

Date: April 28, 2009

IN APRIL MANUFACTURING FIRMS' CONFIDENCE SHOWS SIGNS OF RECOVERY

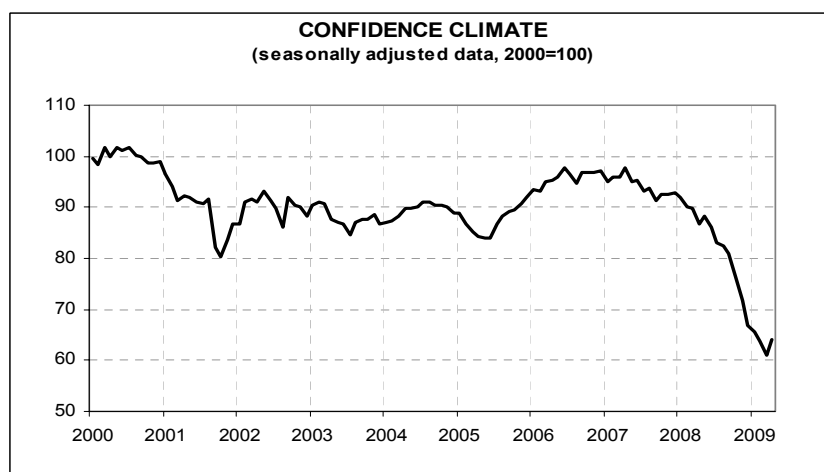
- The seasonally adjusted confidence index (2000=100) rose to 64.2 from 60.9 in the previous month, returning above the value posted last February
- The improvement mainly characterized the opinions on both orders and inventories and, above all, short-term production expectations
- Firms gave positive assessments also on the current level of production and made less negative forecasts for orders and employment
- The improvement in confidence was broadly dispersed across both sectors and regions, though at different rates
- Optimism mainly distinguished producers of intermediate goods (the balance rose from 55.2 to 60.7), who generally anticipate the overall industrial trend. Confidence also bettered in the investment and the consumer goods sectors (from 57.4 to 60 and from 72.2 to 74.4, respectively)
- At the regional level, recovery in confidence was particularly strong in the North East (from 56.8 to 63.8). Firms in the North West, the Centre and the *Mezzogiorno* were instead more cautious (the related indicator moved from 58.1 to 61.4, from 68.2 to 71.6, and from 70.3 to 72.6)
- The opinions on credit access conditions improved. The share of firms which failed to obtain credit remained instead stable, due to an increase in the number of firms which received explicit denial by banks ("harsh" rationing) and a decline in firms' rejection of too onerous credit terms

IN THE 1Q 2009 INDUSTRIAL PLANT UTILIZATION CONTINUES TO DECREASE

- Entrepreneurs recorded additional production difficulties due to insufficient demand
- Assessments on the flow of new orders, export turnover and the length of assured production improved instead slightly

FOR 2009 FIRMS ANTICIPATE A CUT IN INVESTMENT SPENDING

- Firms of the ISAE panel, which actually implemented or planned investment activity in the 2007-2009 three-year period, finally reported a rise in capital spending for 2008
- However, the same firms predicted a sharp fall for 2009



Data on May shall be released on May 28, 2009

The next ISAE surveys are scheduled as follows:

May 27, 2009: ISAE Monthly Consumer Survey (reference period: May)

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)

