



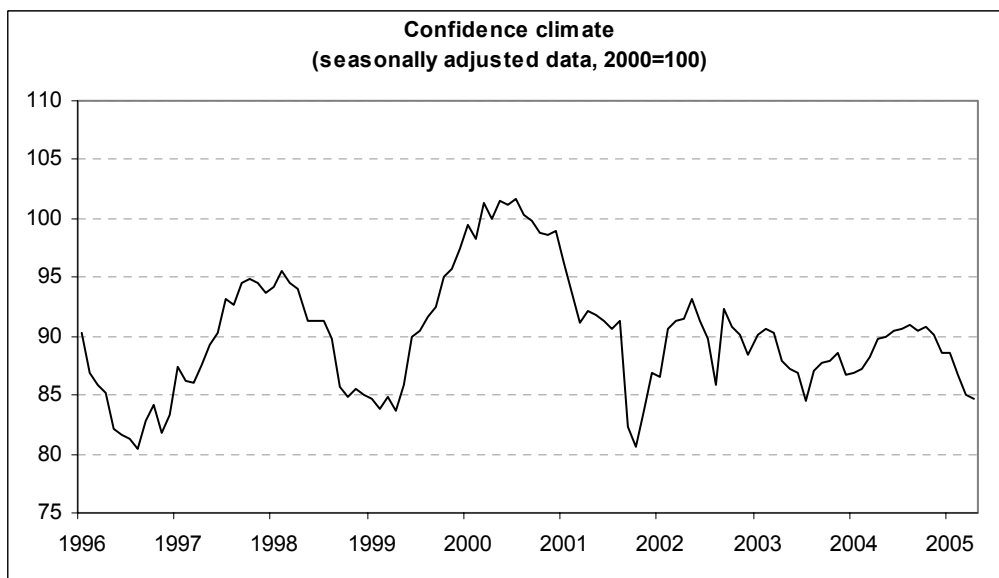
Date: April 28, 2005
TEL.: 06/444821

THE MANUFACTURING FIRMS' CONFIDENCE FALLS IN APRIL, GETTING CLOSE TO THE TROUGHS OF THE PAST TWO YEARS

- In April, the seasonally adjusted confidence index (base year 2000 = 100) decreases from 85.1 to 84.6, which is the lowest figure ever reached since July 2003. The contraction is mainly due to worsening expectations on order books: indeed, after the strong fall observed in March, expectations on production show some signals of recovery and inventories slightly fall
- Turning to single sectors, confidence is recovering in consumer goods, where the index grows from 88.5 to 90.7, but it clearly falls down in intermediate goods (from 83.4 to 81.4) and in investment goods (from 84.5 to 83.6)
- The order-book contraction is strong both on the domestic and on the foreign markets; besides, it is concentrated in investment and in intermediate goods, while signals of improvement emerge in consumer goods. Among non confidence-building variables, the current production variation is recovering, while a wide-spread and growing pessimism towards short-term prospects of the Italian economy is emerging

THE DEGREE OF INDUSTRIAL PLANT UTILISATION IS SUBSTANTIALLY STABLE IN THE FIRST QUARTER

- Partially contradictory indications come from the usual quarterly questions: indeed, the ensured production length and the industrial plant utilisation slightly grow, while the share of firms considering the present level of industrial capacity "more than sufficient" decreases
- On the other hand, the new order flow is diminishing, alongside with a contraction in the expected export volume and in worked hours and a rise in production constraints. Finally, raw materials inventories slightly decrease in the presence of considerable tensions in the international commodity trends



Data referring to May shall be diffused on May 25, 2005.

Next ISAE surveys are scheduled as follows:

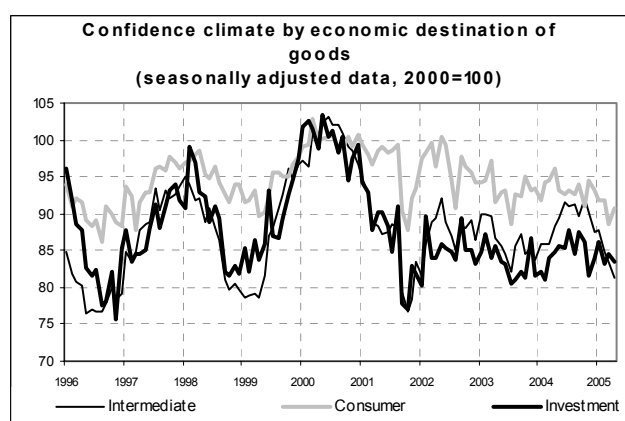
May 3, 2005: Comparative Business Surveys for Italy, Germany and France (Reference month: April)

