



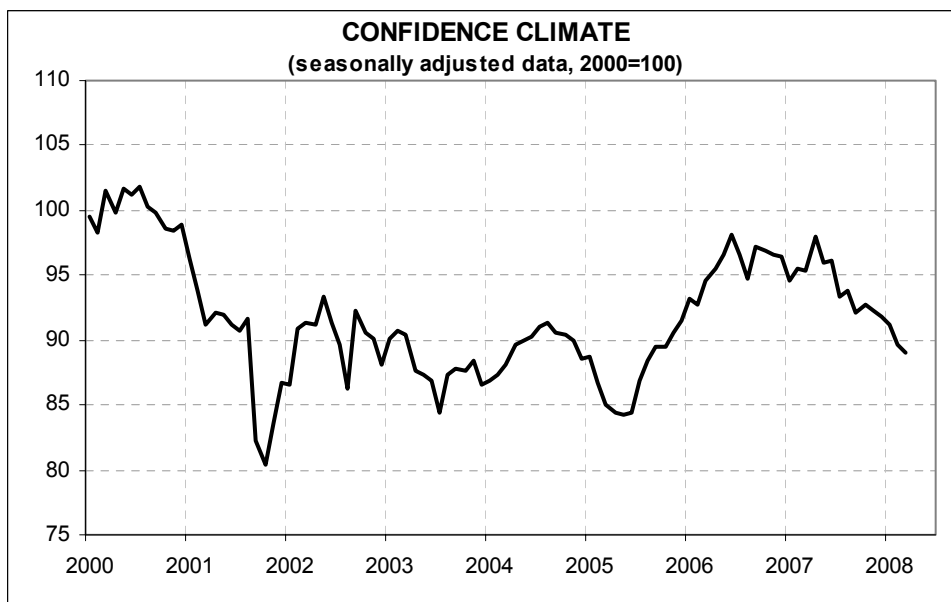
Date: March 26, 2008
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IN MARCH, MANUFACTURING FIRMS' CONFIDENCE CONTINUES TO DECLINE

- The seasonally adjusted confidence index (2000=100) came in at 89, compared to 89.6 in the previous month, reaching its lowest reading since August 2005
- The fall was mainly due to the decrease in the level of orders, which distinguished the domestic market. Instead, production expectations stabilized and inventories diminished slightly
- However, the industry breakdown showed a truly mixed picture: confidence eased slightly in the consumer goods sector (the index lowered from 91.1 to 90.8) and was markedly lower in the intermediate goods one (from 87.7 to 85), whereas it rose for investment goods (from 91.8 to 95)
- The sorting out of data by areas also pointed to some disparities: the confidence climate clearly diminished in the North West and crept down in the Centre, but recovered slightly in the North East and the *Mezzogiorno*

IN THE 1Q 2008, EXPORT TURNOVER LOWERS, BUT THE EXPORT TO DOMESTIC PRICE RATIO RECOVERS SLIGHTLY

- On the whole, factors limiting export activity remained stable. However the importance of obstacles connected to costs, red tape and the quality of goods moderately increased, while financing constraints and delivery delays diminished slightly
- With regard to export destinations, the proportion of exports going to the main European countries declined, while those headed for the other EU ones rose instead
- Competitive pressures from the US increased (probably due to the appreciation of the euro against the dollar), but competition from the European countries (apart from France) and China (following the peak reached in the previous quarter) diminished



Data on April shall be released on April 24, 2008

The next ISAE surveys are scheduled as follows:

March 27, 2008: 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 8, 2008: 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)