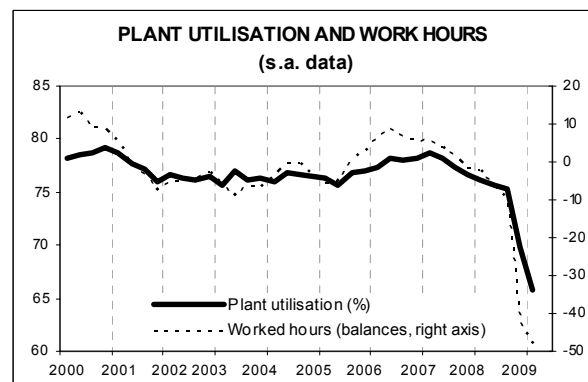
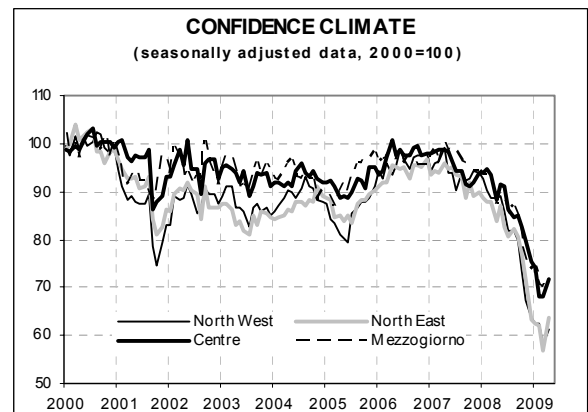
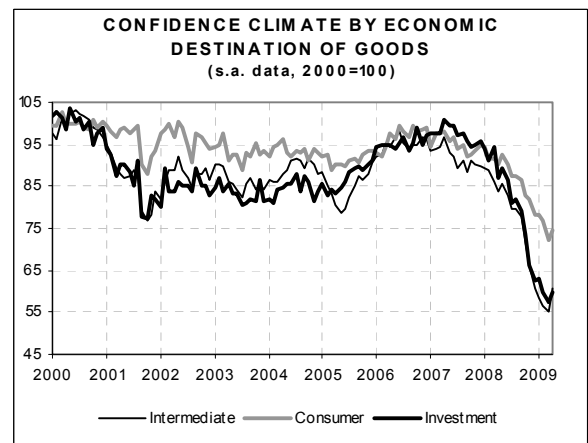
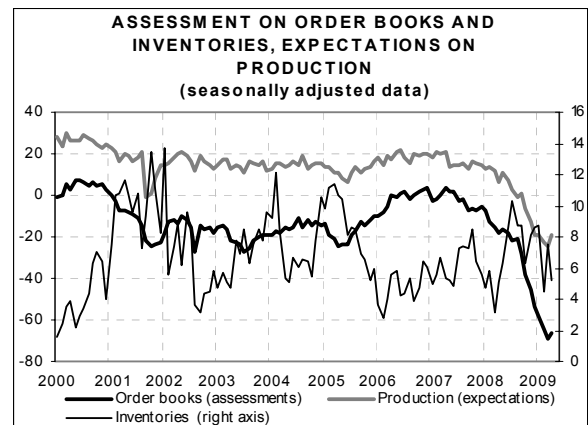
General results

According to the ISAE Survey carried out between April 1 and April 20 on a panel of about 4,000 firms, the confidence climate of manufacturing and mining firms improved in April, reaching 64.2, from 60.9 in the previous month, and returning above the value posted last February. Firms were less pessimistic about current orders and production and, above all, about output expectations. Moreover, the de-stocking of inventories continued. Pessimism eased in all main productive sectors, though at different rates. Confidence mostly increased for intermediate goods (the index rose to 60.7 from 55.2), but also for investment and consumer goods (to 60.0 from 57.4 and to 74.4 from 72.2).

Confidence improved all over the country, even if some differences emerged at the regional level. Optimism was higher in the North East than in the other areas. In this region, the indicator rose seven points over the previous month (from 56.8 to 63.8), compared to three points in the North West and the Centre (from 58.1 to 61.4 and from 68.2 to 71.6, respectively). In the *Mezzogiorno*, instead, firms were more cautious: the index moved from 70.3 to 72.6.

In April, entrepreneurs' opinions on credit access conditions improved. The share of firms that considered enduring credit rationing remained instead unchanged, with a rise in those stating that they suffered "harsh" rationing and a decline in the number of those that refused funding because of too onerous credit terms.

The traditional ISAE quarterly survey on operating capacity gave partly contrasting indications. In the first quarter of 2009, manufacturing firms actually continued to cut capacity utilization and signalled greater production difficulties. Assessments on the flow of new orders, export turnover and the length of assured production moderately improved instead.

