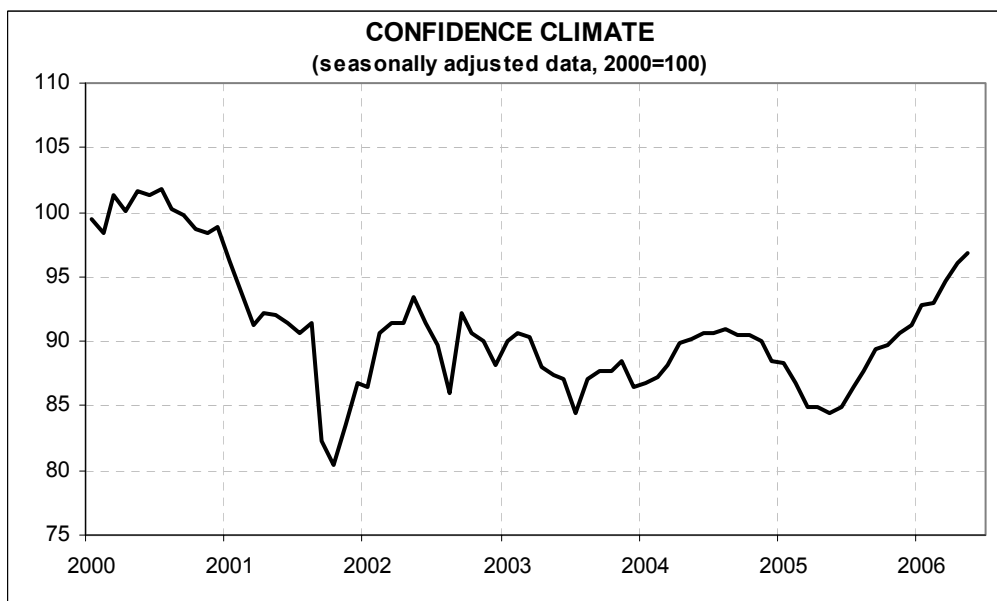




Date: May 25, 2006
TEL.: 06/444821

MANUFACTURING FIRMS' CONFIDENCE CLIMBS IN MAY TO ITS HIGHEST LEVEL SINCE DECEMBER 2000

- In May the seasonally adjusted confidence index (2000=100) grew for the twelfth month running, reaching 96.8 compared to 96 in April
- Short term forecasts on production bounced to their highest level since December 2000, while the assessment on inventories and orders remained unchanged with respect to April
- Firms also expected an increase in orders and employment and stability for selling prices. Instead, following the strong improvement posted the previous month, negative indications came from the evaluation of current production levels and from short term forecasts for the Italian general economic situation
- Confidence continued to improve in the intermediate goods sector (the index rose from 95.4 to 97.6), while it worsened for investment and consumer goods (moving from 95.4 to 94.6, and from 97.8 to 96.3, respectively)
- The rise in confidence was not equally spread across regions: the indicator increased in the North and declined instead in the Centre and the South. Production expectations improved everywhere, while the assessments on orders and on inventories of finished products sent contrasting signals
- In May confidence was 12 points higher than a year earlier: the sorting of data according to firm size showed a particularly marked increase for medium- and large-sized enterprises, and a slightly more moderate growth – only marginally below average – for smaller firms (with fewer than 100 employees)



Data on June shall be released on June 27, 2006

The next ISAE surveys are scheduled as follows:

May 29, 2006: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: April),
ISAE Monthly Business Services Survey (reference period: May)

May 30, 2006: ISAE Monthly Survey on Construction (reference period: April)

June 8, 2006: ISAE International Comparison of Consumer and Business Surveys (reference period: May)

