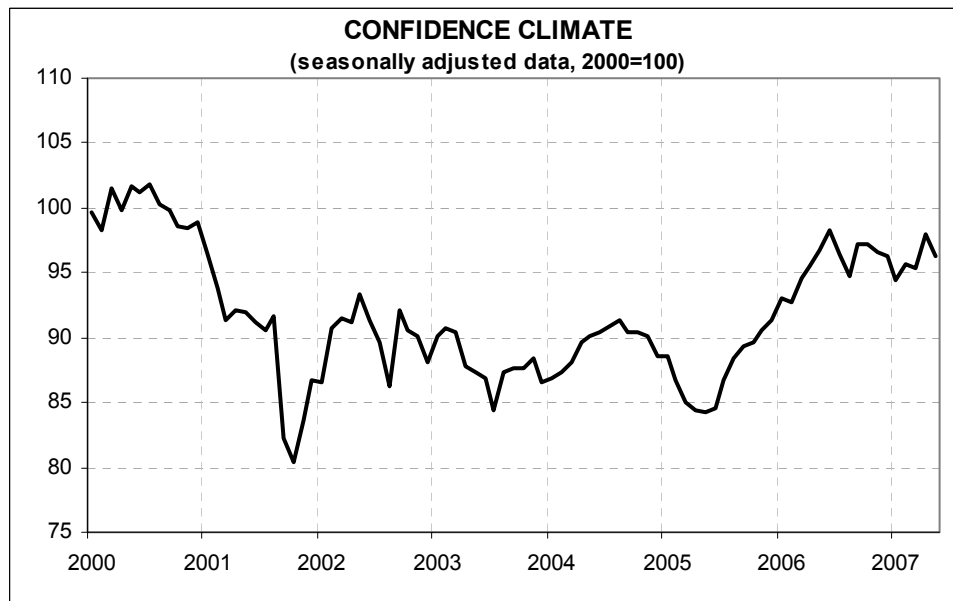




Date: May 24, 2007
TEL.: 06/444821

MANUFACTURING FIRMS' CONFIDENCE WEAKENS IN MAY

- The seasonally adjusted confidence index (2000=100) declined to 96.2 from 97.9 in April, remaining nevertheless above the level posted last March
- The fall in confidence was mainly prompted by the slump in production expectations. Stability actually characterized the opinions on inventories and on the current level of demand (with favourable indications coming from the foreign component)
- The worsening in confidence was widespread across sectors and was particularly sharp for the consumer and intermediate goods ones, where the index moved from 98 to 96.5 and from 97 to 94.3, respectively. The decline was instead more moderate for the investment goods sector, where the indicator lowered from 101.3 to 100.1, remaining however at the highest level recorded over the last seven years
- Confidence markedly deteriorated in the North West (from 99 to 95.2) and the *Mezzogiorno* (from 99.8 to 98.6). In the North East, instead, the indicator remained virtually unchanged (moving from 95.9 to 95.8), while in the Centre it recovered from 98.4 to 99
- The breakdown of data by firm size indicated that in the period March-May confidence clearly improved for small and medium-sized firms, while it declined slightly for large enterprises
- Orders posted a favourable trend in small and large firms (remaining stable in the medium-sized ones). Stability characterized inventories in small enterprises, as against a decline for medium ones and an increase for larger ones, while production expectations improved in small and medium-sized firms and worsened in larger ones



Data on June shall be released on June 26, 2007

The next ISAE surveys are scheduled as follows:

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

June 6: ISAE International Comparison of Consumer and Business Surveys (reference period: May)

