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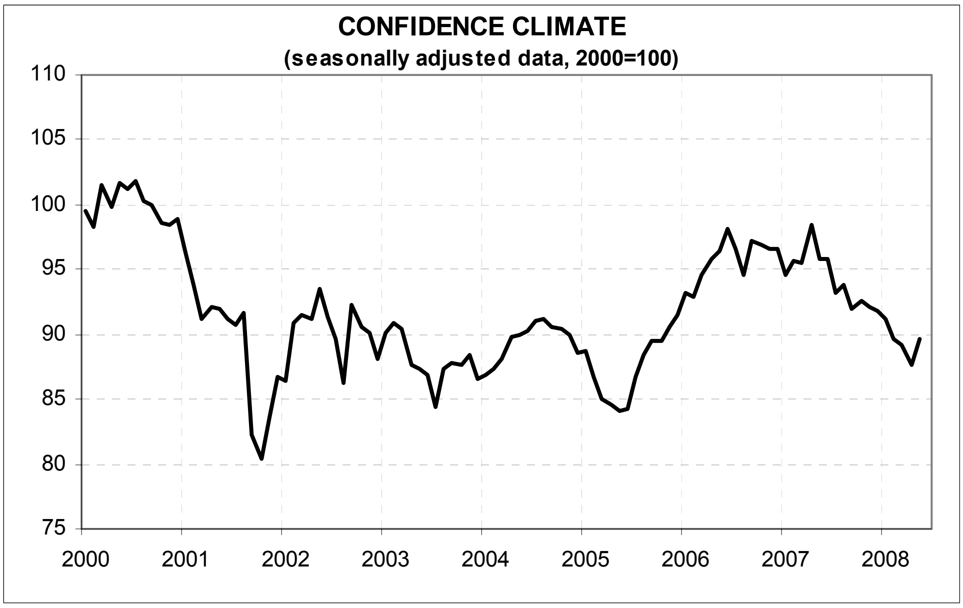
GROWTH IN MANUFACTURING FIRMS' CONFIDENCE RESUMES IN MAY

- **The seasonally adjusted confidence index (2000=100) reached 89.6, compared to 87.6 in the previous month: it was the first recovery, after six consecutive months of decline, which brought the indicator to the level recorded last February**
- **The figure is consistent with the most recent IFO survey on German manufacturing firms (EU Commission data for the entire European Union are still to be released)**
- **Entrepreneurs were more optimistic about the current state of demand (mainly from abroad) and production prospects. However, inventories started again to build up slightly. Also forecasts for orders bettered, while those for employment and selling prices remained stable**
- **Confidence improved uniformly in all sectors and main geographic areas**
- **More in detail, the index grew from 88.4 to 91 for investment goods, from 90.3 to 92.8 for consumer goods, and from 84.7 to 86.8 for intermediate goods**
- **At the regional level, confidence increased from 89.2 to 90.2 in the North West, from 84.6 to 88 in the North East, from 88.5 to 92 in the Centre, and from 87.4 to 90 in the *Mezzogiorno***
- **According to the traditional ISAE quarterly Focus on data by firms size, the upturn in confidence recorded in May was particularly strong for large firms (with more than 500 employees), for which the indicator increased from 84.2 to 89.8, returning above the value posted last February. For medium-sized firms (employing 100-500 persons), the index rose from 84.6 to 87.2, remaining however below its January level. Lastly, for small firms (with fewer than 100 employees), confidence improved from 88.9 to 90.4, nearing, in this case, the value shown at the start of this year**



Data on June shall be released on June 26, 2008
The next ISAE surveys are scheduled as follows:
May 28: *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 5: *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)

