001. The improvement was backed by a more positive assessment on orders and better expectations on the level of production, which more than offset the petering out of the de-stocking process. The rise in confidence in the investment goods sector seemed to be slowing down (from 95.6 to 96) – though remaining at its peak since December 2000 – compared to that for consumption and intermediate goods firms, which jumped from 91.5 to 93.7 and from 91.9 to 94.3, respectively. All the variables excluded from the definition of confidence posted a rising trend, except general economic expectations, which edged down, and the ratio of liquidity to operational requirements, which showed a flat reading compared to the previous month.

According to the ISAE quarterly survey on exporting firms, expectations on export turnover improved with respect to the previous quarter. Accordingly, the proportion of firms that reported the existence of export constraints decreased, and the country's competitive position was considered to have improved. The export to domestic prices ratio also increased.

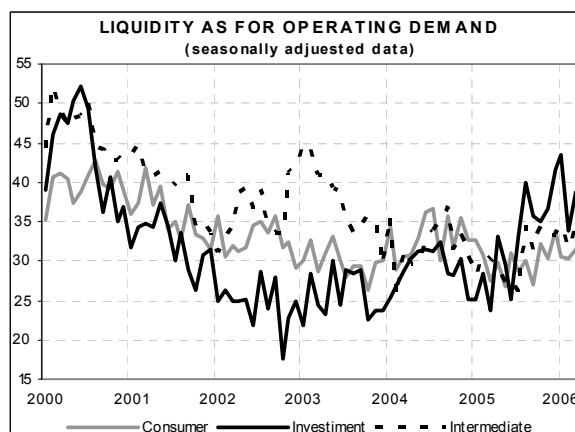
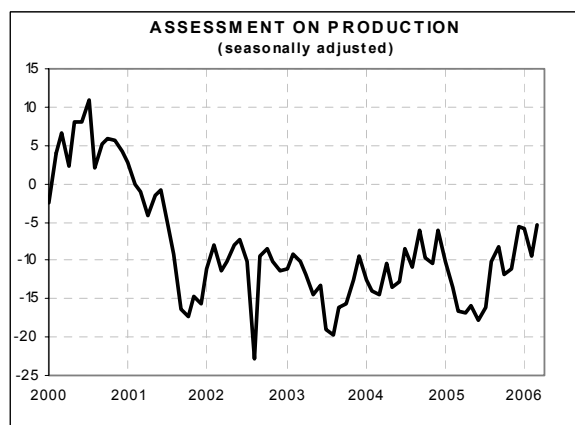
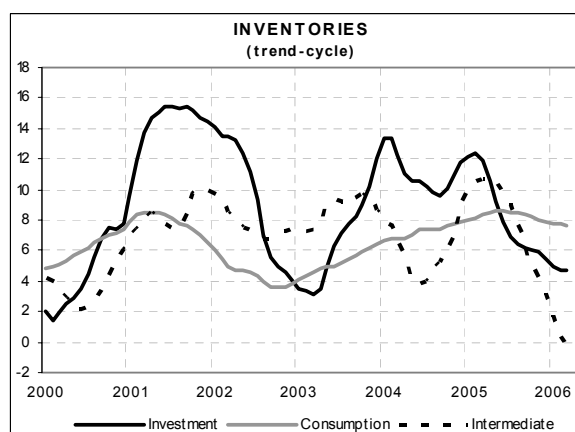
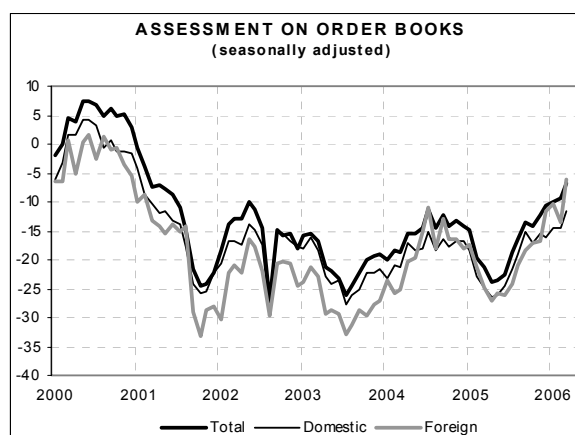
On a regional basis, confidence sharply improved in the North West and the Centre, moderately increased in the North East, and remained unchanged in the *Mezzogiorno*.