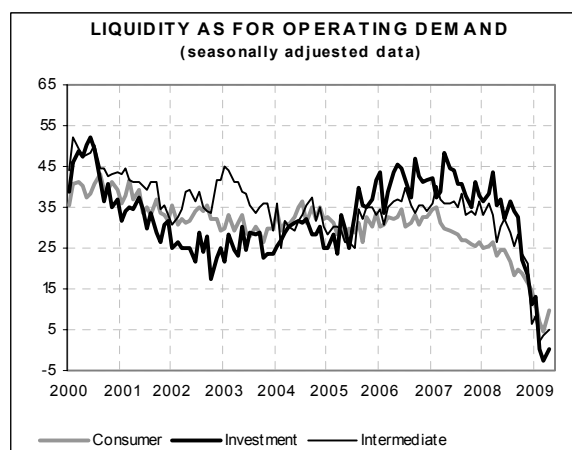
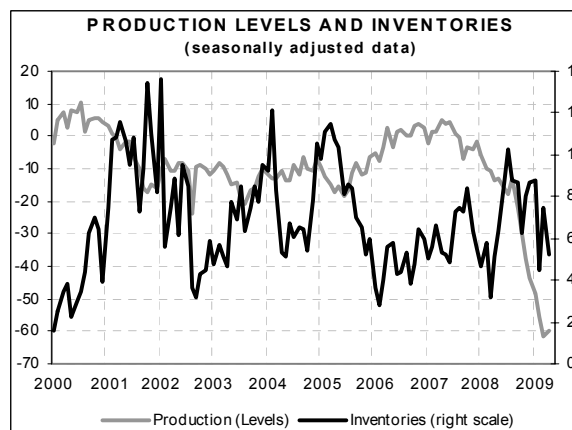
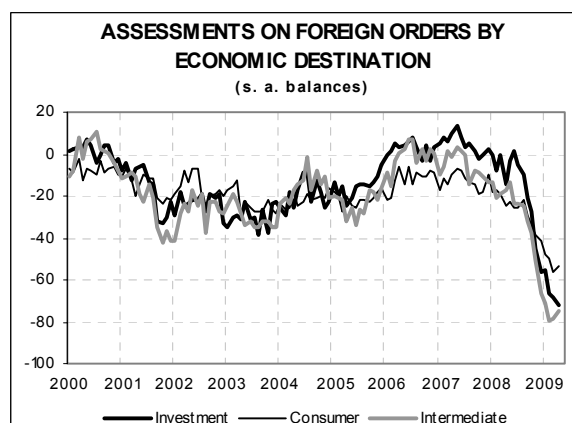
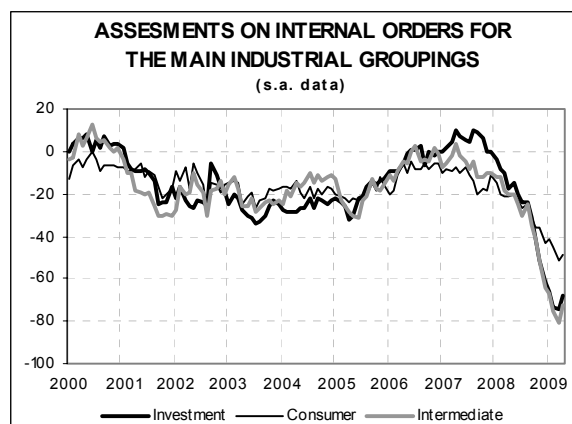


Situation in the reference period (April 2009)

In April, firms gave a more confident appraisal of all main company variables compared to the previous month. The balance for the opinions on orders reached -66 (from -69 in March). The balances related to both domestic and foreign demand increased (from -69 to -64 and from -71 to -68, respectively). Improvement also distinguished the opinions on the level of production and company liquidity (the balance rose from -62 to -60 and from 3 to 5), although they remained close to the lows posted during the first quarter. Moreover, firms recorded a de-stocking of inventories (from 7 to 5), which returned below their long term average.

The improvement in the current situation was widely spread across main productive sectors, but characterized mainly the intermediate goods one, which often anticipates the overall manufacturing trend. In detail, producers of investment goods recorded a rise in orders and in total demand. The balance increased four points with respect to March (from -73 to -69), due to a sharp recovery in domestic demand (from -75 to -68) and to a further worsening in the foreign one (from -69 to -72). Firms' evaluation of the level of production declined slightly (from -62 to -64), while assessments on liquidity improved (from -2 to 0). The opinions on inventories gave slightly positive indications (the balance lowered from 8 to 7). Optimism also characterized producers of consumer goods. In this sector, the evaluation of orders improved three points over the previous month, showing a rise in both the domestic and the foreign components (from -52 to -49 and from -56 to -54, respectively). Also assessments on the level of production and company liquidity recovered (from -43 to -42 and from 5 to 10), while inventories diminished (from 7 to 6). In the intermediate goods sector, the opinions on orders increased four points (from -79 to -75), mirroring a sharp increase in the domestic component (from -81 to -73) and a substantial recovery in the foreign one (from -79 to -74). Also the evaluation of the level of production and of company liquidity stepped up (from

-75 to -71 and from 3 to 5, respectively). Lastly, inventories diminished markedly (from 6 to 2).



