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Date: **March 27, 2007**
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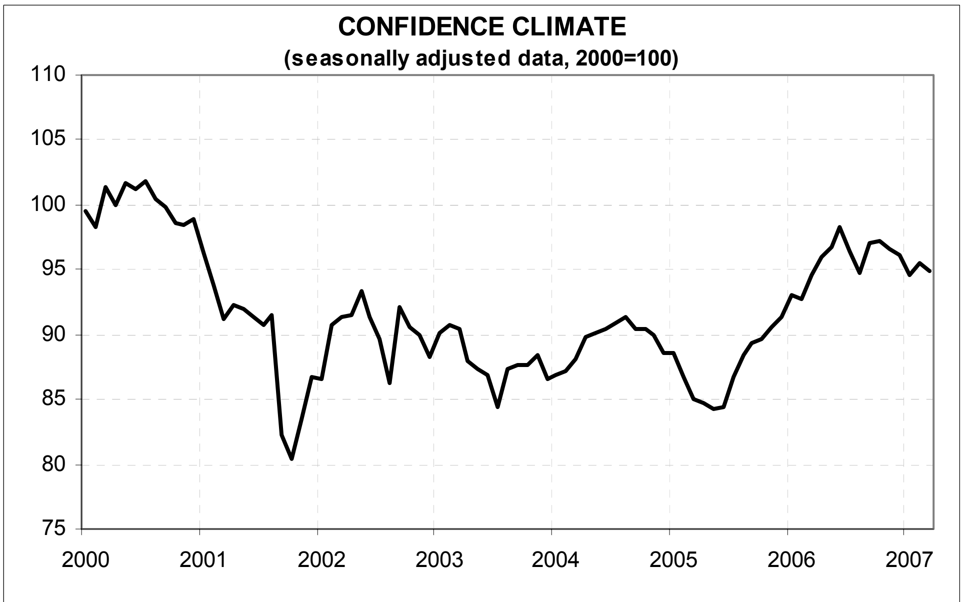
MANUFACTURING FIRMS' CONFIDENCE EASES SLIGHTLY IN MARCH

- **The seasonally adjusted confidence index (2000=100) lowered to 94.9 from 95.5 in February. The decline stemmed from less favourable opinions on the trend in orders and from slight restocking of inventories. Production expectations, instead, moderately edged up**
- **However, surveyed firms were more optimistic about short-term prospects for the Italian economy and did not expect significant changes in selling prices**
- **Confidence was basically stable for intermediate goods (remaining at 93.3, compared to 93.2 in February) but lowered for investment and consumer goods (from 97.7 to 97.5 and from 97.6 to 97, respectively)**
- **The decrease in confidence recorded at the national level was not evenly spread across the country: confidence markedly worsened in the *Mezzogiorno*, declining from 97.6 to 95.2, remained unchanged at 95.2 in the North West, and increased from 93.5 to 93.8 and from 97.6 to 98.7, respectively, in the North East and the Centre**

IN THE 1Q 2007, ASSESSMENTS AND FORECASTS ON EXPORT TURNOVER MARGINALLY WORSEN, BUT FIRMS' COMPETITIVE POSITION IMPROVES

- **The seasonally adjusted balance for the assessments and the forecasts on export turnover declined from 7 to 3 and from 13 to 11, respectively**
- **Nevertheless, firms indicated a decrease in factors limiting their export activity, mainly thanks to lower pressures connected to costs, timeliness of deliveries and red tape**
- **The ratio between export and domestic prices settled at a historical high level**
- **Finally, competitive pressures coming from European countries, other than Germany, France and the United Kingdom, eased, whereas the share of firms identifying China as a competitor started to increase once more**



Data on April shall be released on April 27, 2007

The next ISAE surveys are scheduled as follows:
March 28: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: March), ISAE Monthly Business Services Survey (reference period: March) and ISAE Monthly Survey on Construction (reference period: February)*
April 5: *ISAE International Comparison of Consumer and Business Surveys (reference period: March)*