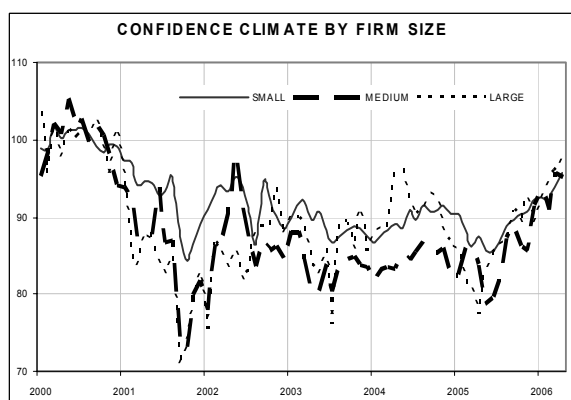
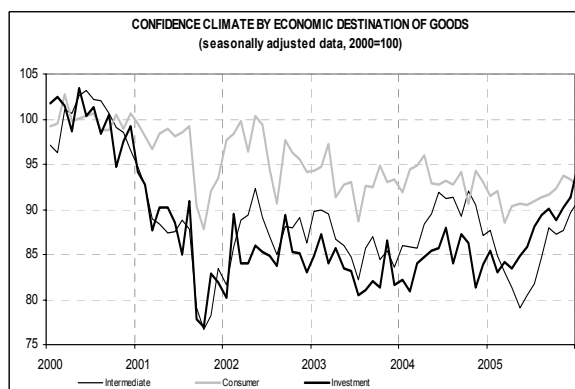
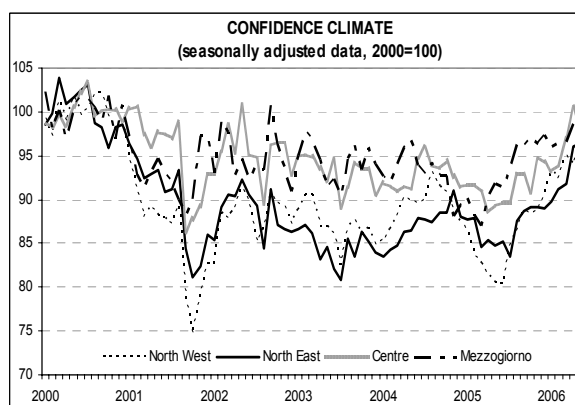
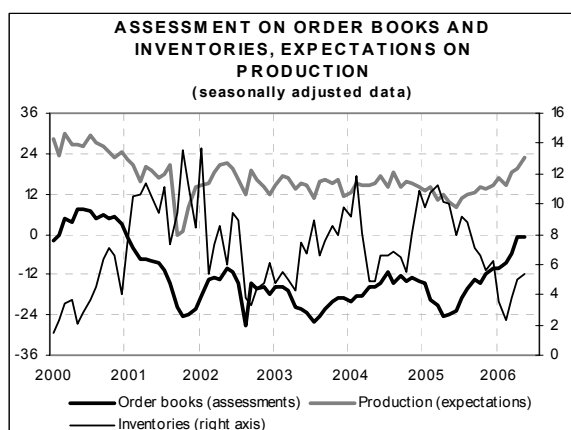
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between May 2 and May 18, pointed to a rise in the seasonally adjusted confidence index of manufacturing and mining firms from 96 in April to 96.8 in May, its highest level since December 2000. This good performance can be entirely traced back to the increase in production expectations, coupled with, according to respondents, the stability of demand and of inventories of finished products. Among the variables excluded from the definition of confidence, the level of production and expectations on the overall economy and on the ratio of liquidity to operational requirements all worsened. The assessment on the current level of liquidity and expectations on demand and employment instead improved.

In May the growth in confidence was particularly non homogeneous across sectors: the improvement, which took place for the overall economy, can be entirely ascribed to the intermediate goods sector, for which the index increased from 95.4 to 97.6. For the investment and consumer goods sectors the confidence indicator worsened instead, declining from 95.4 to 94.6, and from 97.8 to 96.3, respectively. The rise in confidence was not equally spread across regions: the seasonally adjusted index improved in the North (the indicator rose from 94.1 to 96.1 in the North West, and from 96 to 96.3 in the North East), while it declined in the Centre and the *Mezzogiorno* (moving from 100.7 to 98, and from 98.6 to 96.6, respectively). As for the various components of the confidence index, the survey pointed to a widespread improvement for production expectations, while the assessment on orders and on inventories of finished products sent contrasting signals.

