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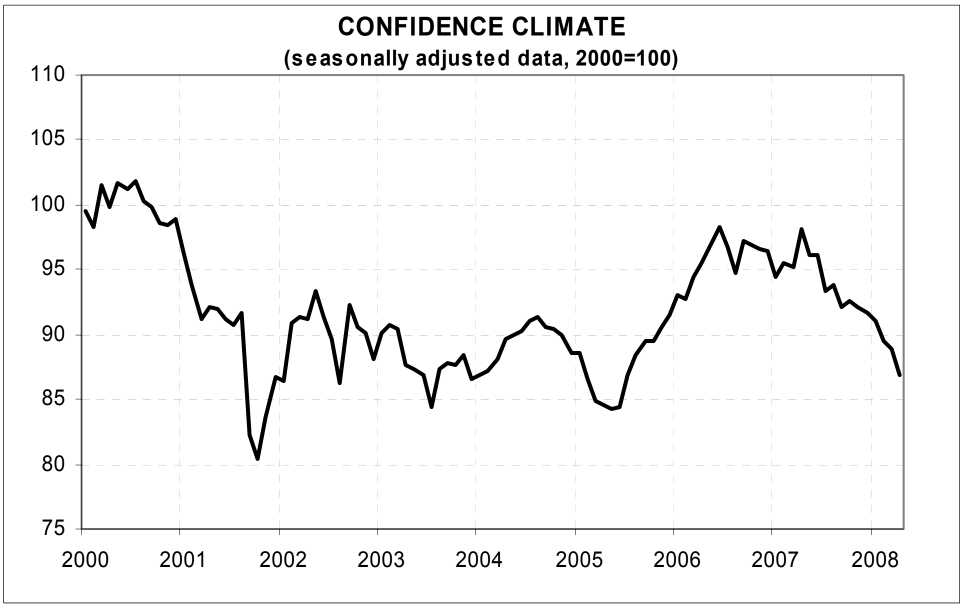
IN APRIL, MANUFACTURING FIRMS' CONFIDENCE EXTENDS ITS DOWNWARD PATH

- **The seasonally adjusted confidence index (2000=100) came in at 86.9, compared to 88.8 in the previous month, reaching its lowest reading since July 2005**
- **The fall was prompted by the decrease in the level of orders, which distinguished both domestic and foreign markets, the decline in production expectations, and the restocking of inventories**
- **Confidence worsened in all sectors, though at different rates: the decline was particularly sharp for investment goods (where the index lowered from 94.8 to 88.4) and more moderate for intermediate and consumer goods (from 85 to 84.2 and from 90.7 to 90.1, respectively)**
- **The indicator dropped in the North East, the Centre and the South, whereas it recovered slightly in the North West (mainly thanks to higher optimism about production prospects)**

IN THE 1Q 2008 INDUSTRIAL PLANT UTILIZATION CONTINUES TO DECREASE

- **The rate of operating capacity declined from 76.6 to 74.5. Accordingly, the number of work hours also diminished and the share of respondents considering their rate of capacity utilization "more than adequate" remained elevated**
- **Negative indications also came from the flow of new orders and from short-term expectations for the volume of exports. Obstacles to production due to insufficient demand and shortage of labour force increased and firms' competitive position deteriorated in both domestic and EU markets, as well as non-EU ones**
- **The length of production assured by current order books moderately heightened instead and inventories of raw materials and semi-finished products edged down slightly**



Data on May shall be released on May 27, 2008
The next ISAE surveys are scheduled as follows:
April 29: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: April), ISAE Monthly Business Services Survey (reference period: April) and ISAE Monthly Survey on Construction (reference period: March)*
May 6: *ISAE International Comparison of Consumer and Business Surveys (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)

General results

The ISAE Survey, carried out on a panel of about 4000 firms between April 1 and April 20, pointed to a new decline in the confidence index of manufacturing and mining firms. In April, the indicator lowered from 88.8, in the previous month, to 86.9, its lowest reading since July 2005. The fall was due to the decrease in the level of orders, which distinguished both domestic and foreign markets, the decline in production expectations, and the restocking of inventories.