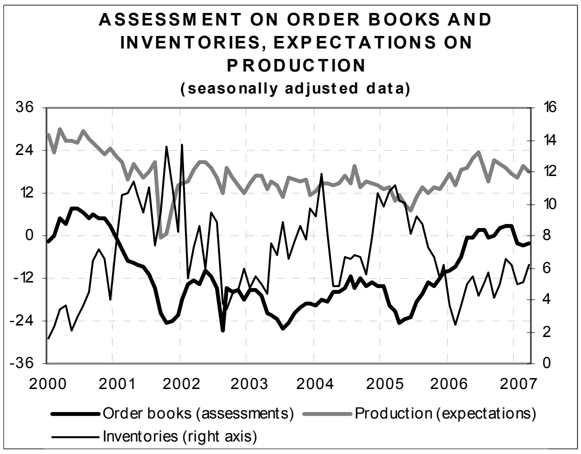
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

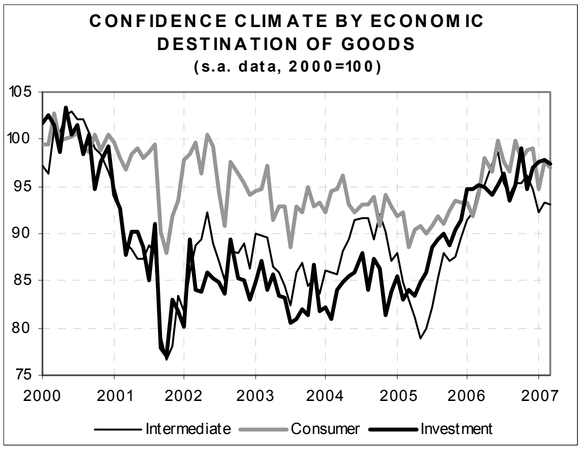
General results

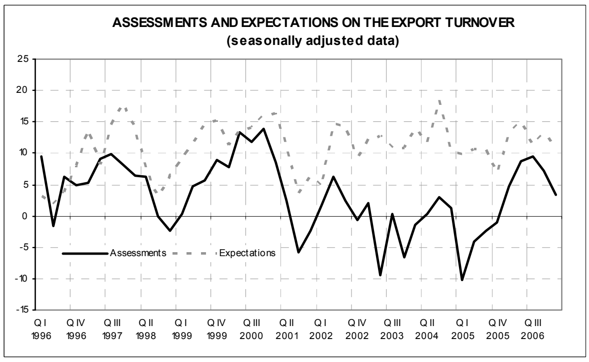
The ISAE Survey, carried out on a panel of about 4,000 respondents between March 5 and March 19, pointed to a decline in the seasonally adjusted confidence index of manufacturing and mining firms. In March, the indicator eased to 94.9 from 95.5 in February. The worsening stemmed from a less favourable evaluation of orders and larger restocking of inventories, which more than offset the slight improvement in production expectations. Nevertheless, surveyed firms were more optimistic about short-term prospects for the Italian economy and did not expect significant changes in selling prices.

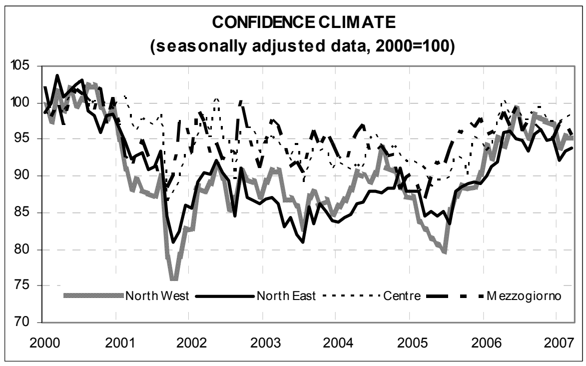
Confidence remained practically stable for intermediate goods (at 93.3, compared to 93.2 in February), but declined for investment and consumer goods (from 97.7 to 97.5 and from 97.6 to 97, respectively). The decrease in confidence recorded at the national level was not evenly spread across the country: confidence remained unchanged at 95.2 in the North West, markedly worsened in the *Mezzogiorno*, declining from 97.6 to 95.2, and increased from 93.5 to 93.8 and from 97.6 to 98.7 respectively in the North East and the Centre.