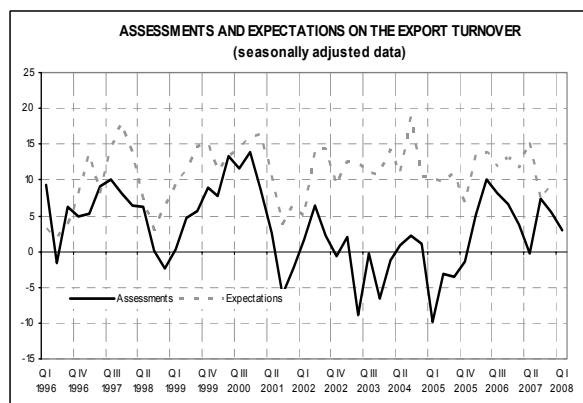
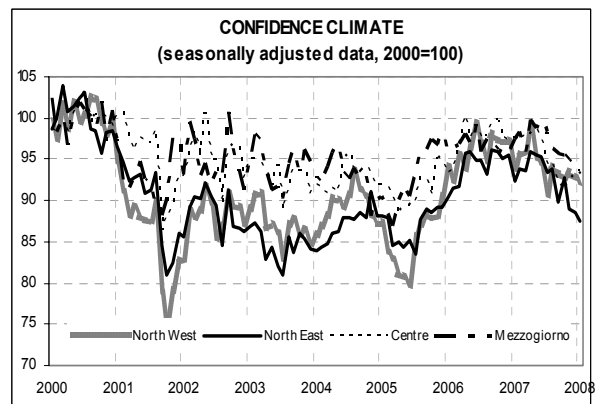
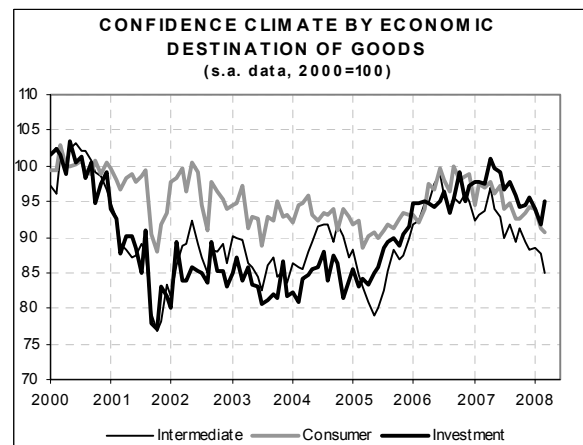
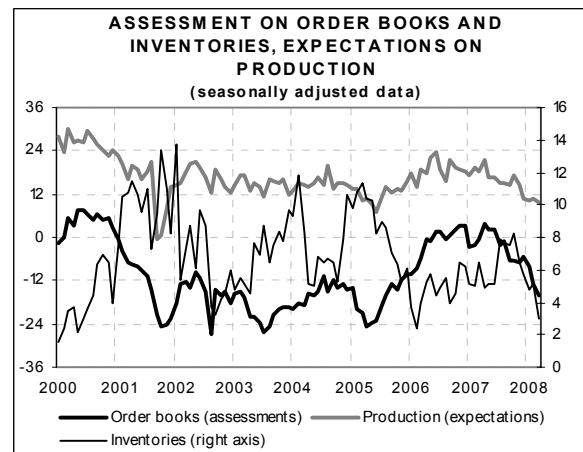
General results

The ISAE Survey, carried out on a panel of about 4000 firms between March 3 and March 17, pointed to a new decline in the confidence index of manufacturing and mining firms. In March, the indicator lowered from 89.6, in the previous month, to 89, its lowest reading since August 2005. The fall was mainly due to the decrease in the level of orders, which distinguished the domestic market. Instead, production expectations stabilized and inventories diminished.

However, the industry breakdown showed a truly mixed picture: confidence eased slightly in the consumer goods sector (the index lowered from 91.1 to 90.8) and was markedly lower in the intermediate goods one (from 87.7 to 85), whereas it increased for investment goods (moving from 91.8 to 95).

The sorting out of data by areas also pointed to some disparities: the confidence climate clearly diminished in the North West and crept down in the Centre, but recovered slightly in the North East and the *Mezzogiorno*.

