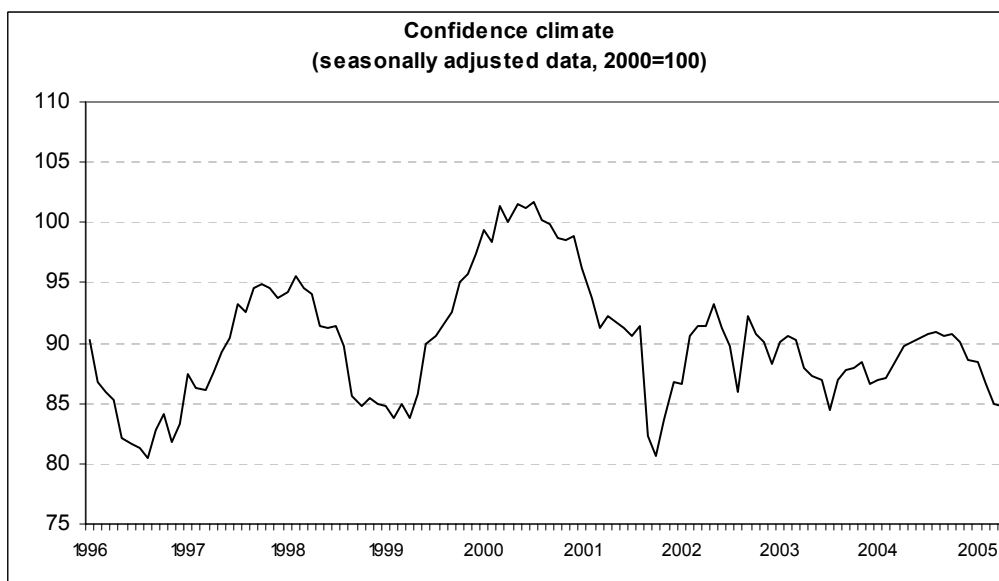




Date: May 25, 2005
TEL.: 06/444821

THE MANUFACTURING FIRMS' CONFIDENCE CONTINUES TO FALL IN MAY

- In May, the seasonally adjusted confidence index decreases from 84.8 to 84.2, which is much below the average values of Q1 2005 and close to the minimum figures registered since November 2001; the contraction is mainly due to growing inventories and to worsening expectations on production, alongside with a substantial stability of the order-book and demand level
- Turning to single sectors, confidence is recovering in investment goods, where the index grows from 83.6 to 84.5, while it remains stable in consumer goods (from 90.9 to 90.8) and falls in intermediate goods (from 81.3 to 79.4)
- Among the variables not considered in the confidence index, evaluations on the current production variation and on the order-book trend both diminish, while short-term expectations on the country's general economic situation continue to worsen and reach the lowest level since October 1993
- Breaking down the confidence index by firm size, the contraction observed over the past few months is particularly due to the unfavourable trend of medium-sized firms (from 100 to 249 employees). Confidence had a smaller deterioration in small and medium-small firms (from 10 to 99 employees) during the first five months and large firms (more than 250 employees) observed a strong contraction up to April and – running counter the general trend - started recovering in May



Data referring to June shall be diffused on **June 28, 2005**.

Next ISAE surveys are scheduled as follows:

May 26, 2005: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: April) and ISAE Monthly Business Service Survey (Reference month: May)

June 1, 2005: Comparative Business Surveys for Italy, Germany and France (Reference month: May)

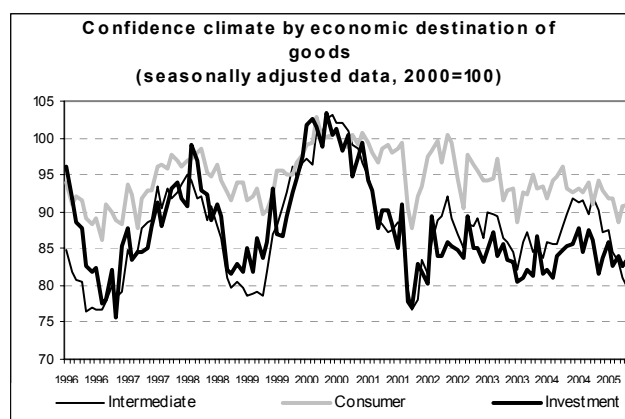
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site www.isae.it)

General Results¹

According to the ISAE Monthly Survey carried out between May 1 and 18 on a panel of about 4,100 firms, the manufacturing and extractive firms' confidence indicator decreases from 84.8 to 84.2, which is close to the minimum figures registered since November 2001. The contraction is mainly due to growing inventories and to worsening expectations on production, alongside with a substantial stability in the order-book and demand levels. Among non confidence-building variables, evaluations on the current production variation and on the order-book trend diminish, while short-term expectations on the country's general economic situation continue to worsen and reach the lowest level since October 1993.

Turning to single sectors, confidence is recovering in investment goods, where the index grows from 83.6 to 84.5, while it remains stable in consumer goods (from 90.9 to 90.8) and it definitely falls below the average figures of the January-March period in intermediate goods (from 81.3 to 79.4).