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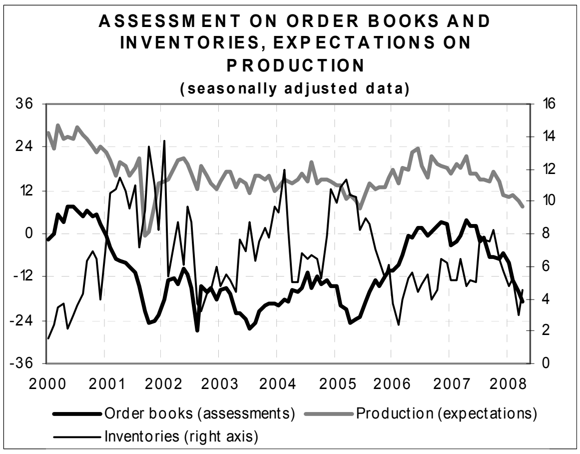
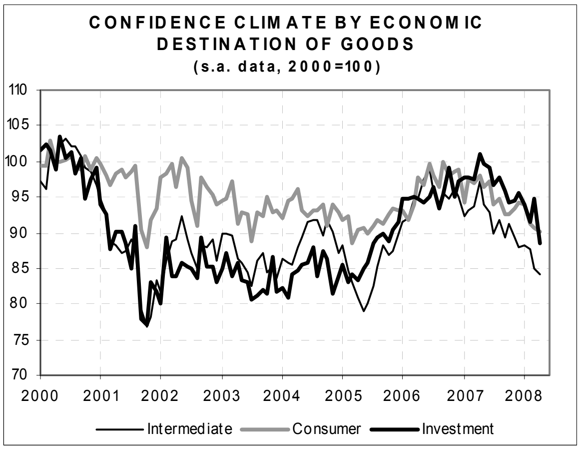
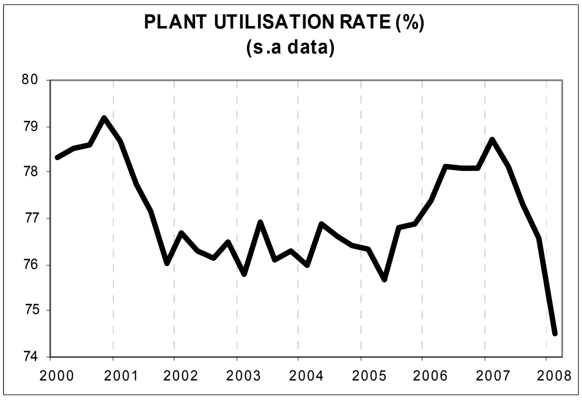
On a regional basis, the indicator dropped in the North East, the Centre and the South, whereas it recovered somewhat in the North West, mainly thanks to higher optimism about production prospects.

The traditional ISAE quarterly survey on manufacturing firms' operating capacity showed that, in the first quarter of 2008, the rate of plant utilization declined from 76.6 to 74.5. Accordingly, the number of work hours also diminished and the share of respondents considering their capacity utilization rate "more than adequate" remained elevated. Negative indications also came from the flow of new orders and from short-term expectations for the volume of exports. Obstacles to production due to insufficient demand and shortage of labour force also increased. Furthermore, firms' competitive position, in both domestic and EU markets, as well as non-EU ones, deteriorated. The length of production assured by current order books moderately heightened instead and inventories of raw materials and semi-finished products edged down slightly.