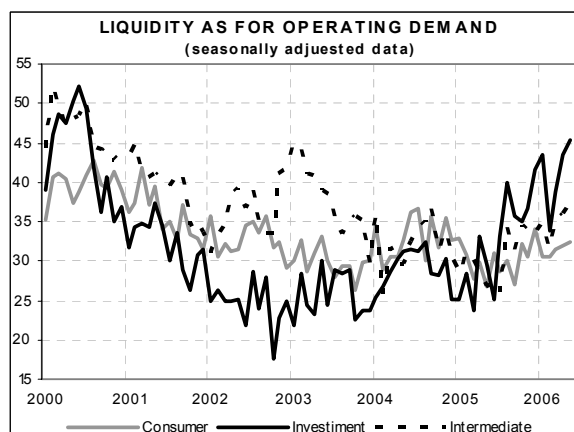
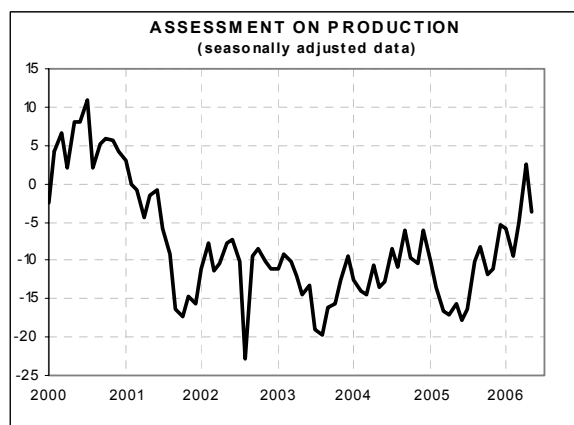
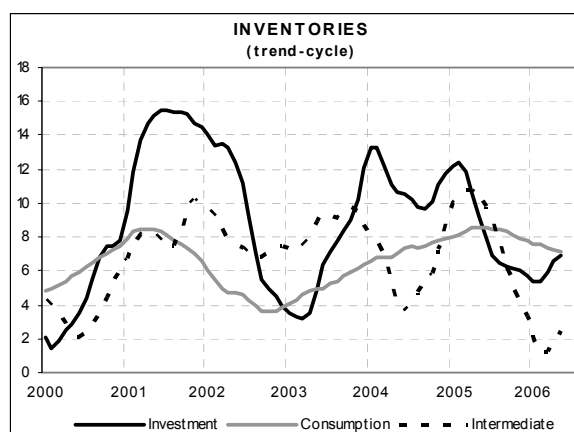
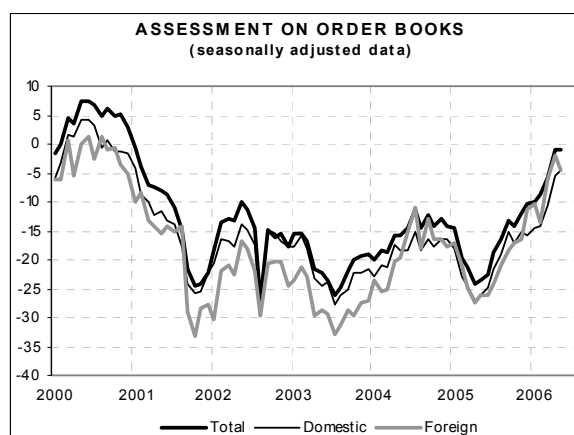
According to the breakdown of data by firm size, in the last twelve months, growth in the confidence indicator was particularly strong for medium- and large-sized enterprises, while smaller firms recorded a rise which was only slightly lower than that of the overall index.



Situation in the reference period (May 2006)

In May manufacturing firms in general did not change their views on main company variables. Both the balance of demand and of inventories remained stable at the April level (at -1 and 5 respectively). Nevertheless, the domestic demand showed stability (at -5), while foreign orders declined (from -2 to -4). The balance for production markedly declined instead (from 3 to -4), while that for the ratio of liquidity to operational requirements increased (from 36 to 38).