In the first quarter of 2008, firms also recorded a decline in current export turnover and forecast a fall for the following quarter. But the ratio between foreign and domestic prices recovered slightly. On the whole, factors limiting export activity remained stable. However, the importance of obstacles connected to costs, red tape and the quality of goods moderately increased, while financing constraints and delivery delays diminished slightly. With regard to export destinations, the proportion of exports going to the main European countries declined, while the share of those headed for the other EU countries increased instead. Lastly, competitive pressures from the United States increased (probably due to the appreciation of the euro against the dollar), but competition from the European countries (apart from France) and China (following the peak reached in the previous quarter) diminished.

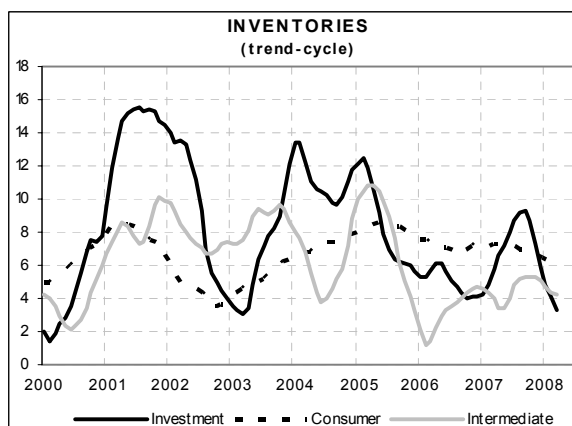
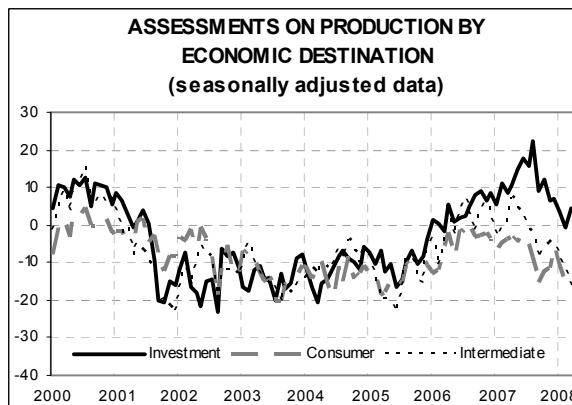
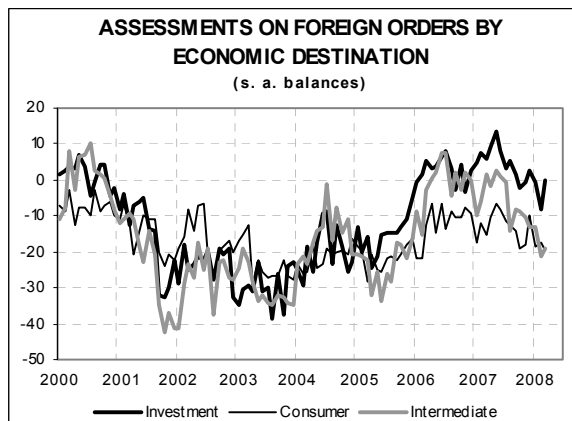
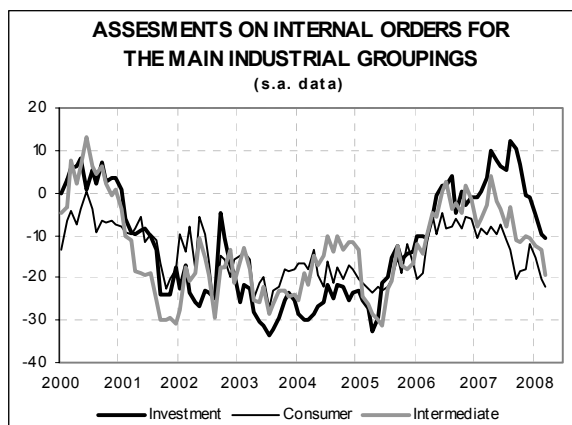


Situation in the reference period (March 2008)

In March, firms' evaluation of the current level of orders and production worsened slightly. Moreover, company liquidity stabilized, and inventories inched down once more.