The traditional ISAE quarterly survey on exporting firms recorded a deterioration in opinions on export turnover. However, firms indicated a decrease in factors limiting their export activity and an improvement in Italy's competitive position. Finally, the ratio between export and domestic prices settled at a historical high level.





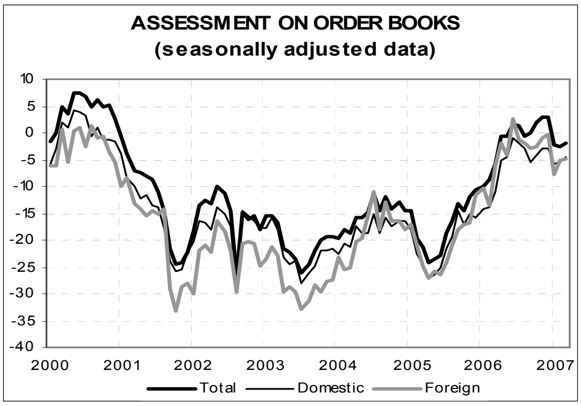


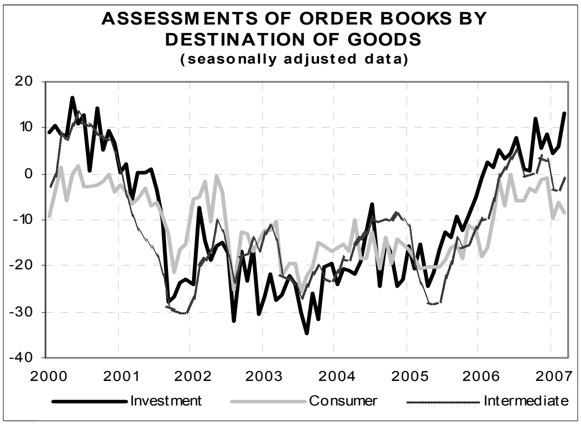


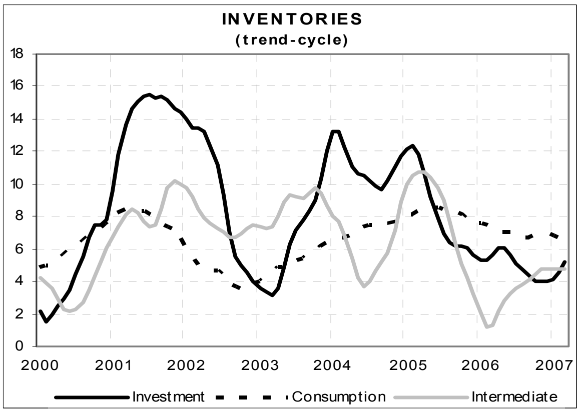
Situation in the reference period (March 2007)

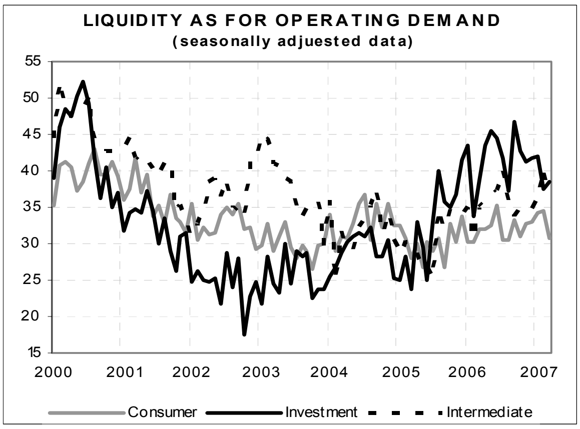
In March, the opinions on the trend in orders bettered: the related balance increased from -3 to -2. The balance for domestic orders rose from -6 to -5, while the one for foreign orders remained at -5. The balance for the opinions on the level of current production remained unchanged at 0 (indicating basic equivalence between the number of firms believing that their production was rising and those considering that it was declining). The ratio of liquidity to operational requirements declined instead (from 38 to 36). Lastly, firms recorded new, slight restocking of inventories: the balance went back to 6 (from 5), a level slightly higher than last year's average.