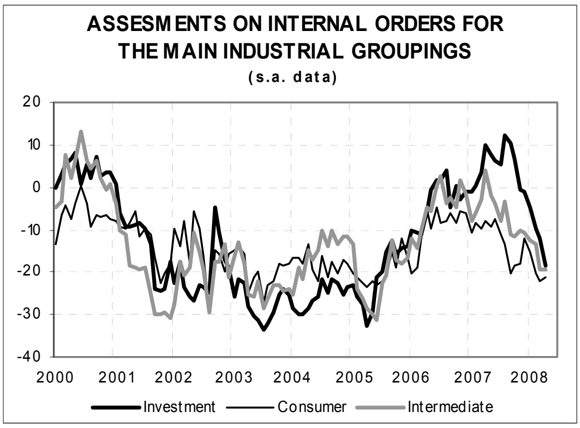


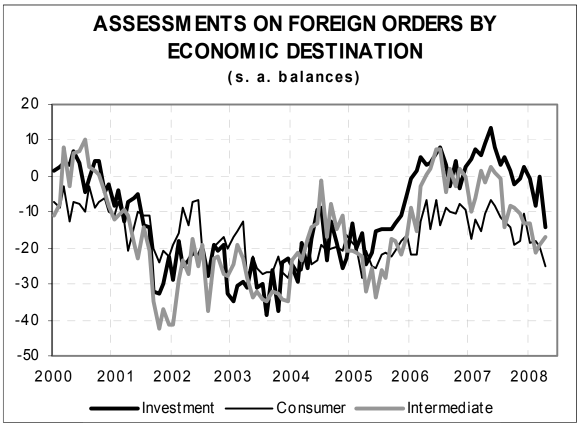


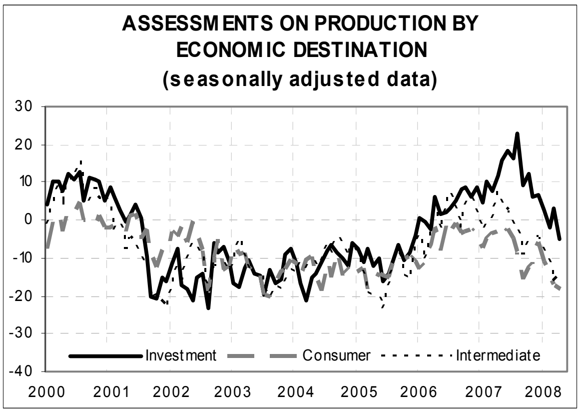
Situation in the reference period (April 2008)

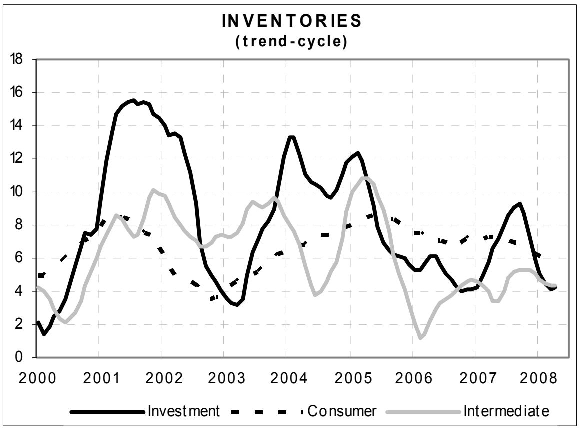
In April, firms' evaluation of all main company variables worsened with respect to the previous month. The balance for the opinions on orders decreased to -19 (from -16 in March): domestic and foreign demand lowered respectively from -18 to -20 and from -17 to -20. A fall also characterized the level of production (from -12 to -14, the lowest reading since July 2005) and company liquidity (from 33 to 27). Inventories started to build up once more (from 3 to 5).

The worsening in confidence about the current situation distinguished all sectors. For investment goods, opinions on orders plunged, moving from 1 to -13 (from -12 to -18 for domestic orders and from 0 to -14 foreign ones). Assessments on the level of production and company liquidity also deteriorated (from 3 to -5 and from 43 to 35, respectively) and inventories increased (from 0 to 6). In the consumer goods sector, assessments on orders held steady (at -21), due to virtual stability for the domestic component (the balance moved from -22 to -21) and to a fall in orders from abroad (from -20 to -25). Furthermore, the level of production and company liquidity declined (from -17 to -18 and from 25 to 23), whereas inventories remained unchanged (at 5). For intermediate goods, opinions on orders inched down (from -19 to -20), mirroring basic stability for domestic demand (at -19) and a slight recovery in the foreign component (from -19 to -17). Also the level of production improved (from -16 to -15), but inventories built up (from 4 to 5) and the opinions on company liquidity deteriorated (from 33 to 27).