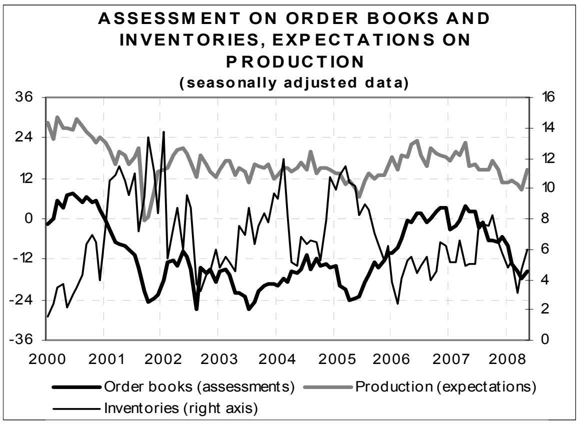
General results

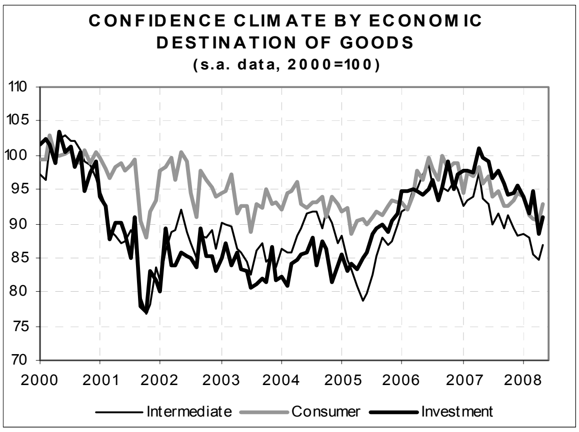
The ISAE Survey, carried out on a panel of about 4000 firms between May 2 and May 20, pointed to a recovery in the confidence index of manufacturing and mining firms. In May, the seasonally adjusted indicator (2000=100) reached 89.6, compared to 87.6 in the previous month: it was the first recovery, after six consecutive months of decline, which brought the indicator to the level recorded last February. The figure is consistent with the most recent IFO survey on German manufacturing firms (EU Commission data for the entire European Union are still to be released).

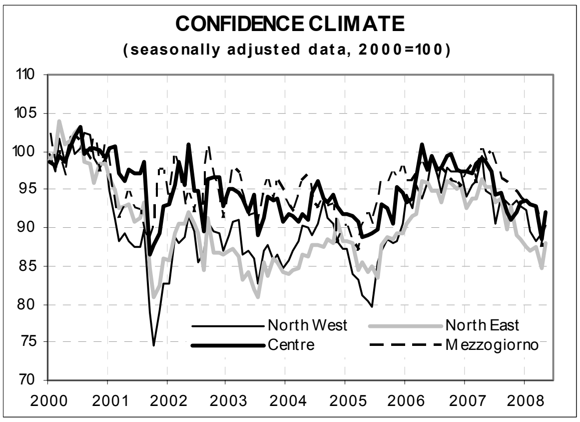
Italian entrepreneurs were more optimistic about the current state of demand (mainly from abroad) and production prospects. However, inventories started again to build up slightly. Also forecasts for orders bettered, while those for employment and selling prices remained unchanged.

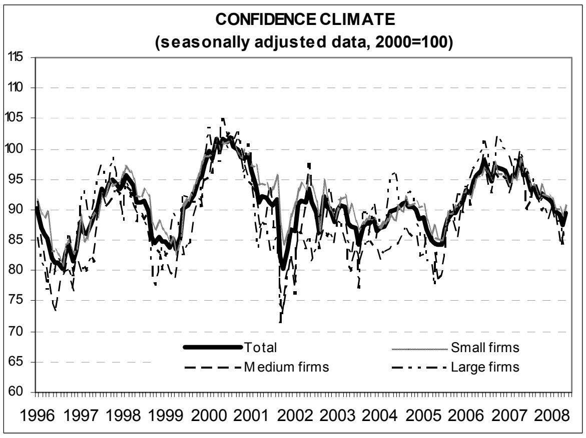
Confidence improved uniformly across all sectors and main geographic areas. More in detail, the index grew from 88.4 to 91 for investment goods, from 90.3 to 92.8 for consumer goods, and from 84.7 to 86.8 for intermediate goods. On a regional basis, confidence increased from 89.2 to 90.2 in the North West, from 84.6 to 88 in the North East, from 88.5 to 92 in the Centre, and from 87.4 to 90 in the *Mezzogiorno.*

According to the traditional ISAE quarterly Focus on data by firms size, the upturn in confidence was particularly strong for large firms (with more than 500 employees), for which the indicator increased in May from 84.2 to 89.8, returning above the value posted last February. For medium-sized firms (employing 100-500 persons), the index rose from 84.6 to 87.2, remaining however below its January level. Lastly, for small firms (with fewer than 100 employees), confidence improved from 88.9 to 90.4, nearing, in this case, the value shown at the start of this year.





