

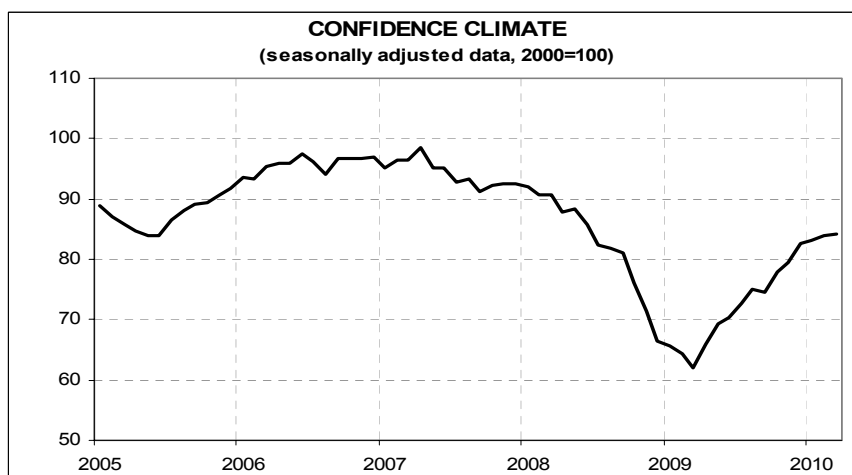
Date: March 25, 2010

### MANUFACTURING FIRMS' CONFIDENCE IS VIRTUALLY FLAT IN MARCH

- The seasonally adjusted index (2000=100) came in at 84.1, compared to 83.8 in the previous month
- Basic stability characterized all three series that make up the index: the opinions on the level of orders stayed at low value, inventories remained unchanged at below considered normal levels, and production expectations held steady at their May 2008 high
- Economic prospects also levelled out at their previous month value. Employment expectations showed instead some signs of recovery
- However, major differences distinguished the various productive sectors. Confidence diminished moderately for investment goods (the index moved from 78.4 to 77.7), whereas it rose slightly for intermediate goods (from 82.9 to 83.4) and more markedly for consumer goods (from 87.5 to 89)
- Differences were even more pronounced at the regional level: the confidence climate clearly dropped in the North East and mainly in the *Mezzogiorno* (moving from 81.4 to 79.1 and from 85.1 to 80.4, respectively); confidence instead moderately heightened in the North West (from 83.9 to 84.6) and noticeably picked up in the Centre (from 85.3 to 87.8)

### IN 1Q 2010 QUESTIONS ON EXPORT ACTIVITY SENT FAVOURABLE SIGNALS

- With regard to export turnover, assessments recovered slightly and forecasts markedly improved
- Moreover, the share of respondents indicating the presence of factors limiting export activity continued to diminish, mainly thanks to lower funding constraints and "other factors", probably related, at this stage, to the trend in international demand
- Nevertheless, the export to domestic price ratio plunged and the related balance turned negative for the first time since 2001
- Germany and China were again perceived as main competitors on domestic and foreign markets, followed by the other non-European countries and by France and the United States
- Lastly, among export markets, growth characterized the share of smaller European countries (to 28% of total exports from 25% in the previous quarter) and non-European ones other than the United States (to 17% from 15% in December)



**Data on April shall be released on April 28, 2010**

The next ISAE surveys are scheduled as follows:

**April 27, 2010: ISAE Monthly Consumer Survey (reference period: April)**

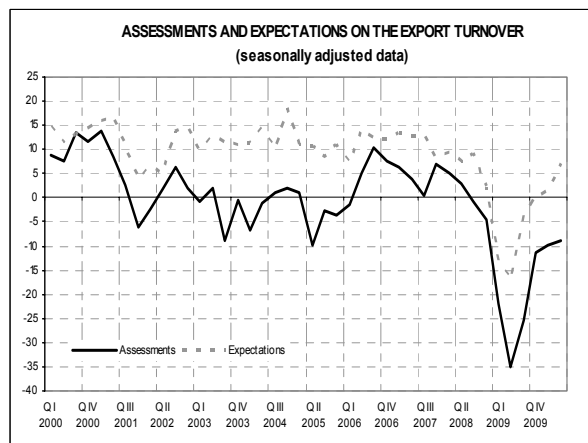
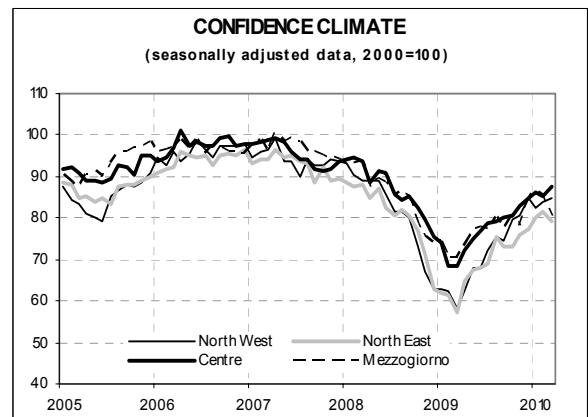
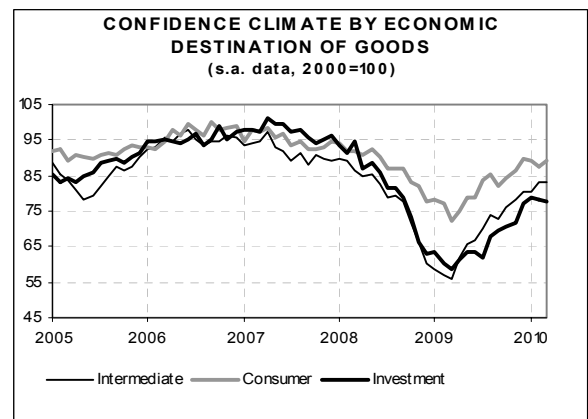
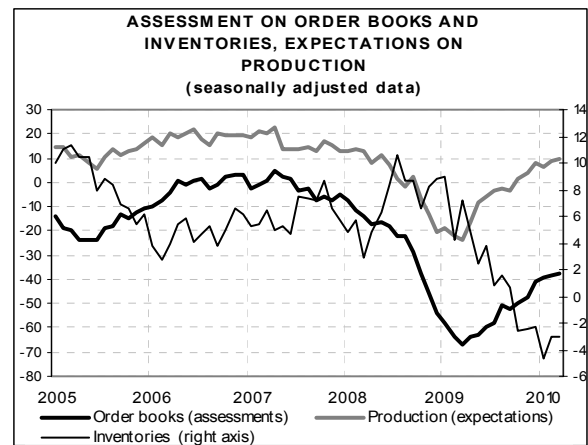
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site [www.isae.it](http://www.isae.it))

## General results

According to the ISAE Survey, carried out between March 1 and March 18 on a panel of about 4,000 firms, in March the seasonally adjusted confidence index of manufacturing and mining firms stayed virtually stable, reaching 84.1 from 83.8 in the previous month. The opinions on the level of orders remained at low value, inventories stayed unchanged at below considered normal levels, and production expectations held steady at their May 2008 high.

However, differences distinguished the various productive sectors. Confidence diminished moderately for investment goods (the index moved from 78.4 to 77.7), whereas it rose slightly for intermediate goods (from 82.9 to 83.4) and more markedly for consumer goods (from 87.5 to 89). Differences were even more pronounced at the regional level: the confidence climate clearly dropped in the North East and mainly in the *Mezzogiorno* (moving from 81.4 to 79.1 and from 85.1 to 80.4, respectively); confidence instead moderately heightened in the North West (from 83.9 to 84.6) and noticeably picked up in the Centre (from 85.3 to 87.8).