As for the industry breakdown of data, judgments were virtually homogenous across sectors. For the investment goods sector, the balances of demand and production worsened (from 5 to 3, and from 5 to 1, respectively). This development was partially compensated by a fall in stocks (from 9 to 8) and a rise in liquidity (from 44 to 45). For intermediate goods, demand increased slightly and the balance turned positive (from 0 to 1) for the first time since December 2000. This favourable result was mainly due to foreign demand. A rise characterized the balances both for inventories (from 3 to 4) and for the ratio of liquidity to operational requirements (from 36 to 38), while the balance for the level of production dropped steeply (from 4 to -3). In the consumer goods sector, demand posted a sharp slowdown (the related balance plunged from -1 to -7), which was found in both the domestic and the foreign components. A similar trend also characterized the balance for production, which declined from -2 to -8. Inventories and liquidity improved instead (the related balances moved from 6 to 7, and from 32 to 33, respectively).



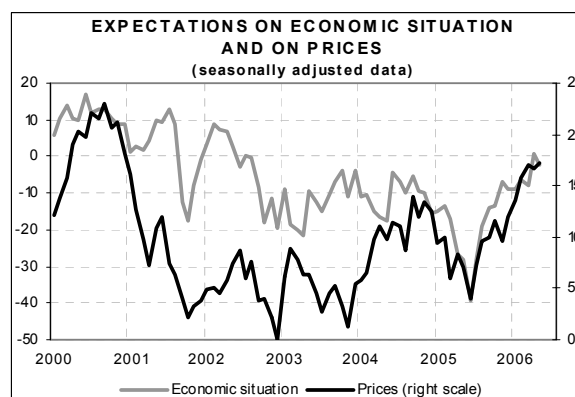
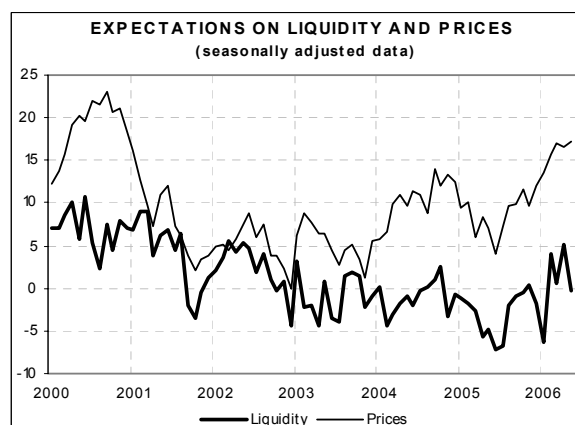
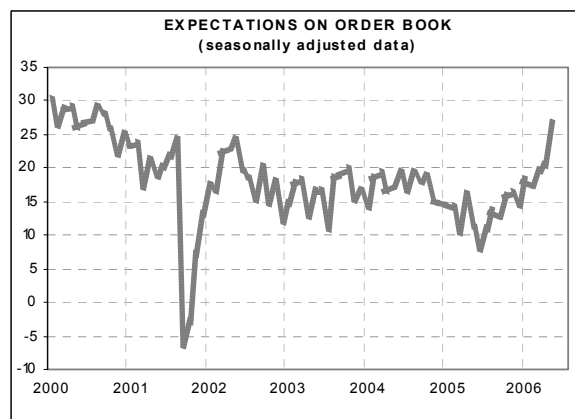
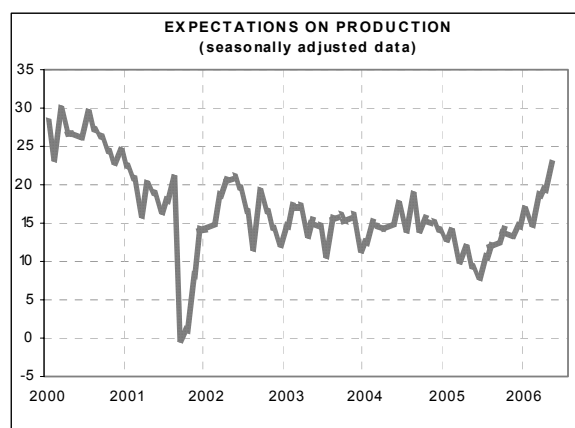
Outlook for the following three months

Firms improved their expectations on orders, production and employment. The related balances rose respectively from 20 to 26, from 19 to 23, and from 1 to 3 (the latter data are on a raw basis). Expectations for selling prices remained stable at 17, and those for liquidity and the overall economy deteriorated (from 7 to 1, and from 1 to -2), following the sharp improvement posted the previous month.