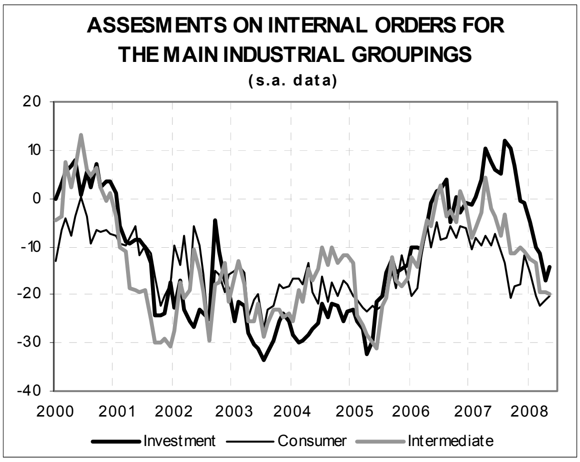


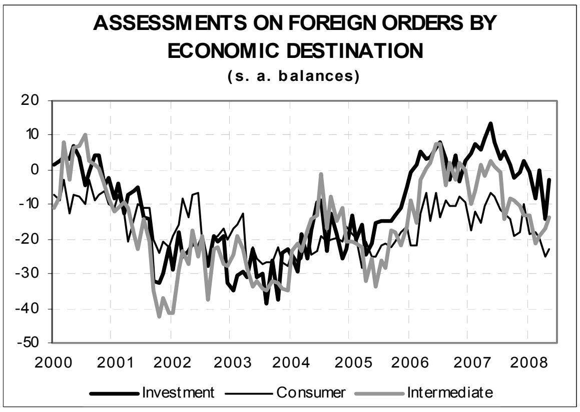


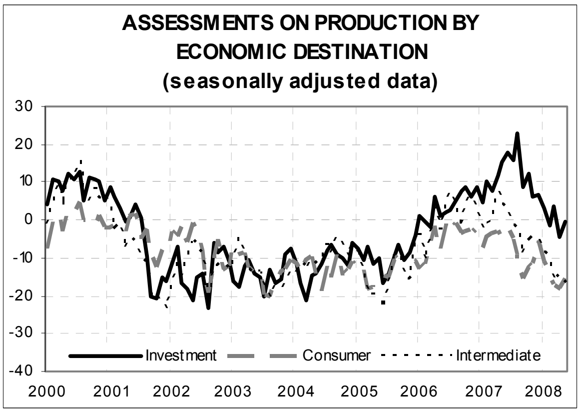
Situation in the reference period (May 2008)

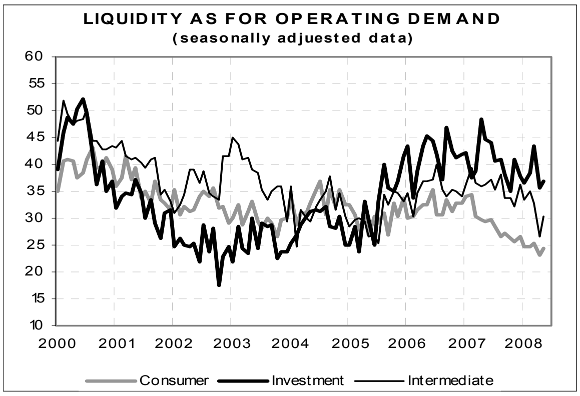
In May, firms' evaluation of the trend in main company variables bettered. The balance for the opinions on orders came in at -18 (from -16 in April), thanks to the improvement in the domestic (from -20 to -19) and mostly the foreign component (from -20 to -16). Moderate progress also characterized the level of production (from -14 to -13) and company liquidity (from 27 to 29). However, inventories continued to significantly increase for the second straight month (from 5 to 6).

The improvement in confidence about the current situation distinguished all sectors. For investment goods, following the sharp fall posted in the previous month, opinions on orders recovered, moving from -13 to -3 (from -17 to -14 for domestic orders and from -14 to -3 foreign ones). Assessments on the level of production and company liquidity also picked up (from -4 to 0 and from 35 to 37, respectively). Lastly, inventories stabilized (remaining at 6). In the consumer goods sector, assessments on orders also increased (from -21 to -18), due to a slight upturn for both domestic orders (from -21 to -20) and foreign ones (from -25 to -23). Furthermore, the level of production and company liquidity recovered (from -18 to -16 and from 23 to 24), whereas inventories built up slightly (from 5 to 6). For intermediate goods, opinions on orders rose from -19 to -18, reflecting a fall in domestic demand (from -19 to -20), which was more than offset by the recovery in orders from abroad (from -17 to -14). Also company liquidity increased (from 27 to 30). However, in this sector the level of production extended its downward path (from -15 to -16), inventories rose (from 5 to 7), and the opinions on company liquidity deteriorated (from 33 to 27).









