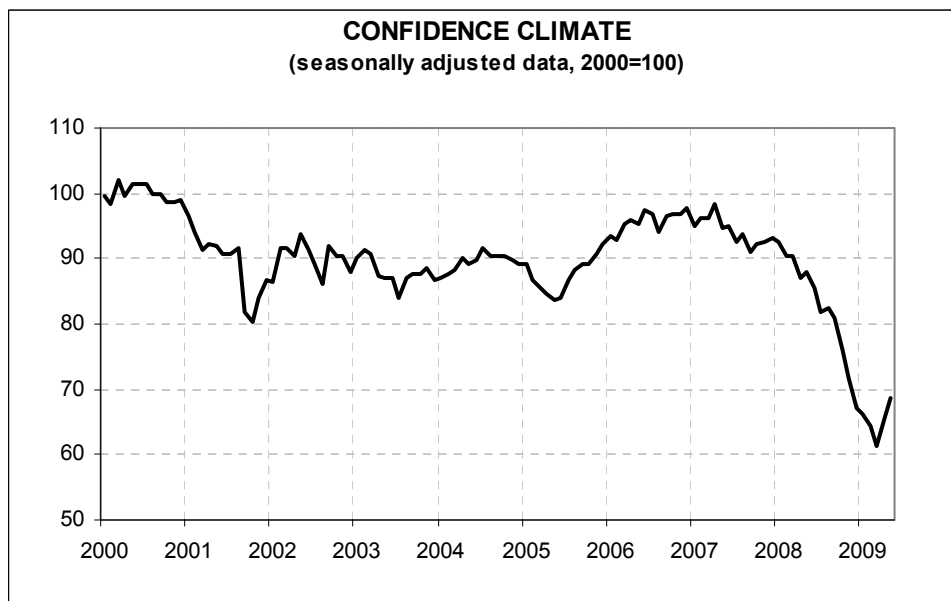




Date: May 28, 2009

## IN MAY MANUFACTURING FIRMS' CONFIDENCE CONTINUES TO SHOW SIGNS OF RECOVERY

- The seasonally adjusted confidence index (2000=100) increased to 68.7 from 65.5 in the previous month. Following seven consecutive declines, the indicator bettered for the second straight month, reaching the highest level since December 2008
- The improvement was mainly due to the de-stocking of inventories and to the growth in production expectations. Also orders and overall demand moderately increased
- In addition, firms made positive forecasts for the economic trend and for employment developments over the following three months
- At sector level, the most optimistic firms were mainly producers of consumer and intermediate goods (the balance rose from 74.8 to 78.2 and from 61.6 to 64.6, respectively). Confidence also bettered in the investment good sector (from 61.2 to 63.2)
- At the regional level, recovery in confidence was particularly strong in the North West (from 62.3 to 67.5) and the *Mezzogiorno* (from 73 to 77.3). Firms in the North East and the Centre were instead more cautious (the index moved from 64.3 to 66.7 and from 72.1 to 74.5)
- In May, manufacturing and mining firms' opinions on credit access conditions improved
- The share of firms that stated they failed to obtain funding from financial institutions in the last months declined as well
- According to the breakdown of data by firm size, the recovery in confidence recorded by the overall indicator in the last two months was particularly sharp among large firms (with more than 250 employees) and medium-sized ones (employing between 100 and 250 people)