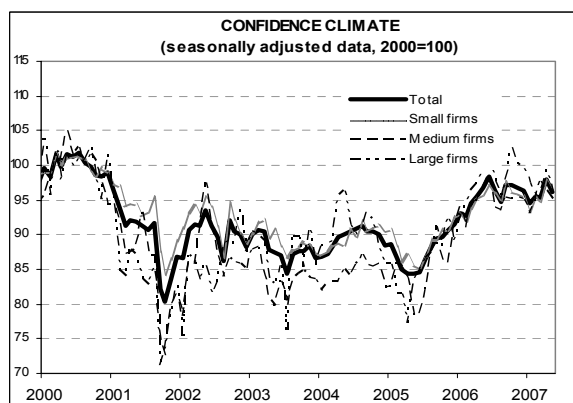
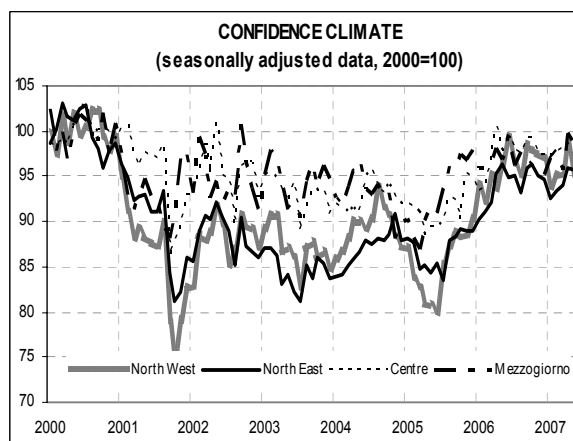
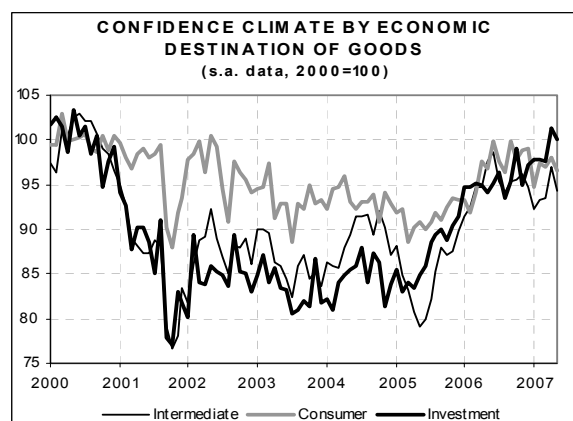
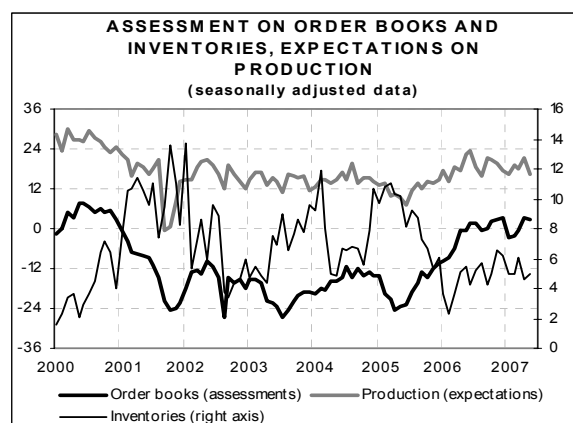
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between May 2 and May 18, pointed to a decline in the seasonally adjusted confidence index of manufacturing and mining firms. In May, the indicator moved to 96.2 from 97.9 in April, remaining however above its March value. The worsening was mainly due to the fall in production expectations. The opinions on current demand and on inventories remained unchanged at their previous month level. Moreover, surveyed firms were more pessimistic about economic prospects and the trend in selling prices.

The drop in confidence was widespread across productive sectors, and was particularly marked for the consumer and investment goods ones, where the index moved from 98 to 96.5 and from 97 to 94.3, respectively. On the other hand, the decline was more moderate for investment goods: the related index declined from 101.3 to 100.1, remaining however at the highest level recorded over the last seven years.