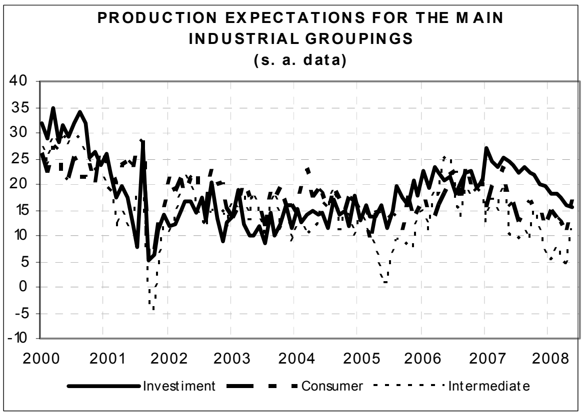
Outlook for the following three months

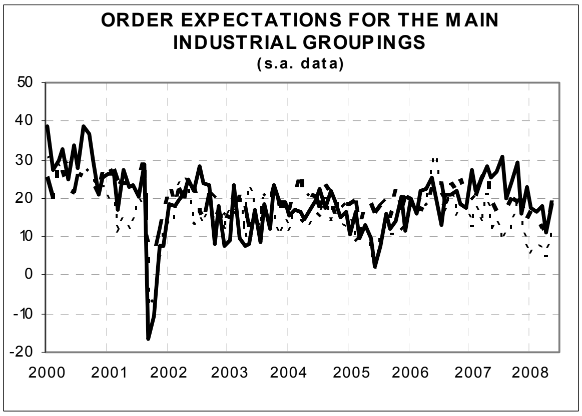
In May, prospects for the trend in main company variables and the overall Italian economy markedly improved. The balance for orders and production expectations actually surged from 9 to 16 and from 9 to 14, respectively. Prospects for selling price inflation stabilized (at 11), while those for the country's general economic situation strongly recovered (from -25 to -16). Forecasts for company liquidity moderately improved (from -4 to -3) and those for employment stabilized (at -2).

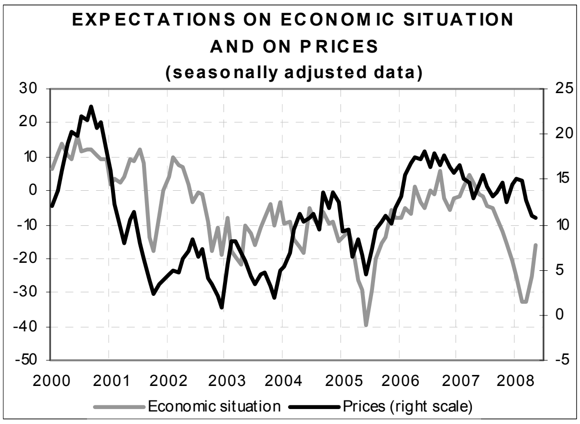
At the sector level, forecasts were rather homogenous: for investment goods, prospects for demand and the country's general economic situation clearly improved (from 11 to 18 and from -21 to -6, respectively), production predictions remained unchanged (at 16), whereas selling price inflation was expected to accelerate in the following months (the balance rose from 12 to 13) and prospects for company liquidity and employment moderately worsened (from 3 to 2 and from 8 to 5, respectively). In the consumer goods sector, expectations for orders, production and the general economic situation decidedly bettered (from 12 to 19, from 10 to 17, and from -24 to -10). Also inflation expectations eased (from 10 to 9). Forecasts for employment and liquidity held steady (at -5 and 1). Lastly, in the intermediate goods sector, expectations for orders, production, employment, and the country's general economic situation clearly improved (the balance rose, in the order, from 5 to 11, from 4 to 12, from -5 to -3, and from -24 to -16). Instead, liquidity prospects remained unchanged (at -5), and those for selling price inflation decreased slightly (from 12 to 11).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Feb. 2008	89.7	-13	5	12
Mar. 2008	89.2	-16	3	10
Apr. 2008	87.6	-18	5	9
May 2008	89.6	-16	6	14