In the 1Q 2010, questions on export activity sent favourable signals. With regard to export turnover, assessments recovered slightly and forecasts markedly improved. Moreover, the share of respondents indicating the presence of factors limiting export activity continued to diminish, mainly thanks to lower funding constraints and “other factors”, probably related, at this stage, to the trend in international demand. Nevertheless, the export to domestic price ratio plunged and the related balance turned negative for the first time since 2001. Germany and China were again perceived as main competitors on domestic and foreign markets, followed by the other non-European countries and by France and the United States. Lastly, among export markets, growth characterized the share of smaller European countries (to 28% of total exports from 25% in the previous quarter) and non-European ones other than the United States (to 17% from 15% in December).

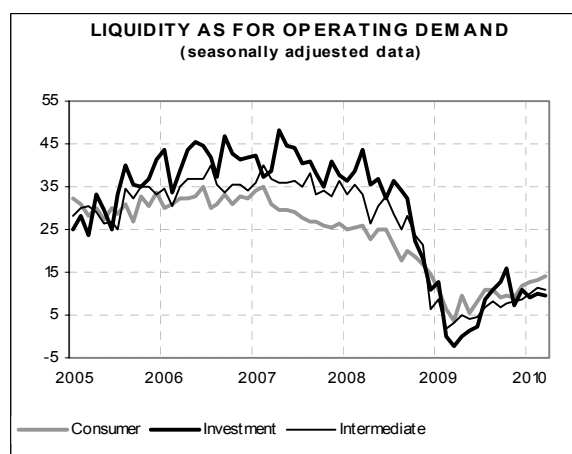
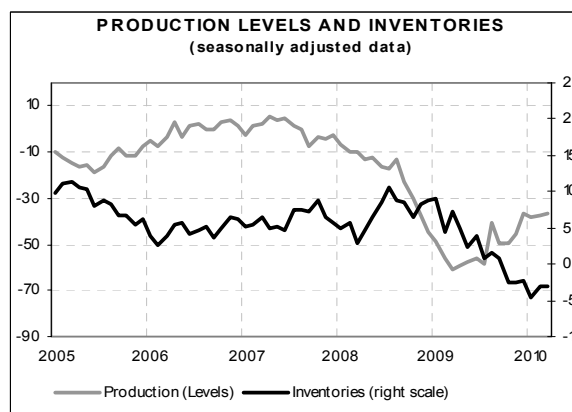
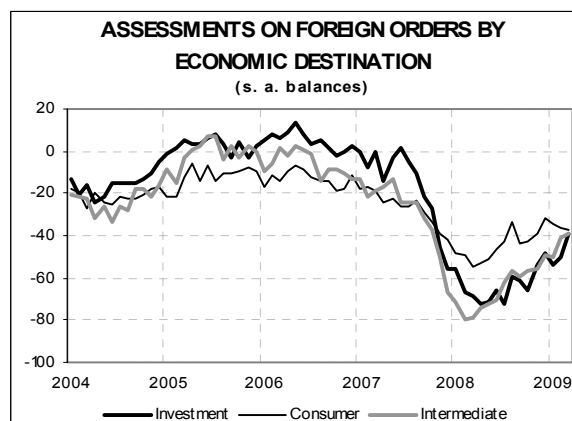
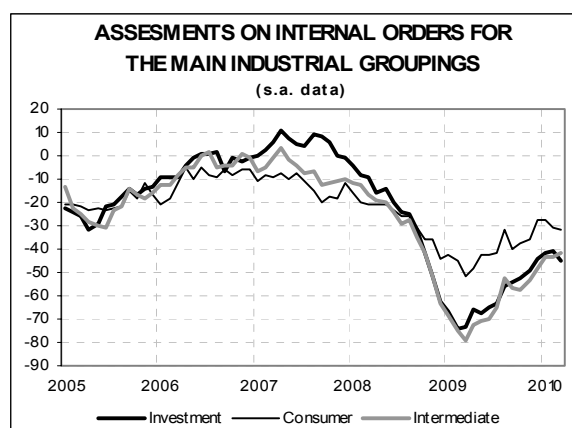


### Situation in the reference period (March 2010)

In March, manufacturing firms' assessments on main company variables recorded virtual stability.