Forecasts were not homogeneous across industrial sectors: producers of investment goods were optimistic about prospects for orders (the related balance increased from 23 to 26), employment (from 4 to 6) and the country's economy (from 5 to 8). They were pessimistic, instead, with regard to production (the balance fell from 24 to 22) and liquidity (from 13 to 7). Expectations for a rise in selling prices also decreased (from 17 to 16). In the consumer goods sector, respondents reported favourable prospects: expectations posted a rise for orders (from 19 to 24, on balance), production (from 16 to 18), employment (from -2 to 3) and the general economic situation (from -2 to 1). Furthermore, respondents anticipated a reduction in selling prices (the balance decreased from 9 to 7). Their forecasts were negative only with regard to the ratio of liquidity with respect to operational requirements, for which the balance declined from 5 to -1. For the intermediate goods sector, expectations on both demand and production improved (from 19 to 28, and from 18 to 26, respectively), whereas they worsened for the country's economy (from 7 to -3), liquidity (from 5 to -1), as well as for the employment trend (from 2 to 1) and selling prices (from 22 to 25).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Feb. 2006	93,0	-9	2	15
Mar. 2006	94,6	-6	4	19
Apr. 2006	96,0	-1	5	19
May. 2006	96,8	-1	5	23



Regional breakdown of ISAE survey results

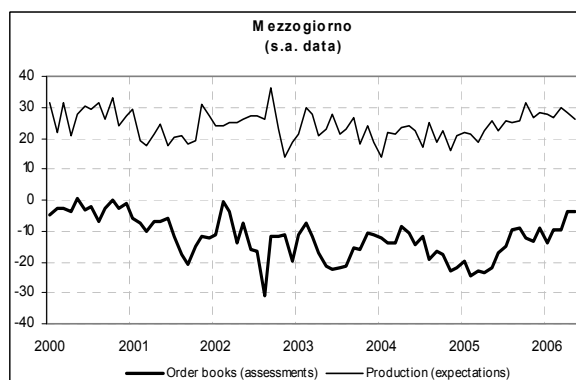
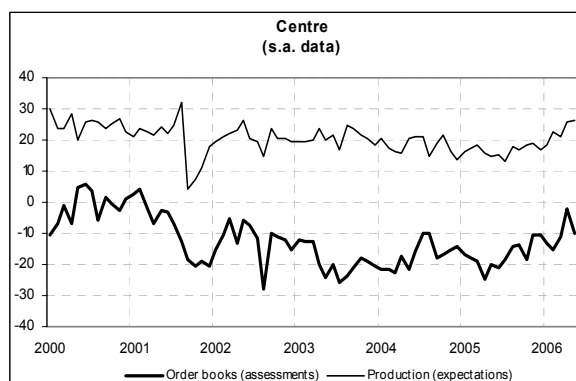
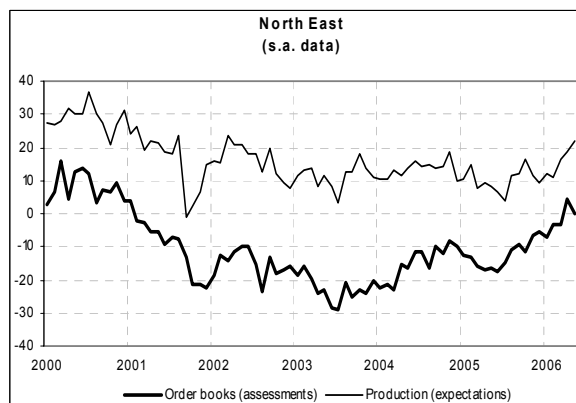
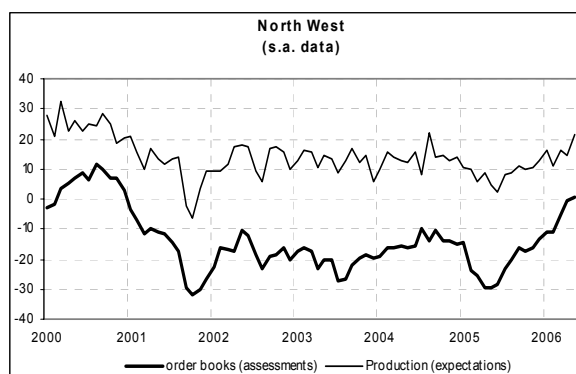
The improvement in confidence was not equally spread across regions: the seasonally adjusted index rose in the North (from 94.1 to 96.1 in the North West, and from 96 to 96.3 in the North East), whereas it decreased in the Centre (from 100.7 to 98) and in the *Mezzogiorno* (from 98.6 to 96.6). The various underlying components of the confidence indicator pointed to a general improvement in production expectations, whereas the assessment on orders and on inventories showed contrasting signals.