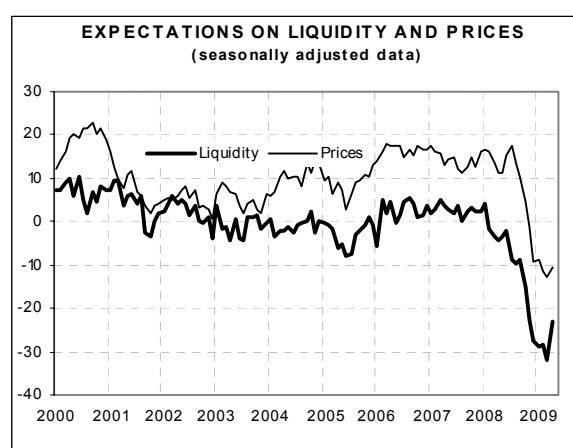
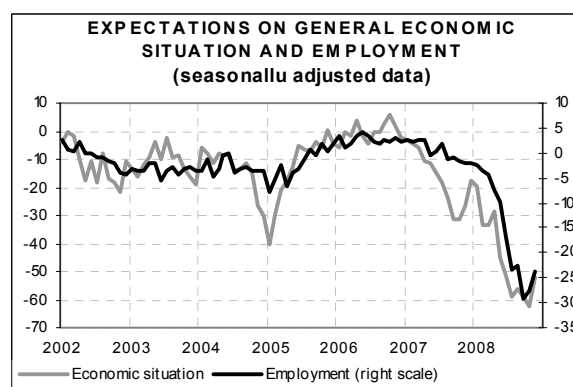
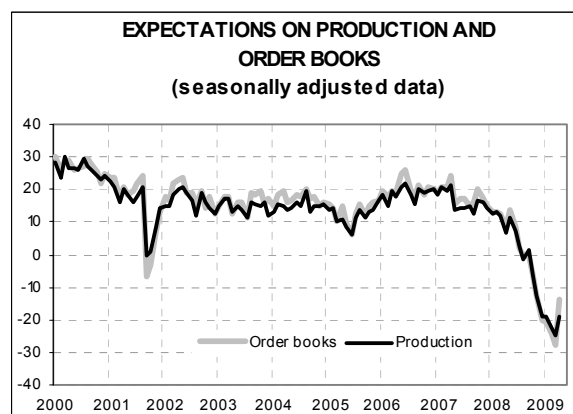
Outlook for the following three months

In April, short-term forecasts for orders and production were decidedly more optimistic than in the previous survey. Also employment prospects and, even more so, expectations for the country's economic situation improved. The balance for production expectations moved from -25 to -19, the one for orders from -28 to -14, and the one for employment from -28 to -24, returning, in all three cases, to their 2008 year-end level. Also predictions on the country's general economic situation clearly recovered (from -62 to -52, the level posted in November 2008). As for selling price inflationary pressures, the balance declined from -13 to -11.

The trend was rather mixed across sectors. Producers of consumer goods were more cautious than in the other sectors. In detail, for investment goods, expectations for demand and the general economic situation markedly increased (from -33 to -15 and from -67 to -50, respectively). Firms in this sector were less pessimistic also about trends in production (from -26 to -22) and in company liquidity (from -34 to -26). Moreover, entrepreneurs expected a modest improvement in employment levels (from -23 to -22) and in price prospects (from -11 to -10). For producers of consumer goods, forecasts for orders, production, liquidity and employment were more positive (the related balances rose, in the order, from -13 to -9, from -13 to -11, from -20 to -14, and from -24 to -20). Prospects for the country's economic situation posted a strong improvement (from -64 to -46). Forecasts for selling prices remained instead unchanged (at -1). Lastly, also expectations of producers of intermediate goods noticeably bettered. Positive indications came from production (from -32 to -23), employment (from -33 to -28), prices (from -20 to -18) and company liquidity (from -29 to -25). Also expectations for orders and the general economic situation rapidly picked up (from -33 to -22 and from -68 to -51, respectively).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Jan. 2009	65,6	-58	9	-19
Feb. 2009	63,9	-64	5	-23
Mar. 2009	60,9	-69	7	-25
Apr. 2009	64,2	-66	5	-19