### Situation in the reference period (March 2006)

In March, manufacturing firms' assessment on orders and demand developments showed clear signs of improvement (the balance moved from -9 to -7) which were widespread in the domestic (from -15 to -12) and mainly in the foreign markets (from -14 to -6). A similar trend was indicated by the appraisal of the level of production, which bettered from -9 to -5. In contrast, the balance for inventories recorded a rise with respect to the previous month (from 2 to 4), as opposed to the balance for the ratio of liquidity to operational requirements, which remained flat on the February level.

The strength of the recovery in confidence was uneven among sectors. For the investment goods sector, demand slightly slowed down (from 2 to 1), mainly due to a fall in domestic demand (from -11 to -13) which more than offset an improvement in the foreign component (from 2 to 5), the level of production declined (from -2 to -4), inventories increased (from 3 to 5), while liquidity remained constant (at 38). For the consumer and the intermediate goods sectors, the trends were more homogeneous. The assessment on demand improved from -17 to -10 and from -11 to -6 respectively. The trend was uniformly positive in domestic and in foreign markets for both sectors (the balance rose from -19 to -13 and from -22 to -13, respectively, for consumer goods, and from -14 to -10 and from -15 to -3 for intermediate goods). Also the balance for production equally increased in the two sectors, from -13 to -7 for consumer goods, and from -11 to -5 for intermediate goods. Only the assessments on inventories painted a mixed picture: the related balance decreased from 9 to 7 for consumer goods, and increased from -3 to 0 for intermediate goods. In both sectors the ratio of liquidity to operational requirements remained virtually unchanged.



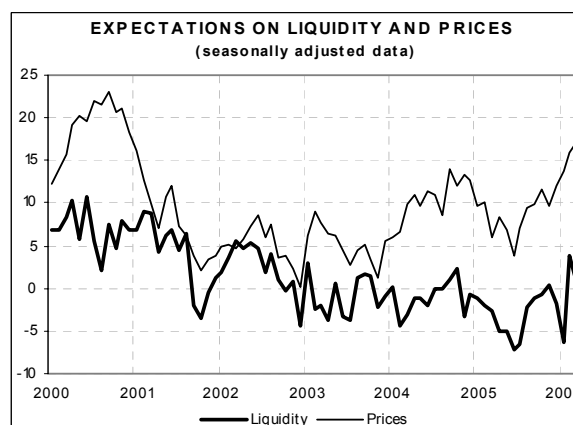
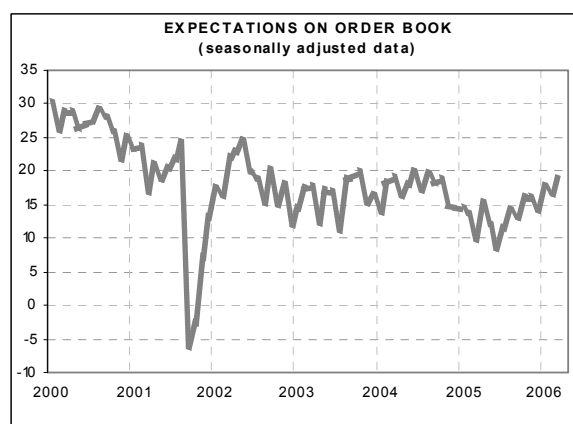
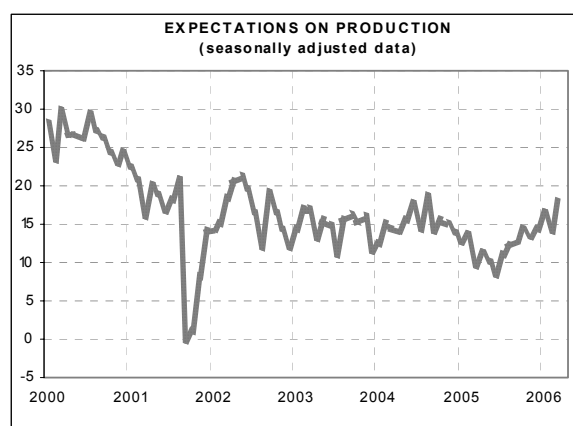
### Outlook for the following three months