Breaking down the confidence trend by firm size, the contraction observed over the past few months is due in particular to the unfavourable trend of medium-sized firms (from 100 to 249 employees). Confidence had a smaller deterioration, in the first five months, when small and medium-small firms (from 10 to 99 employees) are considered and large firms (more than 250 employees) witnessed a strong contraction up to April and – running counter the general trend - started recovering in May.



Situation in the reference month (May 2005)

In May, the ISAE respondents give signals of stability on the order-book trend, which remain unchanged (-24) both on domestic (-27) and on foreign (from -27 to -26) markets, while assessments on the current production variation worsen (the balance decreasing from 1 to -3) and inventories grow (from 10 to 11 in terms of balance). Finally, firms indicate that the available liquidity for operational needs is diminishing compared to April, and the balance passes from 30 to 27, thus reaching its lowest trough since November 1994.

Looking at single sectors, assessments are by no means homogeneous: indeed, investment goods producers signal a small improvement in their order books (from -24 to -21), due to the foreign demand recovery (from -25 to -21). At the same time, small improvements are observed in production (from -12 to -10) accompanied by a clear deterioration in the production variation (the balance passing from 3 to -4) and by a substantial stock stability (from 10 to 9). In intermediate goods, a clear demand worsening is emerging (the balance falling from -27 to -29), with a strong contraction on the domestic markets (from -28 to -30) and a considerable growth on the foreign ones (from -32 and -26). Also the production level and variation balances are slightly diminishing in this sector (from -19 and 2 to -20 and -9 respectively), while the balance of inventories remains stable at 12. Finally, the consumer goods demand is stable, with a balance stopping at -20, thanks in particular to the domestic demand held (from -23 to -22), while foreign demand is worsening (from -20 to -25). A rise is observed in production levels (from -17 to -15) within a framework characterised by a growth in inventories (from 8 to 9).

¹ All data are seasonally adjusted, unless indicated otherwise.

Forecasts for next quarter

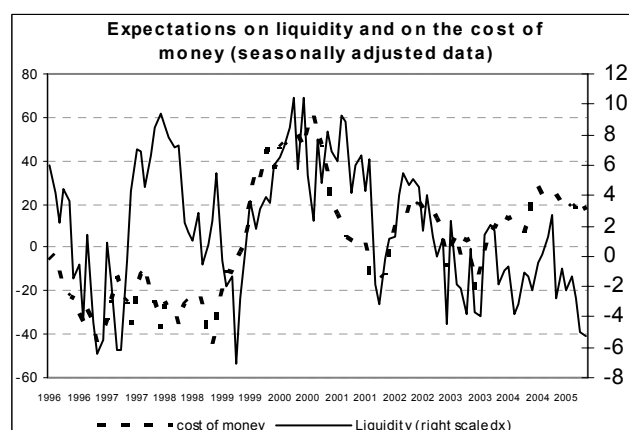
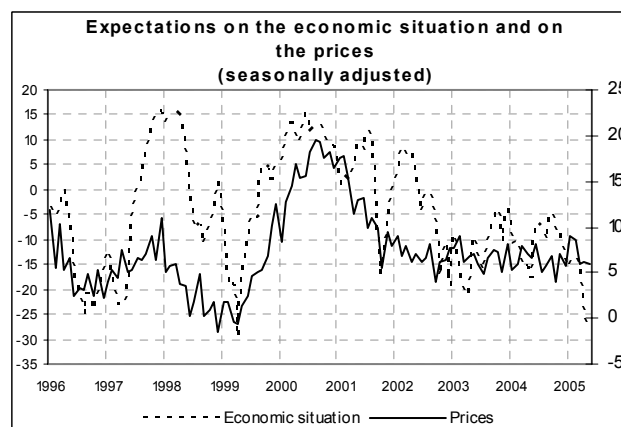
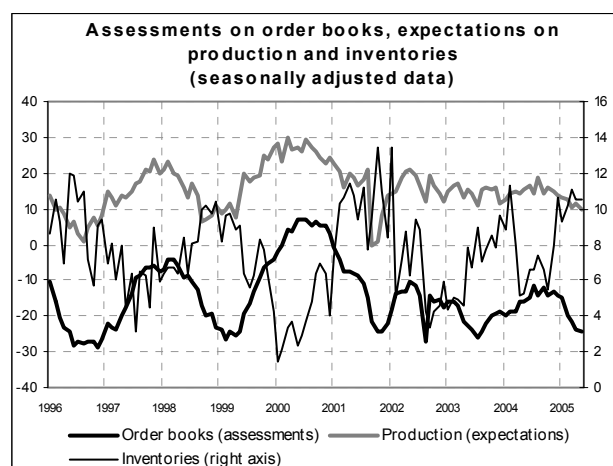
In May, ISAE respondents are more pessimistic both on their main firm variables and on the general economic trend. In financial terms, the available liquidity is expected to remain stable, while concerns on the cost of money are diminishing.

The balances of order-book and production expectations decrease from 16 and 11 to 12 and 10 respectively. Indeed, firms also expect an employment growth for the next few months (the raw balance passing from -2 to 2), alongside with a slight selling price reduction (the balance falling from 8 to 7). Expectations on liquidity remain stable at -5, while a fall is expected in the cost of money (the balance passing from 22 to 17). The general economic expectations for Italy continue to be negative and the balance deteriorates from -26 to -28, which is the lowest figure since October 1993.