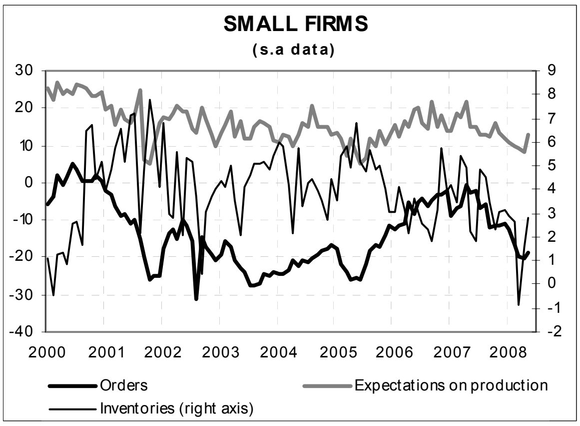
Focus: Confidence trend by firm size

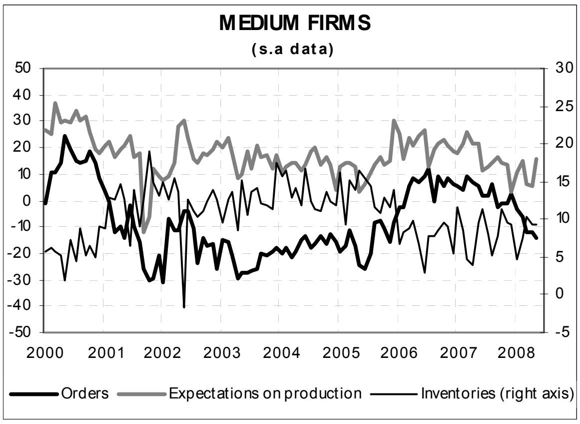
Between February and May 2008, manufacturing firms' confidence showed continual ups and downs. It suffered a setback in March and April, followed by a major recovery in May, thus basically returning to the level recorded three months earlier. However, notwithstanding the May widespread recovery, the splitting out of data by firm size showed markedly different rates. A particularly sharp upturn characterized large firms (with more than 500 employees): due to a higher than 5 points recovery in May, the index reached 89.8, moving above its February level. The index for small firms (with less than 100 employees) came in slightly higher than its February value (at 90.4), thanks to a 1.5 points rise. For medium-sized firms (employing 100-500 persons), the indicator (87.2) was still below its February reading, notwithstanding a recovery of more than two points.

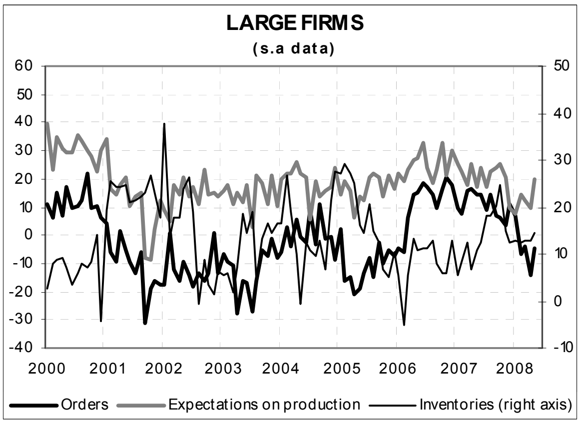
With regard to the variables included in the calculation of the confidence indicator, the May upturn was mainly due to improved forecasts for the level of production, which showed better optimism across all size groups. The opinions on the level of orders also posted a sharp recovery for large firms, remained virtually stable for small firms, and continued instead to decline for medium-sized firms. Lastly, inventories increased slightly in all groups (for large firms the level of inventories again came in decidedly above normal levels).

Confidence climante by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
February	89.7	90.1	89,7	88.0
March	89.2	90.2	84.6	88.1
April	87.6	88.9	84.6	84.2
May	89.6	90.4	87.2	89.8







Regional breakdown of ISAE survey results

The improvement in confidence recorded at the national level was widespread across the country. The seasonally adjusted index grew in all areas, though at different rates. In the North East and the Centre the indicator rose more than three points (from 84.6 to 88 and from 88.5 to 92, respectively), whereas in the North West and the *Mezzogiorno* the increase was more moderate (from 89.2 to 90.2 and from 87.4 to 90.1). In particular, the components breakdown of the indicator showed general optimism about both the opinions on the level of orders and production expectations. Respondents were instead more cautious about inventories, which were considered to have increased in all areas but the North East.

North West

In May, the confidence climate grew for the second month running, hitting its July 2007 level. In this area, the rise was mainly due to the improvement in the opinions on orders (only domestic ones) and in production expectations. Inventories of finished products sent instead negative signals.

North East

Following the deterioration posted in the previous month, in May entrepreneurs' confidence in the North East started to improve once more. The progress was related to the clear improvement in the opinion on orders (in this case, only domestic ones) and, above all, in production expectations. Assessments on inventories, which were considered to have slightly decreased, also gave positive indications.

Centre

In May, the index recovered, regaining its September 2007 level. The upturn was essentially driven by the improvement in both the opinions on the level of orders (which distinguished both foreign and domestic markets) and production expectations. The evaluation of inventories of finished products, which increased, sent instead less optimistic signals.

Mezzogiorno

Entrepreneurs' confidence in this area recovered, remaining however below the January-April average. The pick up was the combined result of positive opinions on the level of orders (both in domestic and foreign markets) and of optimistic production forecasts. On the other hand, inventories have built up once more.