The balance for the assessments on orders fell to -16 (from -13 in February), reaching the lowest level since August 2005. However, only the domestic component declined (from -15 to -18), while the foreign component held steady at its previous month level (at -17). Also the balance for the opinions on the level of production moderately diminished (from -11 to -12). Inventories ticked down instead (from 5 to 3) and company liquidity remained unchanged (the balance came in at 33, its previous month value).

The industry breakdown showed highly diverging trends. For consumer goods, opinions on orders lowered from -19 to -21. The balance declined for both domestic orders (from -20 to -22) and foreign ones (from -18 to -20). Assessments on the current level of production also deteriorated (from -16 to -17), whereas company liquidity stabilized (at 25), and inventories diminished. Also firms in the intermediate goods sector were largely pessimistic. The evaluation of demand worsened (from -14 to -19): the fall was concentrated in the domestic market (from -13 to -19), whereas orders from abroad recovered (from -21 to -19). In this sector, production levels and company liquidity declined as well (from -12 to -16 and from 35 to 33, respectively). Inventories remained stable instead (at 4). For investment goods, firms gave more favourable assessments compared to the previous month. An improvement characterized the opinions on both the level of production (the balance increased from -1 to 4) and liquidity (from 38 to 43), as well as inventories (down from 6 to 0, the lowest level since April 2003). Firms also judged orders more favourably: the balance increased from -4 to 1, thanks to a sharp improvement in the foreign component (from -8 to 0) and virtual stability in the domestic one.



Outlook for the following three months

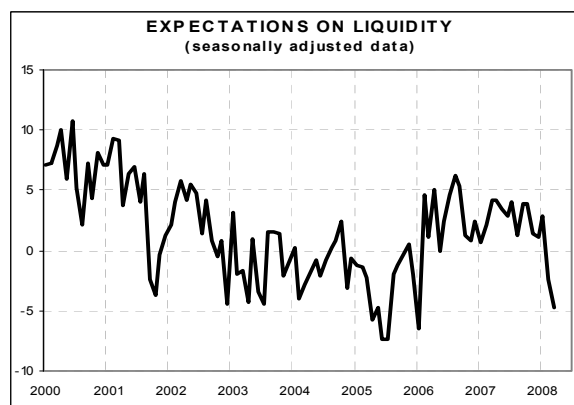
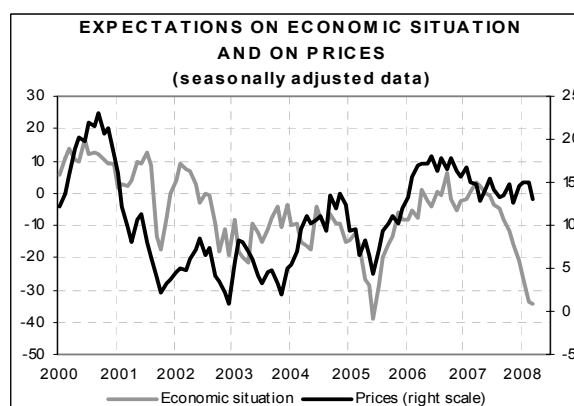
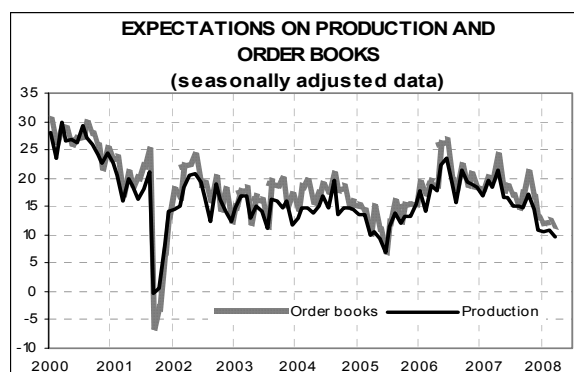
In March, short-term prospects for the main company variables (production, orders, employment, company liquidity and prices) and for the country's economic situation deteriorated slightly compared to the previous month. The balances related to expectations for orders, production, employment and liquidity lowered, in the order, from 12 to 11, from 11 to 10, from -1 to -2 and from -2 to -5. Selling price expectations declined as well (from 15 to 13), and forecasts for the country's general economic situation remained stable at the very low level recorded in the previous month (-34).