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 decreases from 14 and 11, the one on production remains stable at 15, the one on prices diminishes from 14 to 12 and the one on the general economic prospects falls from -19 to -23. Indeed, entrepreneurs also expect an employment contraction (the raw balance equalling -3, as in April), while they show less concerns on the cost of money, the balance of which decreases from 29 to 2. In consumer goods, expectations improve with reference to order books (from 19 to 20) and production (from 14 to 15). Expectations on the country's general economic situation remain stable at -26, as do those on selling prices (6). In this sector too, the cost of money is expected to diminish from 26 to 20 in terms of balance. Expectations on order books considerably deteriorate in intermediate goods (from 13 to 6), as do those on production (from 8 to 3) and on employment (from -4 to -6). Indeed, the balance of expectations on the general economic trend remains unchanged at -27, as does the one on selling prices (at 5, close to the minimum levels of the past 13 months). Expectations for a decreasing cost of money are diminishing in this sector too (the balance passing from 20 to 13).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Feb. 2005	86.6	-20	10	13
March 2005	85.0	-21	11	10
April 2005	84.8	-24	10	11
May 2005	84.2	-24	11	10



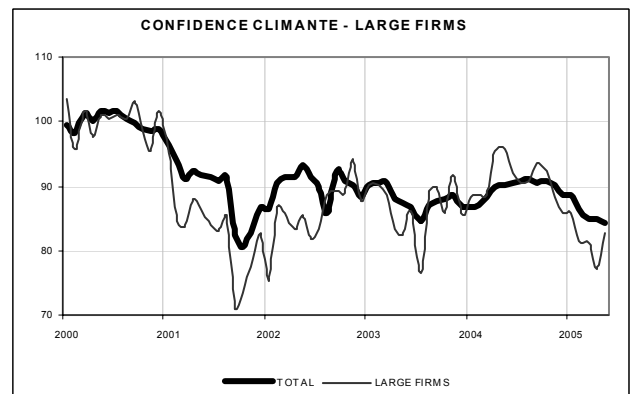
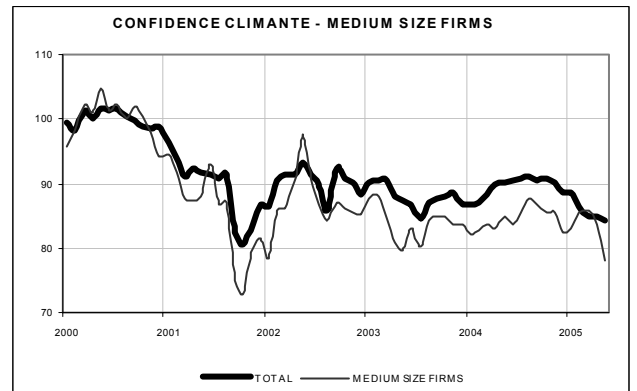
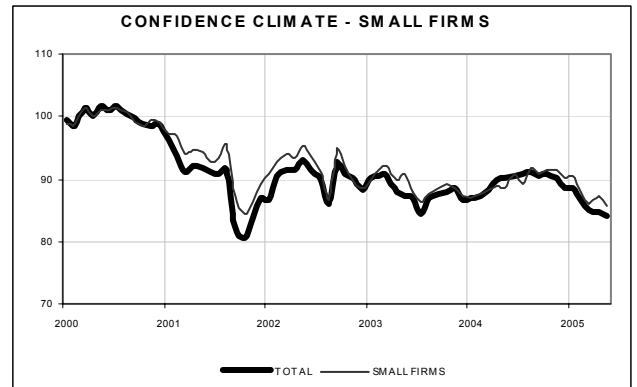
The confidence trend by firm size

The confidence deterioration which has been going on since the late-2004 – confirmed by data on May – is not homogeneous looking at information by firm size. In small and medium-small firms (up to 99 employees) confidence decreases in Q1 2005 and then recovers in April, falling again in May, when the index equals 85.7, which means almost five points below the early-2005 figure (90.4). The indicator referring to medium-sized firms (100-250 employees) recovers between January and March, but it goes down to 78.1 in April-May, which is close to the lowest levels since 2000. In this case too, the contraction equals five percentage points as against the early-2005 data, and it is above the overall average in this sector. Finally, the contraction in large firms is particularly strong in the January-April period, when the index passes from 85.8 (January) to 77.2 (April), but in May the index shows a strong recovery up to 82.7, thus running counter the overall trend.

Confidence climate by firm size

	Total	Small firms	Medium-sized firms	Large firms
Jan. 2005	88.5	90.4	83.0	85.8
Feb. 2005	86.6	88.0	85.5	81.5
March 2005	85.0	86.1	85.8	81.1
April 2005	84.8	87.4	83.5	77.2
May 2005	84.2	85.7	78.1	82.7

CONFIDENCE CLIMATE BY FIRM DIMENSION



Source: ISAE – seasonally adjusted data