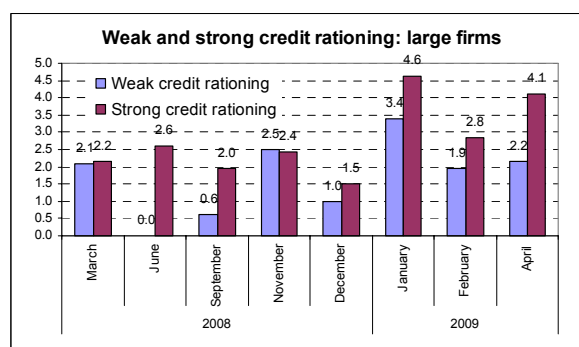
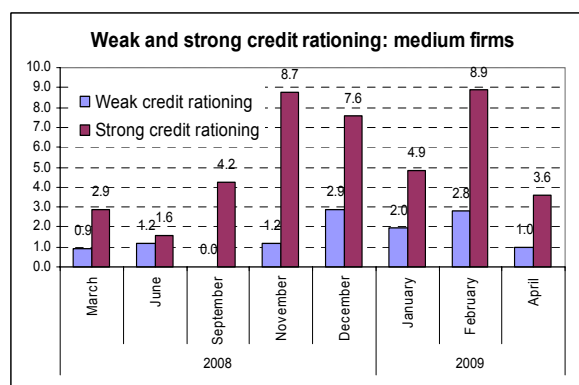
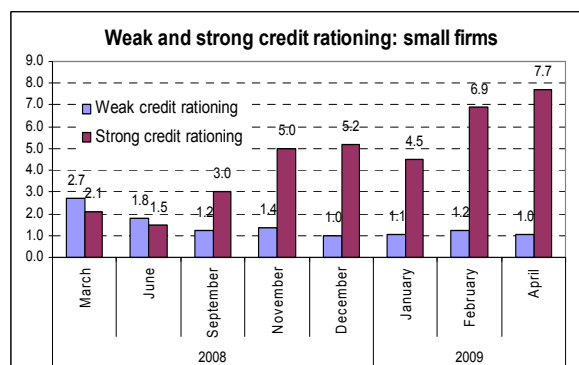
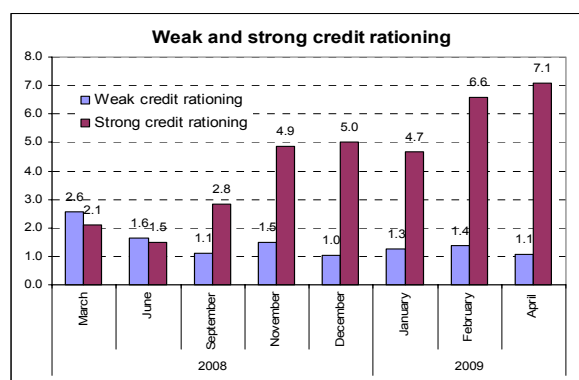


Credit access conditions

In April, firms' opinions on credit access conditions improved. The share of firms considering deterioration for credit availability declined from 40.2% to 33.6% of the sample. The fall was particularly sharp for small firms (from 41.4% to 33.2%) and medium-sized ones (from 46.6% to 37.9%). At the regional level, mainly firms in the North West and the North East experienced more favourable credit terms.

However, the percentage of firms which in the last months obtained credit remained virtually unchanged (22.5% of the sample, compared to 22.6% in February). Moreover, the proportion of credit rationed firms slightly increased (from 8% to 8.2%). Rationing continued to affect mainly small firms. The share of medium-sized firms which did not obtain credit declined instead, while the percentage of large firms increased. At the regional level, firms which failed to obtain credit were mainly in the North West (9.6%, compared to 8.5% in February) and in the *Mezzogiorno* (8.5% of the sample, largely above the 6.6% posted in February).

The failure to obtain bank credit was increasingly caused by explicit denial by banks (7.1%). In particular, financial institutions lowered lending mainly to small-sized firms (7.7% of small firms considered they endured "harsh" rationing) and to those in the *Mezzogiorno* (7.5%). Lastly, the share of firms which rejected funding because of too onerous credit terms ("soft" rationing) declined from 1.4% to 1.1%. In this case, firms refusing excessively costly conditions were mainly medium-sized ones, with no significant territorial differences.