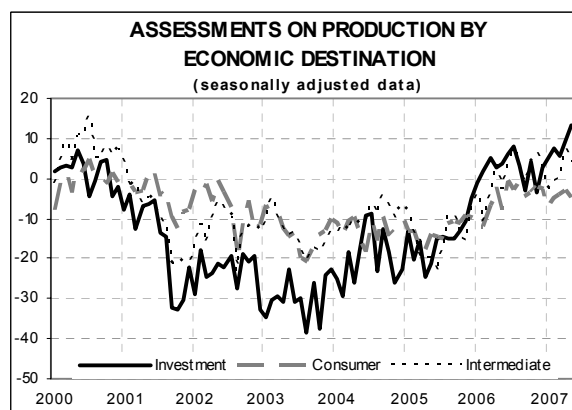
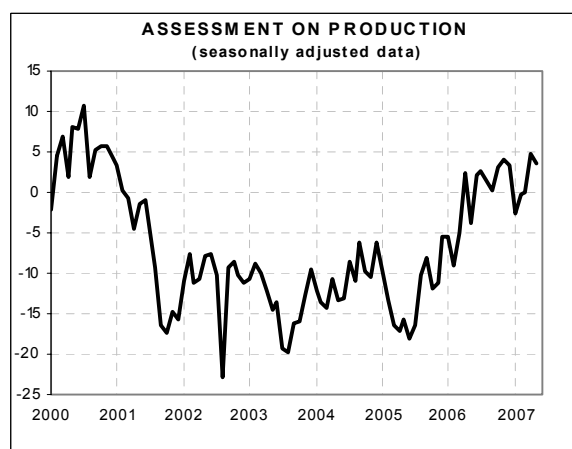
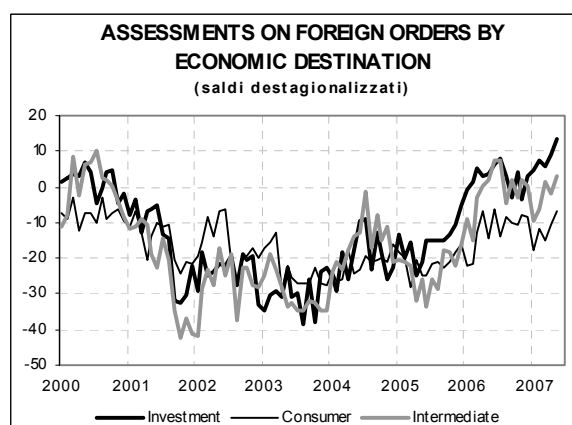
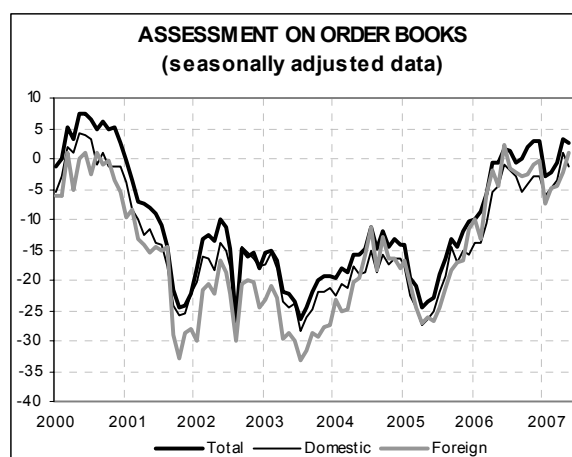
Confidence declined markedly in the North West (from 99 to 95.2) and the *Mezzogiorno* (from 99.8 to 98.6). The indicator, instead, stayed virtually unchanged in the North East (moving from 95.9 to 95.8), while it recovered in the Centre (from 98.4 to 99). According to the breakdown of data by firm size, confidence markedly improved between March and May for small and medium-sized firms, staging instead a slight decline for larger ones. Orders posted a favourable trend in small and large enterprises (remaining stable in medium-sized ones). Stability characterized inventories in small enterprises, as against a decline for medium ones and an increase for larger ones. Production expectations improved in small and medium-sized firms and worsened in larger enterprises.



Situation in the reference period (May 2007)

The balance for opinions on the trend in current orders levelled out at 3 (its previous month value), in the presence of a slight decline in domestic demand (from 1 to -1) and a recovery in foreign demand (from -2 to 1, the highest level since June 2000). Furthermore, the level of production declined (from 5 to 4), while inventories remained at their previous month level. Lastly, the ratio of available liquidity to operational requirements inched down (from 36 to 35).

At the industry level, entrepreneurs expressed generally more negative opinions. In the investment goods sector, the balance for the trend in orders actually decreased from 20 to 17, notwithstanding stability for the domestic component and a sharp improvement for the foreign one (from 9 to 13, the best result since September 1995). On the other hand, the level of production increased (from 11 to 15), but inventories rose from 6 to 7, and the ratio of liquidity to operational requirements deteriorated. For consumer goods, the opinions on orders moderately improved (from -6 to -5), thanks to the recovery in the foreign component (from -11 to -7), which more than offset the slight retreat of the domestic one (from -8 to -9). Also the level of production declined (from -3 to -5) and inventories built up. The level of liquidity with respect to operational requirements stabilized instead at its previous month value (30). Finally, in the intermediate goods sector, the worsening in the opinions on demand (from 4 to 1: from 4 to -1 for domestic demand as against a sharp recovery from -2 to 3 for the foreign component) and in the level of production (from 8 to 4) came along with a slight de-stocking of inventories (from 2 to 1) and a moderate increase in liquidity (from 35 to 36).