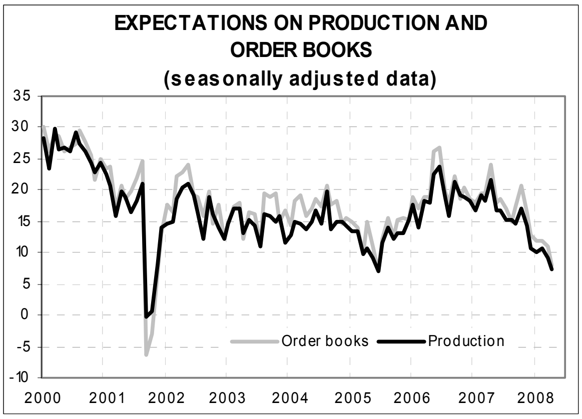
Outlook for the following three months

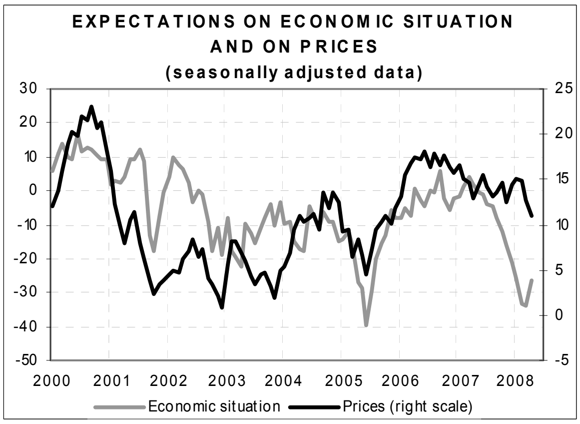
In April, short-term prospects for orders and production worsened with respect to the previous survey. Instead, forecasts for employment remained unchanged, while those for the country's economic situation improved markedly. The balance related to expectations for orders actually lowered from 11 to 8, and the one for production went down from 9 to 7. The balance for selling price prospects lowered (from 13 to 11) and the one related to the country's general economic situation surged from -34 to -26, returning to its January level. Lastly, employment prospects stabilized (at -2).

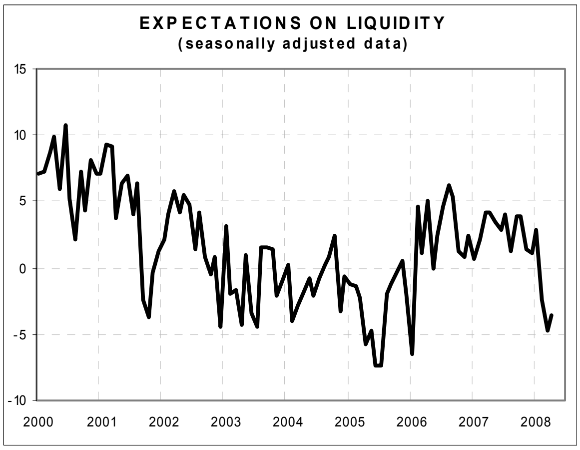
At the sector level, forecasts were rather homogenous: for investment goods, prospects for demand, production and company liquidity declined moderately (the balances lowered from 18 to 11, from 17 to 16, and from 4 to 3, respectively), whereas forecasts for prices, employment and mainly the general economic situation improved (in the order, from 14 to 12, from 6 to 8, and from -30 to -21). In the consumer goods sector, expectations for orders and liquidity remained stable (at 12 and 1), whereas those for production and employment worsened (from 12 to 10 and from -4 to -5). An improvement characterized instead prospects for selling prices (from 12 to 10) and mostly those for the country's overall economic situation (from -37 to -24). Lastly, in the intermediate goods sector, expectations for orders, production, employment and liquidity worsened (from 7 to 4, from 4 to 3, from -4 to -5, and from -7 to -5, respectively). Instead, price prospects slightly bettered (from 13 to 12), and those for the general economic situation showed even grater improvement (from -36 to -24).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Jan. 2008	91.1	-8	5	10
Feb. 2008	89.5	-13	5	11
Mar. 2008	88.8	-16	3	9
Apr. 2008	86.9	-19	5	7