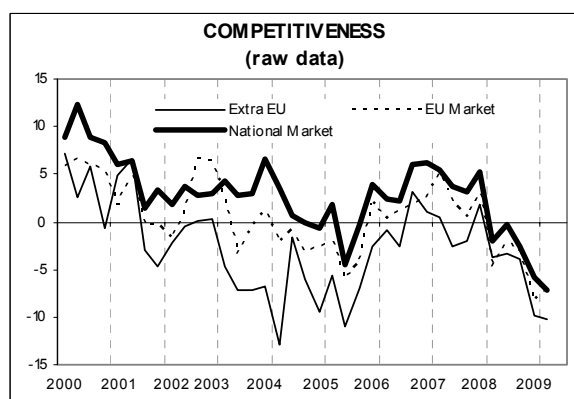
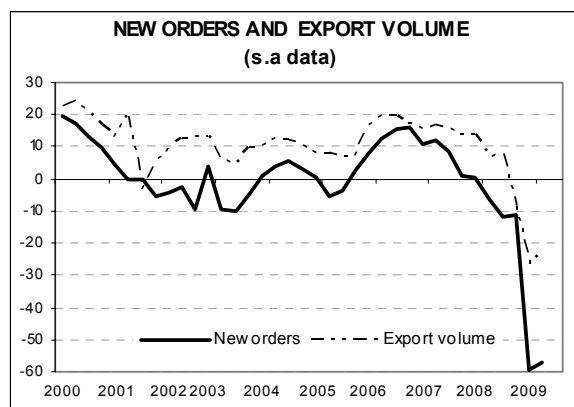
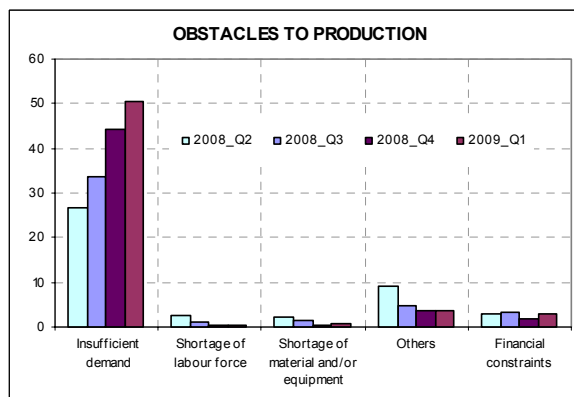
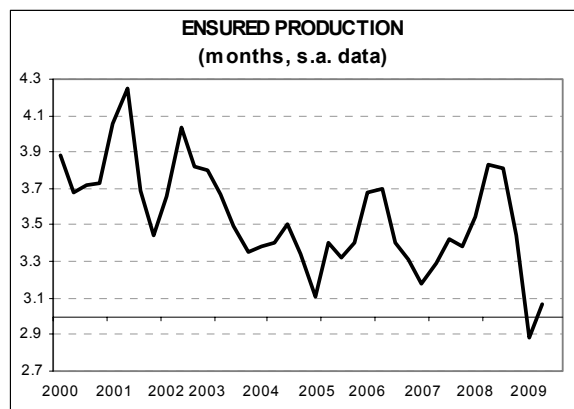
Main quarterly operating capacity survey results (first quarter 2009)

The traditional ISAE quarterly survey on operating capacity gave partly contrasting indications. In the first quarter of 2009, manufacturing firms continued to cut capacity utilization and signalled greater production difficulties. Assessments on the flow of new orders, export turnover and the length of assured production slightly improved instead. More in detail, operating rates declined further, moving from 69.9% to 65.8%. Accordingly, also the number of hours actually worked diminished (the related balance lowered from -42 to -48). The share of firms believing that the level of capacity utilization was “more than enough” increased further (the balance rose from 39 to 44). Lastly, the proportion of firms considering insufficient demand an obstacle to production increased (from 44% to 50% of the sample).

However, after the fall recorded at the end of 2008, a slight improvement distinguished the opinions on the flow of new orders (from -59 to -57) and the length of production assured by order books (from 2.9 to 3.1 months). Expectations for the volume of exports also recovered (from -26 to -23), in the presence of virtual stability for the competitive position in both the domestic market (from -6 to -7) and in the EU (from -8 to -7) and non-EU ones (steady at -10). Lastly, inventories of raw materials and semi-finished products diminished (from -11 to -13).

Regional breakdown of ISAE survey results

In April, the improvement in confidence posted at the national level was widely spread across the country, but showed more optimism in the North East, where the index jumped from 56.8 to 63.8. Firms in the North West, the Centre and the *Mezzogiorno* were instead more cautious (the related indices moved from 58.1 to 61.4, from 68.2 to 71.6, and from 70.3 to 72.6, respectively). The opinions on overall demand mostly improved, whereas those on foreign demand, production and inventories of finished products sent contrasting signals. Prospects for the economy



recorded geographic differences. Forecasts moderately declined in the *Mezzogiorno*, but markedly bettered in the other areas. Lastly, the rate of plant utilization fell all over the country.

North West

In this area, confidence rose from 58.1 to 61.4, due to the improvement in the opinions on orders (from -76 to -73 for overall demand and from -77 to -68 for the domestic component) and to a moderate de-stocking of inventories (from 4 to 3). Some signs of recovery also came from production expectations (from -30 to -24). However, in the first quarter of 2009, the rate of operating capacity lowered (from 70.4% to 66.9%).