In detail, the balance for the opinions on orders lowered to -38 (from -37), while the one for foreign demand moved from -41 to -39. Stability characterized the balances for the level of production (at -37) and company liquidity (at 11), while inventories remained unchanged (at -3).

At sector level, producers of consumer goods gave the most favourable indications: the opinions on orders remained at -30 (the domestic component moved from -30 to -31, while the foreign one held steady at -37). Also assessments on production stabilized at -28, but inventories were again considered to have gone below normal levels (the balance moved from 0 to -2) and company liquidity increased (from 13 to 14). Also producers of investment goods showed signs of slightly better optimism: overall demand recovered three points over the previous month (the balance rose from -49 to -46), due to the rebound in foreign demand (from -50 to -39), which more than offset the fall in the domestic component (from -41 to -45). Also in this sector, the level of production and company liquidity remained stable (at -45 and 10, respectively), but inventories built up (from -3 to 1). Lastly, in the intermediate goods sector, firms gave slightly more favourable indications with respect to the previous month for both domestic and foreign orders (the balance recovered from -43 to -41 and from -41 to -39, respectively) and the level of production (from -40 to -39). Assessments on inventories remained unchanged (at -6) and those for liquidity moderately lowered (from 12 to 11).



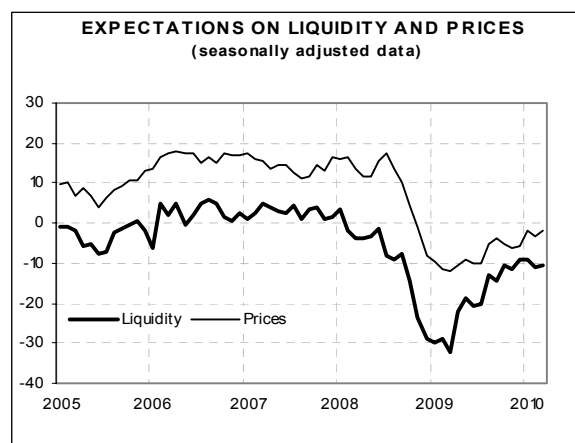
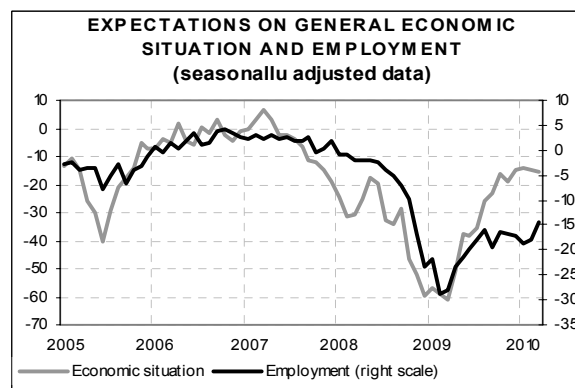
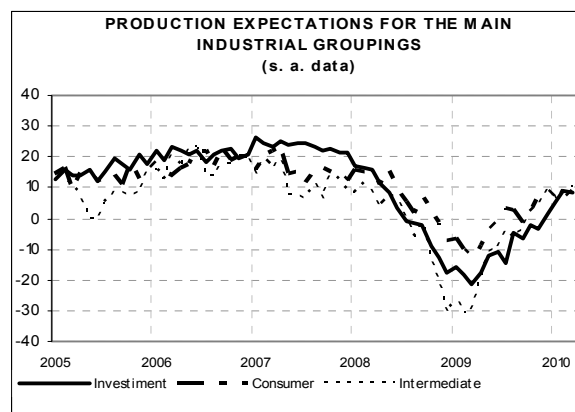
### Outlook for the following three months

In March, short-term prospects for main company variables (orders, production, company liquidity, prices, and employment) also showed substantial stability. Compared to February, the balance for the first three variables held steady at 8, 9 and -11, respectively. Firms scaled down their expectations of a reduction in selling prices (the balance moved from -3 to -2). Prospects for employment improved instead (from -18 to -14), while forecasts for the country's overall economic trend stabilized (at -15).