However, indications were not homogeneous at the industry level. For consumer goods, the assessment on orders deteriorated (from -6 to -9), because of the worsening in both domestic and foreign demand (from -9 to -10 and from -12 to -15, respectively). Furthermore, the ratio of available liquidity to operational requirements declined (from 34 to 31). However, the evaluation of current production levels bettered (from -5 to -4), along with moderate restocking of inventories (the related balance rose from 6 to 7). Producers of investment and intermediate goods seemed, instead, relatively more optimistic. As for the former, the opinions on demand rose markedly (from 6 to 13), thanks to the improvement in domestic demand (from 0 to 2) which balanced the worsening in foreign demand (from 8 to 6). Liquidity increased from 37 to 39 and the level of production declined from 8 to 7. Finally, inventories started to rise once more, moving from 2 to 9, the highest level since April 2006. For firms in the intermediate goods sector, instead, the improvement in the opinions on orders (from -4 to -1) characterized both the domestic market (the balance rose from -6 to -3) and, mostly, foreign markets (from -6 to 2), and accordingly was accompanied by a recovery in production levels (from -1 to 0) and basic stability for inventories (the balance moved from 6 to 5). Lastly, the ratio of liquidity to operational requirements decreased (the related balance lowered from 40 to 37).









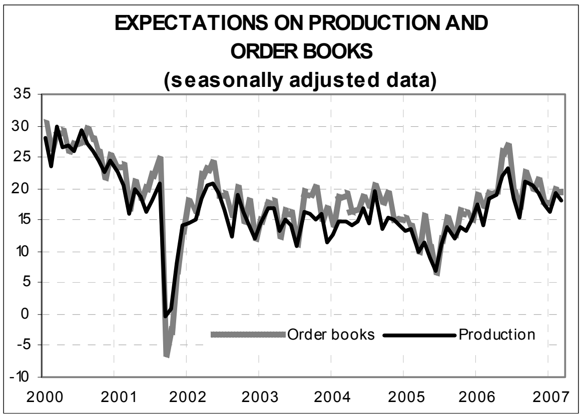
Outlook for the following three months

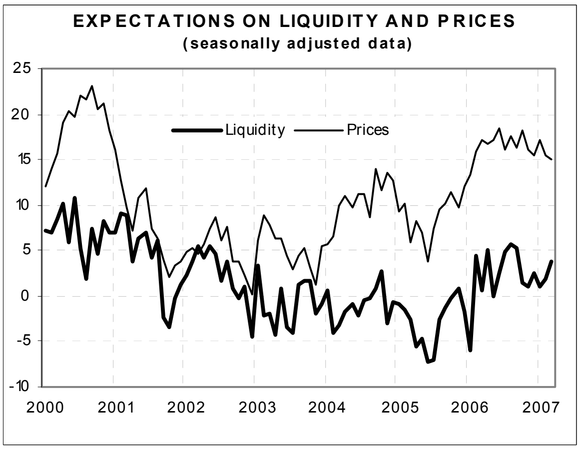
Forecasts for main company variables gave contrasting indications: expectations for production and employment developments deteriorated, whereas prospects for company liquidity and the country's economic situation improved. Expectations for orders and selling prices remained, instead, unchanged. The balances for production and employment expectations declined from 19 to 18 and from 3 to 2, respectively. Prospects for the overall economy and for liquidity rose, in the order, from 0 to 3 and from 0 to 2, whereas those for orders and industrial selling prices remained unchanged at 20 and 15, respectively.