North East

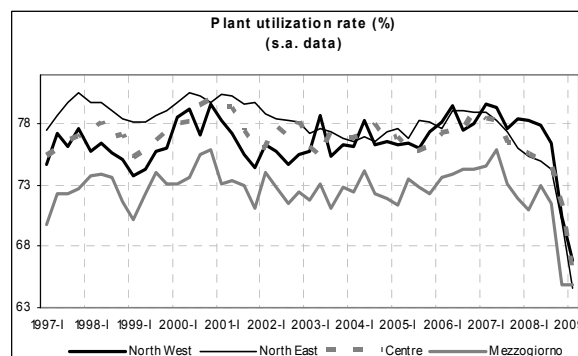
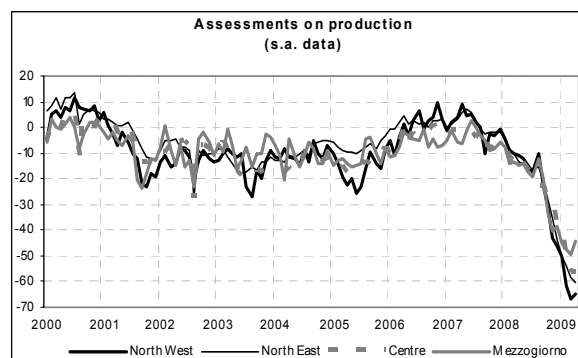
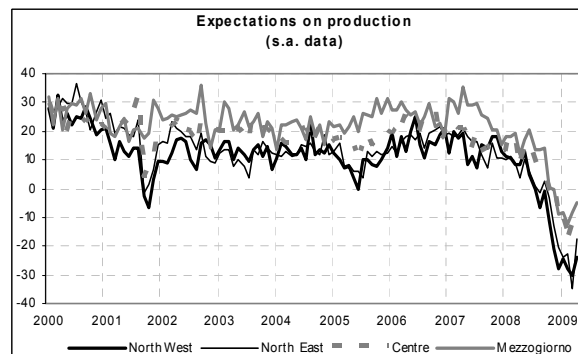
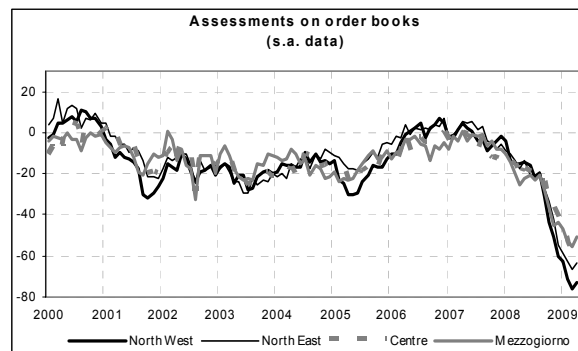
The confidence index showed signs of recovery thanks to the upturn in the opinions on demand and to the fall in the level of inventories (from 10 to 7). Expectations for orders and production were less unfavourable (the balance rose from -33 to -16 and from -35 to -17). In the first quarter, the rate of plant utilization fell instead (from 70% to 64.5%).

Centre

The confidence index increased from 68.2 to 71.6, mainly because of an improvement in the opinions on orders (both domestic and foreign) and in production expectations (from -16 to -11). Also in this area, the share of entrepreneurs considering a decline in inventories rose (the balance moved from 7 to 1). Lastly, the rate of operating capacity edged down compared to the previous quarter (from 71.2% to 65.9%).

Mezzogiorno

The recovery in confidence stemmed from the sharp improvement in the opinions on orders and on domestic demand (from -57 to -44) and from a moderate rise in production expectations (from -9 to -5). Inventories, instead, continued to accumulate. Moreover, in this area capacity utilization remained unchanged with respect to the previous quarter (at 64.8%).