North West: the recovery in confidence, which started in the second half of 2005, continued in May. In this region, the improvement in the index was backed by both a rise in the balance for the assessment on orders, which went back to positive territory for the first time since December 2000, and, to a greater extent, by an improvement in production expectations. Inventories of finished products sent, instead, negative signals.

North East: in this region entrepreneurs' confidence continued to rise, confirming the positive trend for the index which already started in the second half of 2005. The improvement mainly stemmed from a rise in the balance for production expectations and from de-stocking of finished products. Negative signals came though from the assessment on orders (the worsening characterized only foreign markets).

Centre: following three consecutive months of improvement, the index started to worsen, remaining, nevertheless, around its last months' average. The fall in confidence of entrepreneurs in this region was driven by a decline in the balance of the assessment on orders, as well as a rise in stocks of finished products. Instead, expectations on production remained stable at historical high levels.

Mezzogiorno: for the first time since the start of the year, the index worsened, returning to the average level posted at the end of 2005. The deterioration reflected the worsening in production expectations and a new increase in stocks of finished products.



Focus: Confidence trend by firm size

Manufacturing firms' confidence climate has by this time increased for more than a year, and the index is now twelve points above its May 2005 level. The breakdown of data by firm size shows that growth was particularly marked for medium- and large-sized firms (between 100 and 250 employees, and more than 250 employees, respectively), while smaller enterprises (fewer than 100 employees) posted a rise of the index which was only slightly lower than that for the overall index. Particularly, among small firms confidence grew by 10 points with respect to May 2005, reaching 95.7 (compared to 85.6 one year earlier). The monthly growth remained constant around the average level, showing little volatility. The improvement was particularly marked for medium-sized firms: the index rose over the year from 78.7 to 97.3, nevertheless recording strong volatility, with high monthly increases in August and December 2005 and in March 2006. For large firms the indicator improved by 16 points in one year (to 99.2 from 83.2 in May 2005): in this case, the monthly rises were rather stable.

The underlying variables of the confidence indicator show that the largely favourable trend for medium- and large-sized enterprises was mainly driven by the higher-than-average improvement in short term production expectations. For medium-sized enterprises, also the assessments on the current level of orders and demand increased more than in the other size groups, whereas in the last few months large firms recorded a new rising trend for stocks of finished products. Finally, for small firms, in contrast with the trend posted by medium- and large-sized firms, the last months were characterized by a moderate fall back in both production expectations and the assessment on the current level of orders.

Confidence climate by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
May. 2005	84,4	85,6	78,7	83,2
Aug. 2005	87,7	88,8	87,2	86,8
Nov. 2005	90,6	90,7	85,6	92,7
Feb. 2006	93,0	92,2	90,2	94,7
May. 2006	96,8	95,7	97,3	99,2