Developments were rather mixed across sectors. Producers of investment goods were the most pessimistic. In detail, in this sector prospects for demand and the overall economy dropped seven and six points respectively (from 11 to 5 and from -11 to -17). Also production expectations fell one point (from 9 to 8), while forecasts for company liquidity recovered two points (from -12 to -10) and the ones for employment stabilized (at -12). Expectations for prices went up slightly (from -4 to -3). In the consumer goods sector, predictions showed instead opposing trends. Expectations for orders and employment clearly recovered (from 7 to 12 and from -18 to -8). Prospects for production and the country's economic situation improved slightly (from 6 to 9 and from -23 to -22). Deterioration characterized instead forecasts for liquidity (from -5 to -6), while those for prices remained stable (at -2). Lastly, in the intermediate goods sector, expectations for orders and production held steady (both balances stayed at 10), while predictions of a rise in selling prices increased (from -5 to -2). Lastly, forecasts for employment improved (from -19 to -18), though expectations for the overall economic trend clearly worsened (from -17 to -20).

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

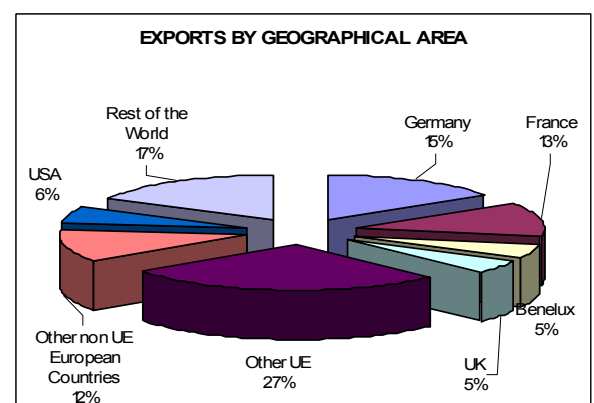
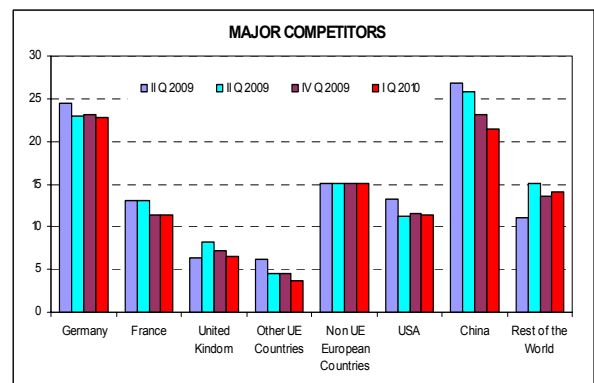
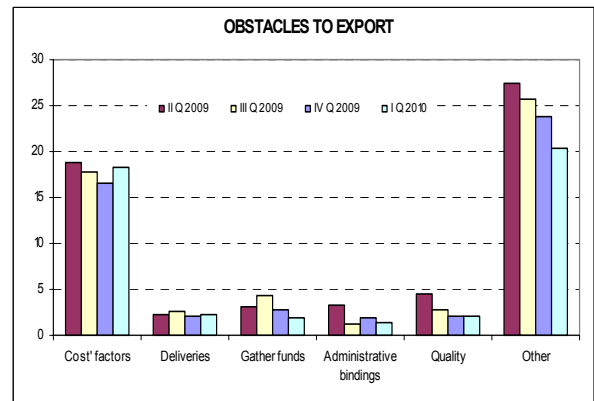
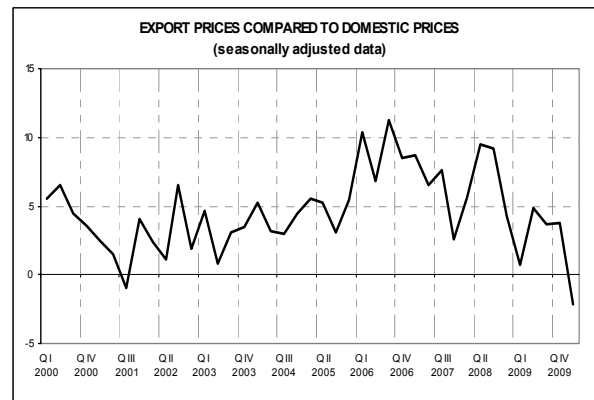
	Confidence climate	Order-book level	Inventories	Expectations on production
Dec. 2009	82.5	-41	-2	8
Jan. 2010	83.1	-40	-5	6
Feb. 2010	83.8	-38	-3	9
Mar. 2010	84.1	-38	-3	9