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

General Results¹

According to the ISAE Monthly Survey carried out between April 1 and 18 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) decreases from 85.1 to 84.6, which is the lowest figure ever reached since July 2003. The contraction is mainly due to worsening expectations on the order-book level and on demand, which is only partially offset by the diminishing inventories and by the improved production expectations. Among non confidence-building variables, assessments on the current production variation are recovering, while short-term expectations on the Italian economic situation are definitely worsening. Turning to single sectors, confidence is recovering in consumer goods, where the index grows from 88.5 to 90.7, but it clearly falls in intermediate goods (from 83.4 to 81.4) and in investment goods (from 84.5 to 83.6).

Partially contradictory indications come from the usual quarterly questions: indeed, the ensured production length and the industrial plant utilisation slightly grow, while the share of firms considering the present level of industrial capacity "more than sufficient" decreases. Conversely, the new order flow is diminishing, alongside with a contraction in the expected export volume and in worked hours and a rise in obstacles to production.



Situation in the reference month (April 2005)

In April, the ISAE respondents provide definitely negative indications on order books (the balance passing from -22 to -25) with reference to both the domestic (from -25 to -28) and the foreign (from -25 to -27) markets. Conversely, the current production variation slightly improves (the balance rising from -3 to 1) and inventories diminish (from 11 to 10 in terms of balance). Finally, firms indicate that the available liquidity for operational needs is growing compared to March, and the balance passes from 29 to 30, though it is one of the lowest figure in the past few years.

Looking at single sectors, assessments are by no means homogeneous: indeed, consumer goods producers signal a small improvement in their order books (from -21 to -20), due to the marked foreign demand recovery (from -28 to -20). At the same time, improvements are observed in the production level (from -19 to -17) and variation (from -2 to -1), together with a substantial stability in inventories. Quite the reverse, in investment goods a clear demand worsening is emerging (the balance falling from -15 to -24), with a strong contraction both on the domestic and on the foreign markets (from -28 and -16 to -34 and -25 respectively). Also the production level is worsening in this sector (from -9 to -12), while the balance of its variation improves (from 1 to 4) and the one of inventories strongly diminishes (from 16 to 10). Even the situation of intermediate goods is negative: the order-book balance is decreasing from -24 to -28, particularly because of the negative foreign market trend (the balance passing from -22 to -32). Besides, a production level contraction is observed in this sector (from -20 to -19), offset by a strong rise in the production variation (passing from -9 to 3), within a framework characterised by growing inventories (going up to 12 after equalling 11 for three months in a row).

¹ All data are seasonally adjusted, unless indicated otherwise.

Forecasts for next quarter

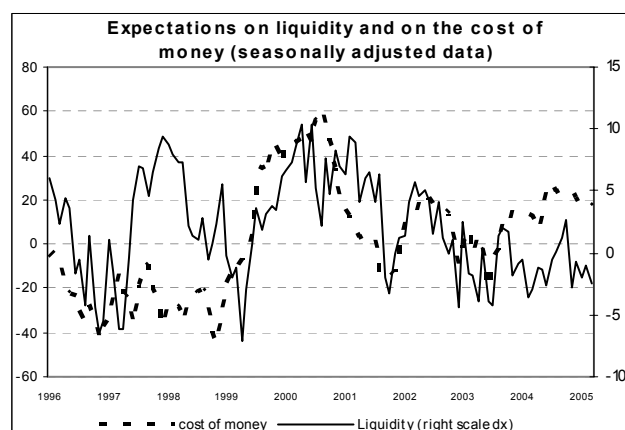
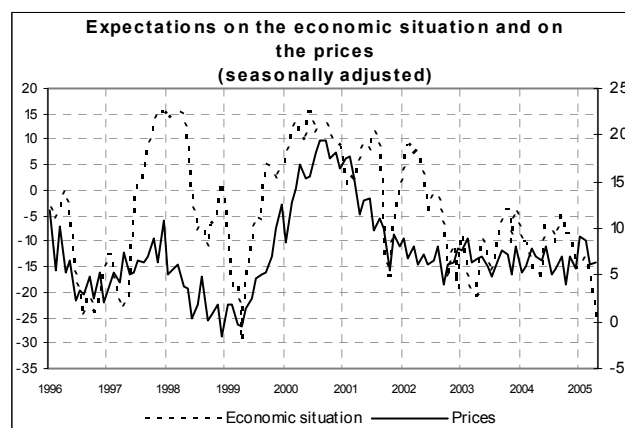
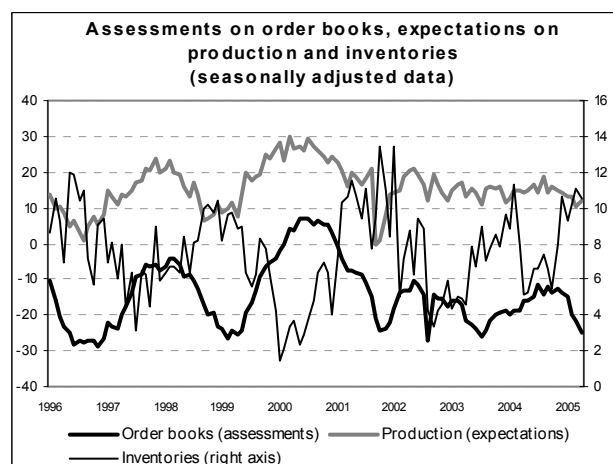
In April, the ISAE respondents are definitively more optimistic on their main firm variables, while they are much more pessimistic on the general economic trend. Indeed, a fall is expected in the available liquidity to meet operational needs, alongside with a rise in the cost of money.