Outlook for the following three months

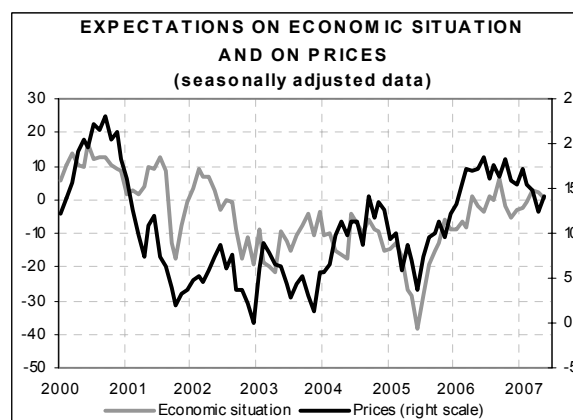
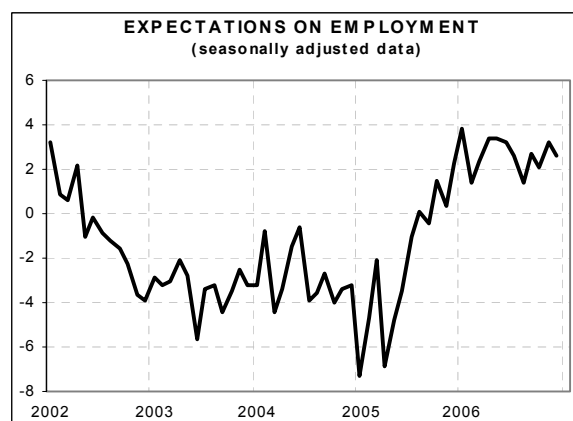
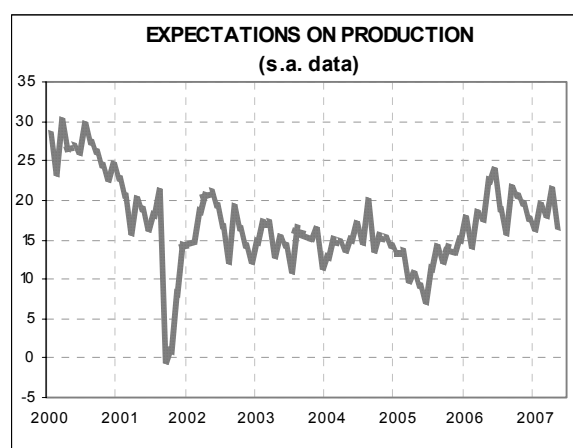
Surveyed firms were more pessimistic with regard to the following months about expectations for main company variables (orders, production and prices) and about the Italian economy's general prospects. Anticipations for employment and liquidity remained stable instead.

The balances related to expectations for orders, production and the situation of the Italian economy declined, in the order, from 23 to 18, from 21 to 17 and from 2 to 0. Moreover, the share of respondents anticipating a rise in selling prices in the following three months increased (the balance rose from 12 to 14), and expectations for employment and liquidity stabilized (at 3 and 4, respectively).

At the industry level, all sectors sent negative signals. For investment goods, expectations for orders and the economic trend slightly worsened (from 27 to 26 and from 12 to 7, respectively), while the number of firms anticipating a rise in selling prices in the following three months increased (from 11 to 13). Lastly, a moderate improvement characterized the forecasts for employment (from 7 to 8) and liquidity (from 2 to 4), while expected production levels remained unchanged (at 26). In the consumer goods sector, expectations for selling prices stabilized (at 11) and those for orders, production, liquidity and the country's general economic situation worsened (from 26 to 21, from 22 to 17, from 7 to 6 and from 8 to 4, respectively). Firms were instead more optimistic about employment prospects (from 0 to 1). Lastly, in the intermediate goods sector, expectations for orders, production, employment and company liquidity deteriorated (in the order, from 21 to 12, from 19 to 12, from 4 to 1 and 3 to 2), and anticipations of a rise in selling prices increased (from 15 to 16). Forecasts for the general economic situation bettered instead (from -1 to 1).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Feb. 2007	95,6	-2	5	19
Mar. 2007	95,3	-1	6	18
Apr. 2007	97,9	3	5	21
May. 2007	96,2	3	5	17



Regional breakdown of ISAE survey results

In May, the weakening in manufacturing firms' confidence recorded at the national level was the result of diverging trends across geographic areas. In the North West, confidence markedly worsened, moving from 99 to 95.2. In the *Mezzogiorno*, the indicator lowered from 99.8 to 98.6. In the North East, instead, it remained virtually stable (moving from 95.9 to 95.8), while in the Centre, the confidence climate recovered, rising from 98.4 to 99. Production expectations worsened throughout the country, while the opinions on orders and inventories sent contrasting signals.

North West

The fall in confidence stemmed from the worsening in the opinions on the level of demand (pessimism distinguished only the domestic market), which came along with the restocking of inventories of finished products (that went back to their February level). Production expectations also sent decidedly negative signals.

North East

The steadiness recorded by confidence in this area was the result of a worsening in production expectations, which was offset by a slight improvement in demand, and of stability for the opinions on inventories of finished products.