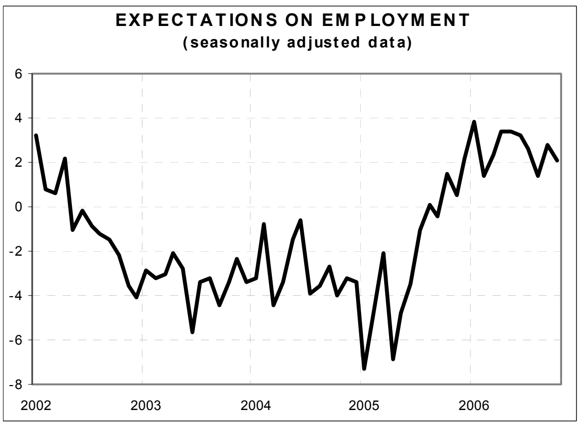
Forecasts were rather mixed also at the industry level. Producers of consumer goods were decidedly more optimistic compared to the previous month: expectations actually improved for orders (from 20 to 24), production (from 20 to 21), the country's economy (from 2 to 6), liquidity (from 6 to 8) and, finally, prices (from 15 to 13). Only projections for employment were slightly negative (the balance lowered from 0 to -1). Producers of intermediate goods were instead more pessimistic: prospects worsened for demand (from 18 to 13), production (from 18 to 14) and employment (from 3 to 2). Furthermore, they expected a rise in selling prices (the balance rose from 19 to 20) and stability for liquidity (at 3). Producers of investment goods recorded a slight worsening in production expectations (from 23 to 20), but bettered their forecasts for orders (from 21 to 25), the general economic situation (from 2 to 4), company liquidity (from 0 to 2) and employment developments (from 6 to 7). However, firms did not significantly change their expectations, with respect to the previous survey, for the trend in selling prices (the balance remained at 12).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Dec. 2006	96,2	3	6	17
Jan. 2007	94,6	-2	5	16
Feb. 2007	95,5	-3	5	19
Mar. 2007	94.9	-2	6	18