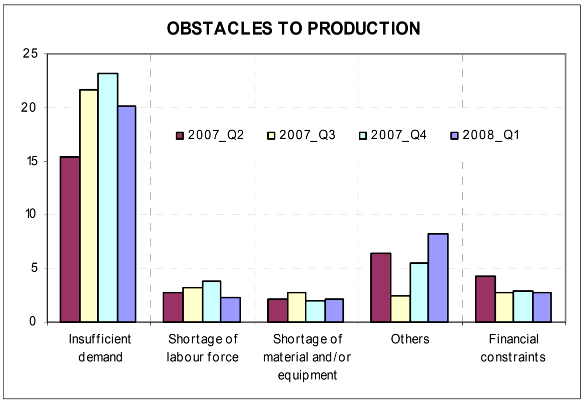


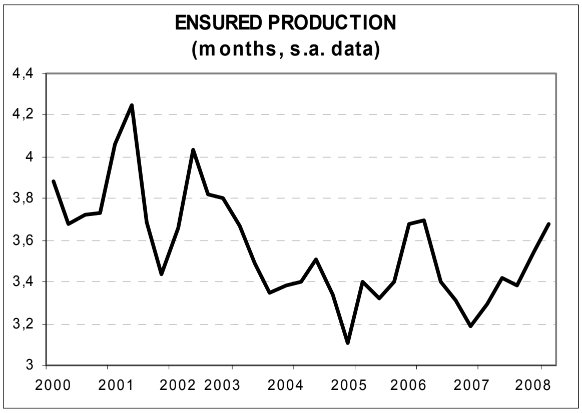


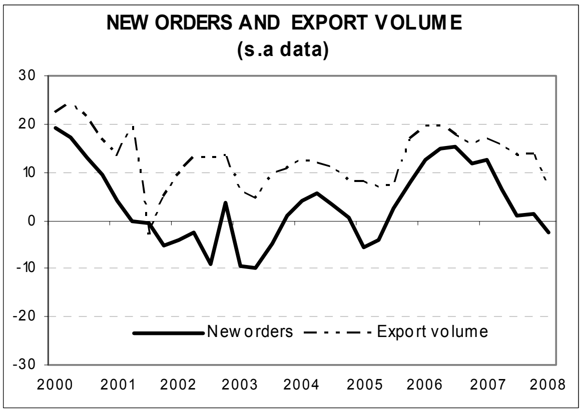
Main quarterly survey results (first quarter 2008)

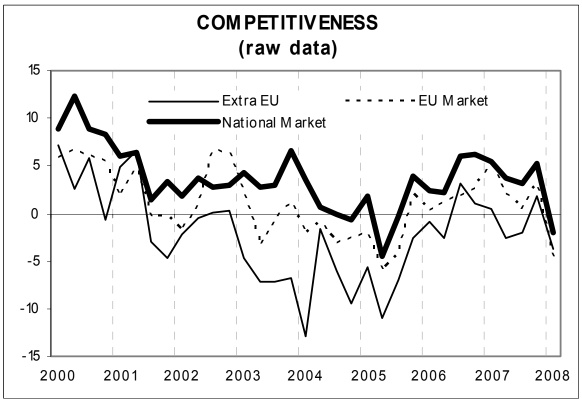
According to the traditional ISAE quarterly survey on operating capacity, in the first quarter of 2008, the manufacturing firms' capacity utilization rate continued to decline, moving from 76.6%, in the previous quarter, to 74.5%, its lowest level since the second quarter of 1994. On the other hand, the share of firms considering capacity utilization to be "more than enough", according to the level of their order books and to demand prospects, remained elevated. Negative indications also came from the trend in the number of work hours (the balance went from 0 to -3, back in negative territory for the first time since the second quarter of 2005), the flow on new orders (the balance lowered from 1 to -2), and expectations for the volume of exports (down from 14 to 7). Furthermore, with regard to factors limiting production, the share of firms detecting obstacles related to insufficient demand and shortage of labour force increased (from 20% to 23% and from 2% to 3%, respectively). The proportion of firms signalling shortage of equipment and financial constraints remained unchanged (at 2% and 3%), whereas the share of respondents mentioning "other factors" declined (to 6% of the sample, from 8% in the previous quarter). Firms also perceived a worsening in their competitive position in both domestic (the balance lowered from 5 to -2) and EU markets (from 3 to -5), as well as non-EU ones (from 2 to -4).

In contrast, the length of production assured by the level of current orders increased slightly (from 3.5 to 3.7 months) and the balance for inventories of raw materials and semi-finished products moderately improved (from -8 to -7).









Regional breakdown of ISAE survey results

The fall in confidence recorded at the national level characterized all areas but the North West. The confidence index declined from 87.3 to 84.3 in the North East, from 92.4 to 87.9 in the Centre, and from 92.8 to 87.2 in the *Mezzogiorno*. In the North West confidence recovered, instead, from 88 to 88.8. In particular, the opinions on demand and on inventories of finished products worsened in the North East, the Centre and the South, but remained virtually stable in the North West. Production expectations sent instead contrasting signals. Lastly, the rate of capacity utilization lowered all over the country.

North West

In April, the confidence climate improved somewhat thanks to the recovery in the opinions on the level of demand (which characterized only the domestic market) and to higher optimism about production prospects. Inventories of finished products remained stable, instead. On the other hand, plant utilization declined.

North East

In this area, deterioration in confidence was basically due to the worsening in demand (which distinguished only the domestic market) and to the fall, for the third consecutive month, in production expectations. In addition, entrepreneurs recorded a new restocking of inventories of finished products. Also in this case, operating capacity diminished.

Centre

Confidence worsened for a third month in a row, prompted by the sharp deteriorated in the evaluation of demand (both domestic and foreign) and production expectations (which declined to the lowest level since 1996), and by a new restocking of inventories. Lastly, plant utilization diminished slightly compared to the previous quarter.

Mezzogiorno

Confidence slumped, reaching the lowest reading since September 1996. The opinion on orders (in domestic and, mostly, foreign markets) deteriorated, and inventories started to build up once more. Production expectations sent negative signals as well. Finally, also in this case, the rate of capacity utilization decreased.