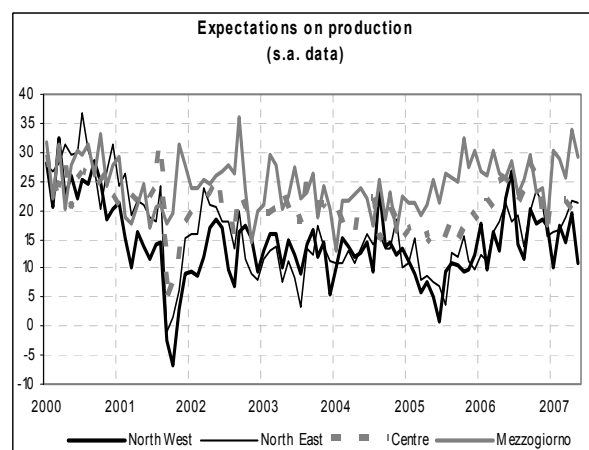
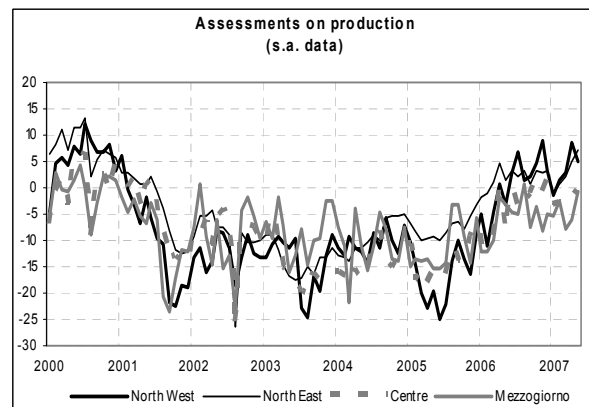
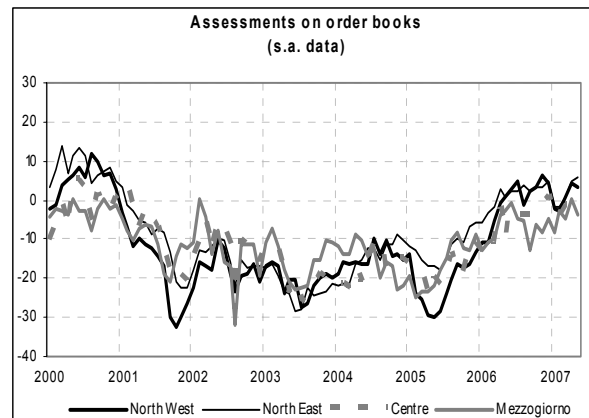
Centre

The recovery posted by the index is due to the improvement in the opinions on demand (mainly foreign demand) and to the de-stocking of inventories of finished products. Production expectations moderately deteriorated instead and the related balance returned to the average level recorded in November-December 2006.

Mezzogiorno

Entrepreneurs' confidence worsened in this area, remaining nevertheless at its highest level since May 2006: the balance for the opinion on orders declined, reverting to negative territory (the deterioration characterized only the domestic market). Also production expectations worsened. The related balance went back to the level posted last February. Inventories

of finished product, which were considered to have diminished, sent positive indications.



Focus: Confidence trend by firm size

On average in the last three months, manufacturing firms' confidence showed a marked improvement, climbing above the value recorded last February: after a slight worsening in March, confidence recovered markedly in April, then suffered a setback in May, remaining however above its March level.

The improvement characterized mainly small and medium-sized firms, whereas for larger enterprises the index settled on average in the March-May period slightly below the value posted in the previous three months. More in detail, for large firms the indicator declined from 95.8 (in February) to 95.4 (in March), then recovered to 99.4 (in April) and levelled out at 96.3 (in May). In the period March-May, recovery mainly stemmed from the improvement in opinions on the current state of order books, whereas assessments on inventories of finished products and production prospects sent, mainly in May, negative signals. For medium-sized firms, confidence improved instead in the period February-March (from 95.1 to 97.8), staging however new signs of worsening in April and May. The related indicators declined to 96.3 and 94.9, respectively. In this case, the opinions on both the trend in orders and on inventories of finished products worsened between April and May, while production expectations, after the fall posted in April, started to improve once more in May. Lastly, for smaller firms confidence deteriorated (from 95.4 to 94.8) in March, then improved in April (to 97.8) and worsened again in May (to 96.5). Also in this case, in the period March-May, order books markedly improved, whereas production expectations, after the recovery posted in April, started to deteriorated once more.

Confidence climate by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
February	95.6	95.4	95.1	95.8
March	95.3	94.8	97.8	95.4
April	97.9	97.8	96.3	99.4
May	96.2	96.5	94.9	96.3