In March, the firms surveyed by ISAE expressed greater satisfaction, compared to the previous month, with the main company variables. Following various months of improvement, prospects for the overall Italian economy slightly relapsed. A rise characterized the balance of expectations for orders (from 17 to 19), production (from 14 to 18), employment (from 1 to 3) and the liquidity trend (from 0 to 1). Expectations of a rise in selling prices bettered (from 16 to 17), while prospects for the overall economy worsened (the balance dropped from -7 to -8).

Also forecasts, though positive, were rather mixed across sectors. In the investment goods sector, expectations for orders, production and the country's economy picked up from 15 to 22, from 22 to 26 and from -4 to -2, respectively. Whereas those for employment and selling prices dropped (from 6 to 5 and from 21 to 19), and those for liquidity remained flat (at 3). In the consumer goods sector, firms became rather pessimistic about prospects: they worsened their expectations on demand (from 18 to 16), production (from 14 to 13), and the general economic trend (from -5 to -14). On the other hand, they viewed a rising trend in selling prices (from 9 to 10), stability for liquidity expectations (at 2) and a moderate improvement in employment prospects (from 0 to 1). In the intermediate goods sector, the situation improved: firms expressed more favourable expectations with regard to demand (from 15 to 18), production (from 11 to 18), employment (from 0 to 4) and liquidity (from -1 to 0). Firms also expected a rise in selling prices (the balance increased from 19 to 21) and a worsening for overall economic conditions (from -6 to -8).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Dec. 2005	91,1	-10	6	14
Jan. 2006	92,8	-10	3	16
Feb. 2006	92,7	-9	2	14
Mar. 2006	94,2	-7	4	18

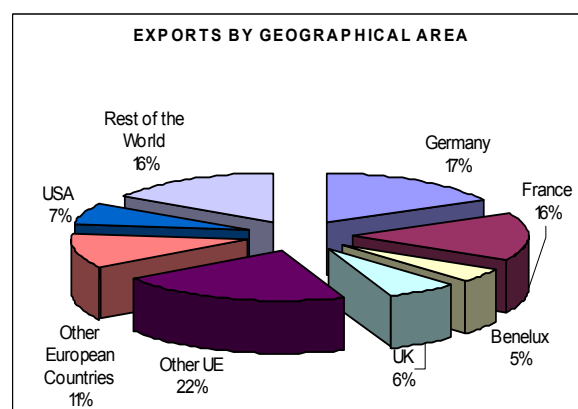
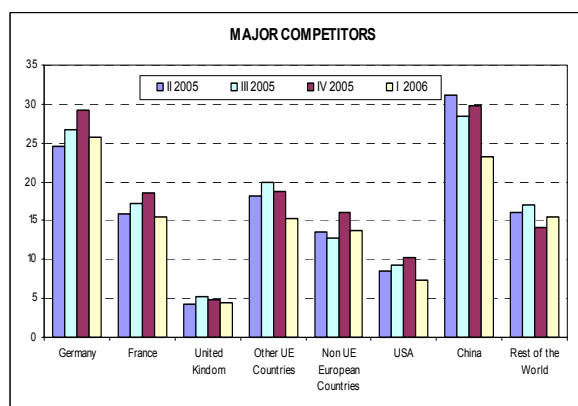
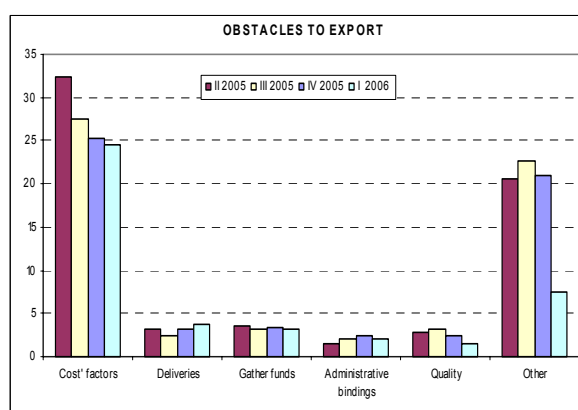
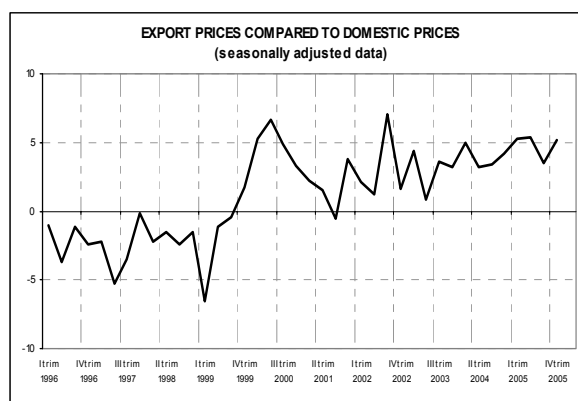