At the sector level, forecasts were rather homogenous: for consumer goods, surveyed firms were slightly less optimistic than in the previous month about prospects for demand (the balance lowered from 15 to 12), production (from 13 to 12), company liquidity (from 3 to 1), prices (from 13 to 12) and the economy in general (from -35 to -37). However, prospects for employment remained unchanged (at -4). In the investment goods sector, expectations for orders and employment recovered slightly (from 17 to 18 and from 4 to 5, respectively), but a moderate decline characterized those for production, liquidity and selling prices (from 19 to 18, from 5 to 4 and from 16 to 14, respectively). Forecasts for the country's economic situation posted instead an abrupt fall (from -23 to -30). Lastly, in the intermediate goods sector, expectations for orders and employment remained stable at 7 and -4, respectively, but those for production and liquidity lowered, from 8 to 4 and from -4 to -7. In this sector,

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

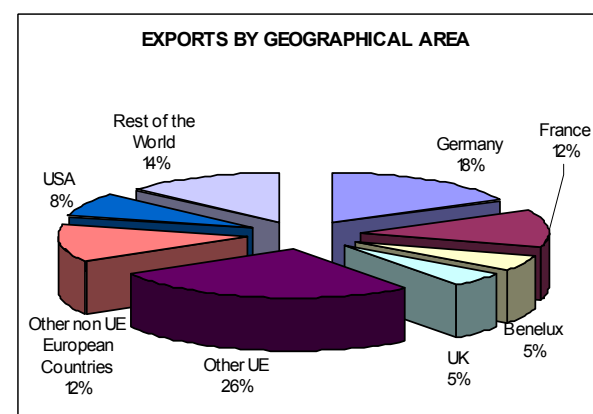
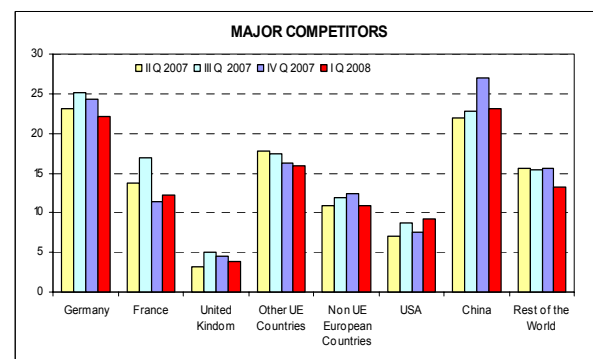
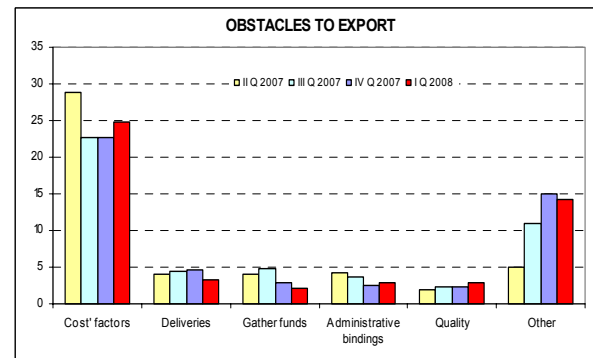
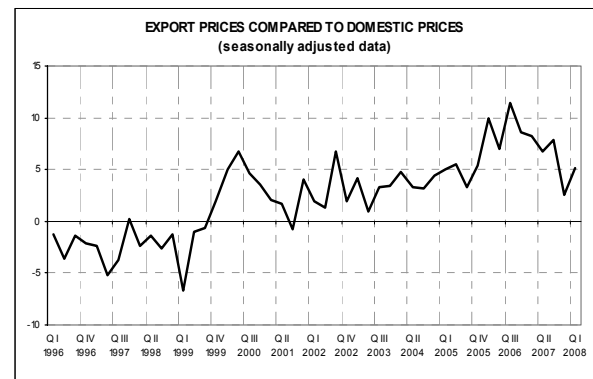
	Confidence climate	Order-book level	Inventories	Expectations on production
Dec. 2007	91.8	-5	6	11
Jan. 2008	91.2	-8	5	10
Feb. 2008	89.6	-13	5	11
Mar. 2008	89.0	-16	3	10