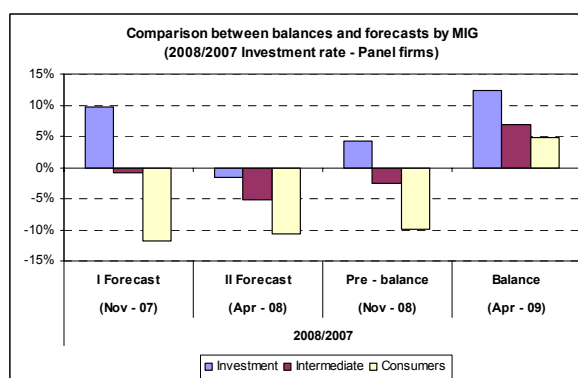
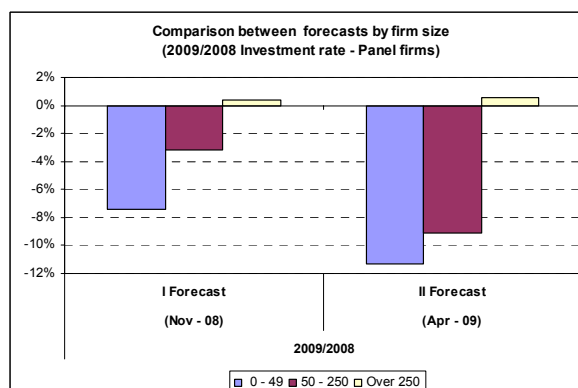
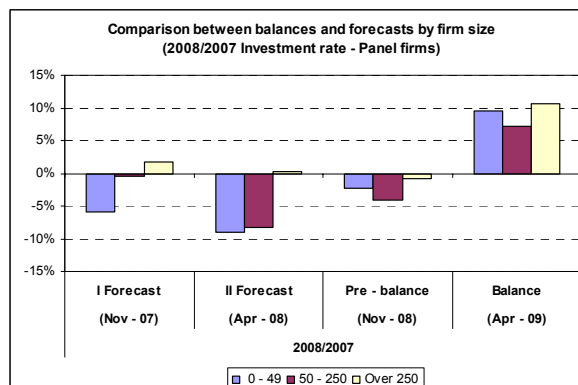
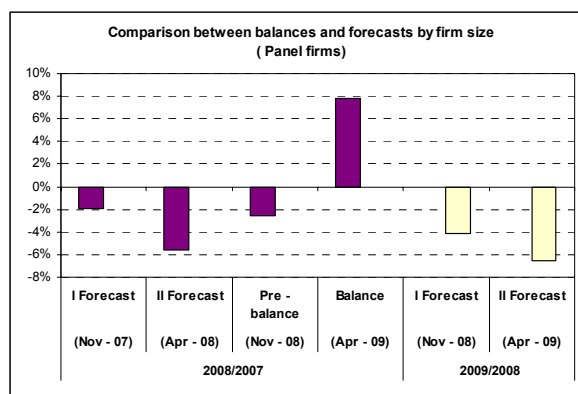
ISAE twice-yearly investment survey: comparison between forecasts and final outcome for 2008

In April 2009, ISAE carried out its traditional bi-annual investment survey on manufacturing and mining firms, that involved only firms which actually implemented or planned investment activity in the 2007-2009 three-year period. Out of the 4,000 firms covered by the regular ISAE monthly manufacturing survey, 2,500 replied to the spring 2009 investment survey.

Results regarding only the 1,200 companies which consecutively answered to all the recent surveys show that over the last 18 months firms have constantly upgraded their nominal growth estimates of capital spending for 2008, in line with what occurred in recent years. Indeed entrepreneurs seem to have the tendency to initially make cautious advance estimates, which are subsequently revised upward in their final appraisal.

In detail, in November 2007, firms started expecting a fall in capital expenditures of -2%. They revised their forecast downward in March 2008 (-5.6%), but partially upgraded it in November (-2.6%). They ended up making a final estimate for nominal investment growth in 2008 of 7.7%. Such variations characterized all size groups and all main industrial sectors.

In particular, revisions were particularly marked for sample firms with 10-50 employees (from -5.8% to 9.6%) and for producers of consumer goods (from -11.8% to 4.8%). Furthermore, it is worth mentioning that large firms and producers of investment goods have provided positive rates of growth in three out of the four last consecutive surveys.



ISAE twice-yearly investment survey: forecasts for 2009

Widespread pessimism distinguished forecasts for 2009, according to the panel of about 1,300 firms which responded to the last two surveys. On the whole, firms anticipated a fall in investment spending of -4.1% in November 2008 and pared it back further to -6.6% in April 2009. The result largely derived from the negative indications of small enterprises (-7.4% in November and -11.3% at present) and medium-sized ones (from -3.2% to -9%). Firms with more than 250 employees, instead, did not make significant changes in capital expenditure forecasts, keeping their rates slightly positive (0.4% and 0.5% respectively). The industry breakdown of data showed that downgrading characterized all sectors. Producers of investment goods revised their rate downward from 0.02% in November 2008 to -3.9% in April 2009. For consumer and intermediate goods, the rate declined from -8% to -10.3% and from -4.5% to -6%, respectively.