### The ISAE quarterly survey on exporting firms

In the first quarter of 2009, the traditional ISAE quarterly survey on exporting firms (for which exports accounted on average for about 36.6% of total sales, lower than the 37.8% share recorded in the previous survey) pointed to further recovery in respondents' assessments on present and future export turnover. The balance for the opinions on the current situation picked up one point (from -10 to -9), whereas the one for three-months forecasts hit 7, compared to 1 in the previous quarter. However, the export to domestic price ratio plunged (the related balance moved from 4 to -2, turning negative for the first time since 2001). Moreover, the share of surveyed firms reporting the existence of considerable obstacles limiting their export activity clearly diminished (from 42.7% to 40.6%). In particular, the fall distinguished firms signalling constraints deriving from "other factors" (from 24% to 20% of the sample) and from funding (from 24% to 20% of the sample) and from funding (from 3% to 2%). While the percentage of respondents mentioning costs and price factors increased instead (from 16.6% to 18.3% of the sample).

As in the previous quarter, a still high percentage of firms continued to consider Germany a major competitor in domestic and foreign markets (22% of firms, compared to 23% in December), while a significant share indicated China (21.5% from 23.1% in the previous survey). Lastly, among export markets, instead, growth characterized the proportion of smaller European countries (to 28% of total exports of surveyed firms) and non-European ones, other than the United States (17%).



## Regional breakdown of ISAE survey results

In March, virtual stability in confidence posted at the national level was the result of markedly contrasting trends across areas. In the North West and the Centre, the index increased, moving from 83.9 to 84.6 and from 85.3 to 87.8, respectively. Instead, confidence dropped in the North East and mostly in the *Mezzogiorno*, lowering from 81.4 to 79.1 and from 85.1 to 80.4.

### North West

Confidence of entrepreneurs in the North West improved slightly, mainly thanks to the recovery in foreign orders (the balance rose from -49 to -41) and to growth in production expectations (from 9 to 10). Inventories, instead, diminished less than in the previous month (from -9 to -7).

### North East

The opinions on the level of order books clearly worsened with regard to both the domestic component and, mostly, the foreign one (from -36 to -40 and from -36 to -42, respectively). Also production expectations diminished (from 5 to 2), while the level of inventories of finished products shrunk slightly (the balance moved from 0 to -2).

### Centre

In this area, the balance for the opinions on the level of order books recovered one point (from -33 to -32). However the balances for the domestic and foreign components worsened. Inventories clearly diminished (from 3 to -3) and short-term expectations for productive activity moderately improved (from 10 to 11).

### Mezzogiorno

Marked optimism characterized the opinions on foreign orders (the related balance rose from -46 to -31), whereas assessments on domestic orders worsened slightly (from -34 to -36). Marked restocking of inventories (from -3 to 8) came along with clear deterioration in short-term expectations for productive activity (from 11 to 5).