also price expectations declined (from 17 to 13), while those for the country's economic situation showed some signs of recovery (from -38 to -36).



The ISAE quarterly survey on exporting firms

In the first quarter of 2008, the traditional ISAE quarterly survey on exporting firms (for which exports accounted on average for about 37.7% of total sales, slightly more than in the previous quarter) highlighted deterioration in the respondents' assessments and forecasts on export turnover (the related balance lowered from 5 to 3 and from 9 to 5, respectively). However, the ratio between export and domestic prices started to increase once more (the balance went up from 3 to 5). With regard to export constraints, the share of respondents reporting considerable obstacles held steady at 39%. In particular, the proportion of firms signalling cost, red tape and quality of goods constraints increased slightly (from 23% to 25%, from 2% to 3% and again from 2% to 3%, respectively), but the percentage of those mentioning financing constraints and delivery delays declined (from 3% to 2% and from 5% to 3%). The share of firms indicating other unspecified obstacles (probably related to the exchange rate trend) remained high (at 14%). The euro also affected manufacturing firms' appraisal of the US competitive position: the share of firms perceiving the United States as a main competitor increased from 8% to 9%. Competitive pressures from the European countries (apart from France), China and the other countries declined instead. Lastly, with regard to the main export destinations, the share of exports going to France, Germany and the United Kingdom decreased to the advantage of those directed toward the other EU countries (excluding the Benelux). The share of exports directed toward the United States and the rest of the world also slightly diminished.



Regional breakdown of ISAE survey results

The fall in confidence recorded at the national level was the result of differing trends across areas: confidence declined in the Centre and, above all, in the North West (the indicator moved from 93.2 to 93 and from 89.4 to 87.9, respectively), but posted a slight recovery in the North East (from 87 to 87.5) and the *Mezzogiorno* (from 93.2 to 93.4). The opinions on the level of orders worsened everywhere, while inventories of finished products diminished. Production expectations sent instead contrasting signals. Lastly, with regard to export turnover, both expectations and opinions on the current trend worsened in the North and the Centre. Divergent indications characterized instead the evaluation of export prices.

North West

In March, the confidence climate continued to decrease for the fourth month running. The worsening in the opinions on demand (pessimism distinguished only the domestic market) came along with stability of inventories of finished products and deterioration in production expectations. Both opinions and forecasts for export turnover markedly declined, while the ratio between export and import prices remained virtually stable.

North East

Following four months of deterioration, confidence in this area resumed an upward path, driven entirely by the de-stocking of inventories, while orders and production continued to worsen. Moreover, assessments and forecasts on export turnover deteriorated, and the ratio between export and domestic prices increased.

Centre

Confidence worsened for a second month in a row, due to the fall in orders (mainly from abroad), which was set against the de-stocking of inventories and stability for production expectations. Both assessments and prospects for export turnover deteriorated, whereas the opinions on export prices remained stable.

Mezzogiorno

Confidence recovered moderately, hovering however around its July 2005 low. Domestic demand declined, while foreign demand clearly improved. Inventories diminished and production expectations bettered. In opposing trend with the other areas, entrepreneurs in the *Mezzogiorno* recorded an improvement in both opinions and expectations on export turnover. Lastly, the export to domestic price ratio declined.