## The ISAE quarterly survey on exporting firms

According to the ISAE quarterly survey on exporting firms, the current assessment and short-term prospects on export turnover improved with respect to the previous quarter. The related seasonally adjusted balance grew from -1 to 3, and from 7 to 13, respectively. Consistently, firms recorded a lessening in export constraints: the percentage of those reporting the existence of major factors limiting export activity fell from 41% to 32%. Particularly, the proportion of those that considered that these obstacles were related to “factors other than costs” (costs are cited by 24% of total respondents) decreased from 21% to 7%. Firms referred to delivery time (4% of total respondents), financing capabilities (3%), red tape (2%) or product quality (1%). The lower number of respondents signalling “other factors” as export constraints may be attributed to the gradually improving dynamics of international demand.

Along with lower constraints to export activity, firms experienced an improvement in their competitive position: they acknowledged lower competition from the European countries, mainly from Germany (considered a major competitor by 26% of the respondents, as against 29% in the previous quarter) and France (for which this proportion fell from 18% to 15%), and from the United States (from 10% to 7%) and China (from 30% to 23%). The share of the respondents indicating countries in the rest of the world as significant competitors increased instead from 14% to 15%. The geographical breakdown of export destinations pointed to a rise for the current quarter in the share of exports going to the other European Union countries (22% of total exports, compared to 20% in the previous quarter). The percentage going to the United States decreased from 8% to 7%, while the share of the European countries and of the rest of the world remained unchanged.

According to the surveyed firms, the ratio between export and domestic prices started to pick up again, moving to 10 from 5 in the previous survey.



## Regional breakdown of ISAE survey results

On a regional basis, confidence markedly improved mainly in the North West and the Centre, where the seasonally adjusted index picked up from 92.2 to 94.6 and from 93.6 to 96.5, respectively, and, though more moderately, also in the North East. In this region, the related index moved from 91 to 91.6, rising for the third month running. Whereas in the *Mezzogiorno*, the indicator remained virtually stable, at 96.1. With regard to the underlying components of confidence, the assessment on orders showed a general improvement, while opposing signals came from production expectations and from the assessment on inventories of finished products.

North West: the recovery in confidence was due to a generalized optimism regarding the evaluation of demand (both domestic and foreign), as well as to a sharp rise in production expectations. Firms gave instead a negative assessment on the level of inventories.

North East: in this region the moderate recovery in manufacturing firms' confidence is attributable to an improvement in production expectations summed to virtual stability for the assessment on orders (notwithstanding an improvement in the foreign component). Finally, inventories built up.

Centre: the sharp recovery in confidence was due to a rise in the balance of the assessment on orders (mainly foreign ones), combined, in this case, to de-stocking. Negative signals came nevertheless from production expectations.

Mezzogiorno: confidence in this region remained virtually unchanged: the balance of the assessment on orders showed a flat reading compared to the previous month, while inventories were considered to be building up. The only positive signal derived from production expectations for which the balance resumed its upward trend, nearing historical heights.