The balances of order-book and production expectations increase from 11 and 10 to 16 and 12 respectively. Indeed, firms also expect an employment stability for the next few months (the raw balance equalling -2), alongside with selling price rises (the balance growing from 6 to 9). Expectations on liquidity fall from -3 to -5, while a rise is expected in the cost of money (the balance passing from 18 to 22). The general economic expectations for Italy are negative again and the balance deteriorates from -17 to -25, which is the lowest figure since April 1999.

Unlike what happens with evaluations on the current situation, forecasts are rather homogeneous in the various sectors: indeed, in investment goods, the balance referring to expectations on order books grows from 11 and 14, the one on production remains stable at 15, the one on prices grows from 10 to 14 and the one on the general economic prospects falls from -11 to -19. Indeed, entrepreneurs also expect an employment contraction (the raw balance going from 0 to -3), while the cost of money is supposed to rise from 21 to 29 (in terms of balance). In consumer goods, expectations improve more with reference to order books (from 9 to 19) and production (from 8 to 14). Expectations on the country's general economic situation worsen less than in other sectors (from -24 to -26), and in this area too the cost of money is expected to grow (from 18 to 27 in terms of balance). Expectations on order books grow in intermediate goods (from 9 to 14), while those on production fall from 11 to 9 and those on employment (from -3 to -4) and the general economic trend are worsening (from -16 to -27). Finally, expectations on growth of the selling prices slightly increase: the balance is 5 again, which is close to the minimum figures ever reached over the past 13 months.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Jan 2005	88.5	-15	9	13
Feb. 2005	86.6	-20	10	13
March 2005	85.1	-22	11	10
April 2005	84.6	-25	10	12



The main quarterly Survey results

(Q1 2005)

According to the traditional quarterly surveys referring to Q1 2005, the ISAE respondents provide partially contradictory information on the present situation and on the future prospects of production and demand. Indeed, the ensured production becomes longer (from 3.1 to 3.4 months), even though the new order books are diminishing (from 1 to -3 in terms of balance). Turning to plant utilisation, the current production level slightly grows (from 76.5 to 76.6%) and the number of worked hours diminish (the balance falling from -4 to -5), while the share of firms considering their present productive capacity level “more than sufficient” is decreasing, which usually means there will be further plant utilisation rises in the next few months. This goes alongside with growing production constraints (which are relevant for 45% of respondents, as against 41 in Q4 2004), due to a general growth of all obstacles, ranging from insufficient demand to lack of manpower, from insufficient plant to other reasons and financial constraints.

Finally, inventories of raw materials and semi-finished goods diminish (from -6 to -7 in terms of balance), while the (raw) balance referring to the competitive stand is improving: indeed, the recovery is more marked on non-EU markets (from -9 to -6 in terms of raw balance). The competitive position also improves on the domestic market (the raw balance passing from -1 to 2) and on the EU markets (from -3 to -2). However, for the next quarter, one would expect a further worsening in the export volume, the balance of which falls from 9 to 8.