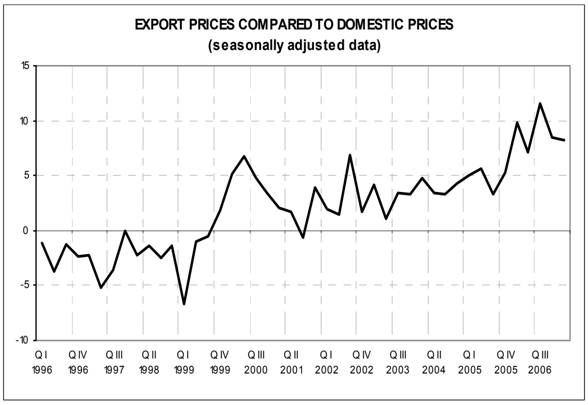


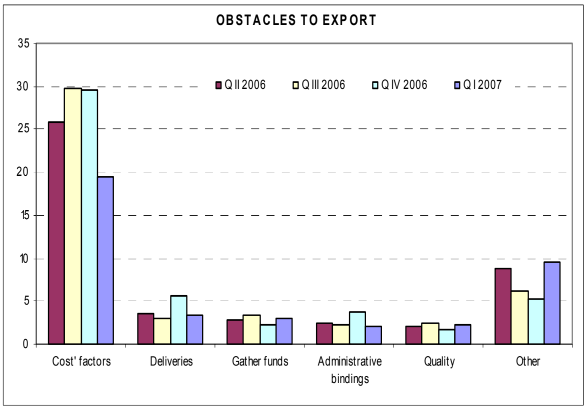


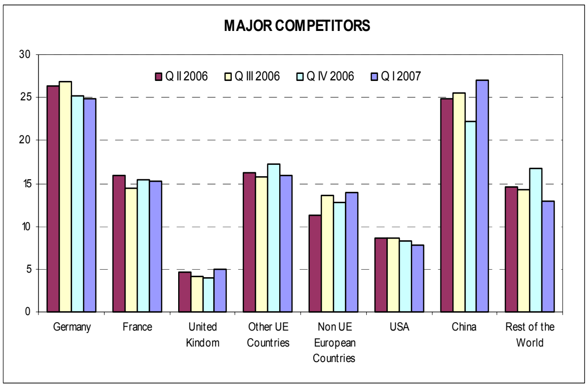


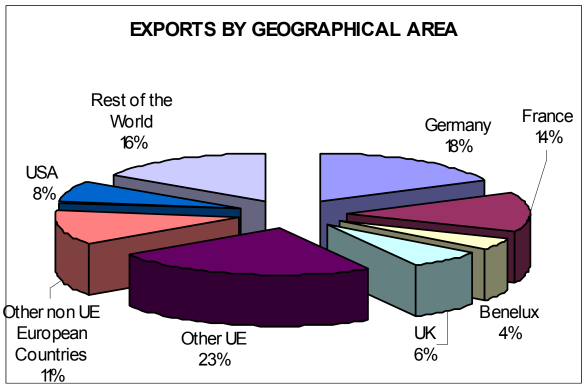
The ISAE quarterly survey on exporting firms

According to the ISAE quarterly survey, exporting firms worsened their assessment on export turnover: the seasonally adjusted balance for the current quarter actually declined from 7 to 3, and that for short-term expectations diminished from 13 to 11. However, firms indicated lower export constraints, and the share of those reporting considerable obstacles declined from 36.6% to 29.9%: in particular, there was a sharp drop in the percentage of firms signalling cost constraints (from 29.5% to 19.5%), delivery delays (from 5% to 3%) and red tape (from 3% to 2%). Along with lower export constraints, firms recorded also an improvement in their competitive position. They perceived lower competition from European countries other than Germany, France and the United Kingdom which were considered important competitors by 16% of the respondents (17% in the previous quarter). The share of firms identifying China as a competitor increased instead from 22% to 27%, the highest level since the fourth quarter of 2005. The geographical breakdown of export destinations pointed to an increase in the proportion of firms exporting to Germany, the United Kingdom and other European Union countries (the shares increased in the order from 17% to 18%, from 6% to 7% and from 21% to 23%). The percentage of firms exporting to France and the United States declined, instead, from 15% to 14% and from 9% to 8%, respectively. According to surveyed firms, the ratio between export and domestic prices stabilized at 8, the value posted in the previous survey, thus remaining at a historical very high level.









Regional breakdown of ISAE survey results

In March, the slowdown in manufacturing firms' confidence recorded at the national level was not evenly spread across areas: the index remained unchanged in the North West, markedly worsened in the *Mezzogiorno*, and improved, instead, in the North East and the Centre. The analysis of the underlying components of the confidence climate shows that the opinions on the level of orders improved (with the sole exception of the *Mezzogiorno*), whereas production expectations and the evaluation of inventories of finished products sent contrasting signals. As for exports, the opinions on turnover developments worsened everywhere, but forecasts improved in the Centre and the South. Lastly, the ratio of export to domestic prices was reported to have declined in the North West and increased in the other areas.

<u>North West</u>

Entrepreneurs' confidence remained unchanged: the improvement in the opinions on the level of demand (domestic and foreign) was accompanied by stability for inventories and deterioration in production expectations. With regard to exports, assessments and forecasts on turnover and the ratio between export and domestic prices worsened with respect to the previous quarter.

<u>North East</u>

In this area recovery was essentially related to the improvement (for the third straight month) in production expectations summed to the rise in orders (both domestic and foreign ones). Restocking was considered to have taken place once more. As for export turnover, opinions worsened while forecasts improved. Lastly, the export to domestic price ratio improved.

<u>Centre</u>

In this area, confidence bettered for the second month running, thanks to the increase in the balance for the assessment on orders (both domestic and mainly foreign ones) and de-stocking of inventories. Production forecasts remained unchanged. Expectations for export turnover improved, whereas related opinions stabilized. Finally, the balance for the ratio of export to domestic prices markedly increased.

<u>*Mezzogiorno*</u>

Confidence diminished to its lowest level since August 2005: the assessment on orders declined (domestic and mainly foreign ones) and inventories continued to build up (reaching record high levels). Production expectations also sent negative signals for the second consecutive month. However, prospects for export turnover recorded an improvement (though the assessment on the current situation worsened) and the balance for the ratio between export and domestic prices increased.