**Data on June shall be released on June 25, 2009**

*The next ISAE surveys are scheduled as follows:*

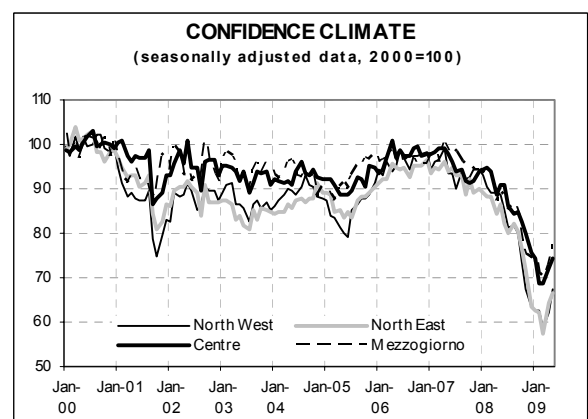
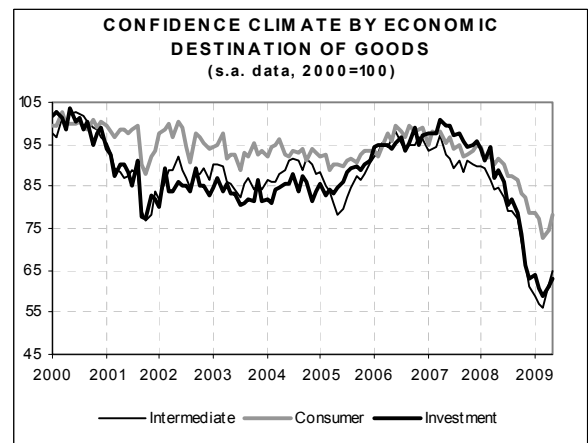
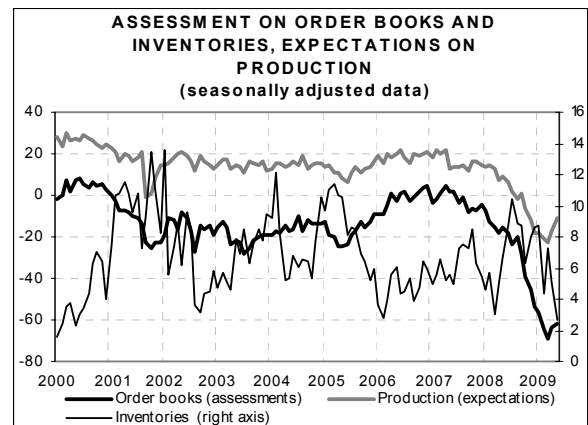
**June 24, 2009:** *ISAE Monthly Consumer Survey (reference period: June)*

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](http://www.isae.it))

## General results

According to the ISAE Survey carried out between May 1 and May 20 on a panel of about 4,000 firms, the seasonally adjusted confidence index of manufacturing and mining firms (2000=100) improved in May, reaching 68.7, from 65.5 in the previous month, and climbing above the value posted in December 2008. The rise was the second straight one in 2009, following seven consecutive declines. However, the indicator still remained at its 1983 level. Firms' opinions on the current state of demand and on the level of production showed some moderate signs of recovery. Moreover, the de-stocking of inventories, which started in April, continued in May. Pessimism eased also with regard to forecasts for employment and selling prices. Production and order expectations clearly improved.

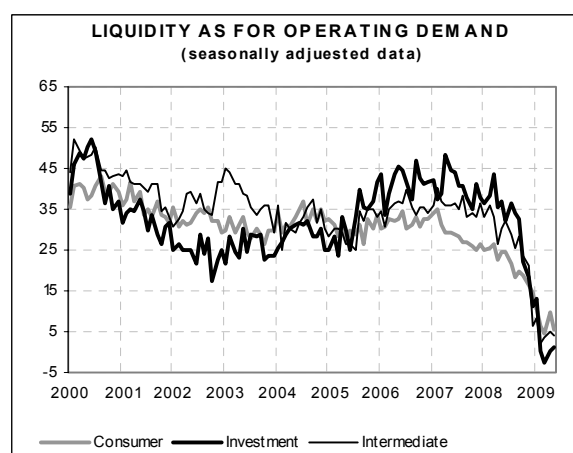
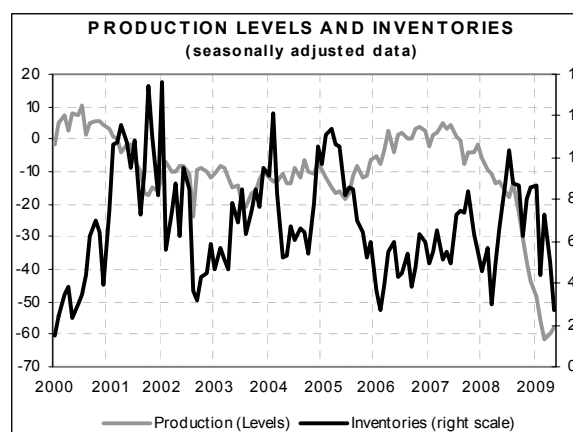
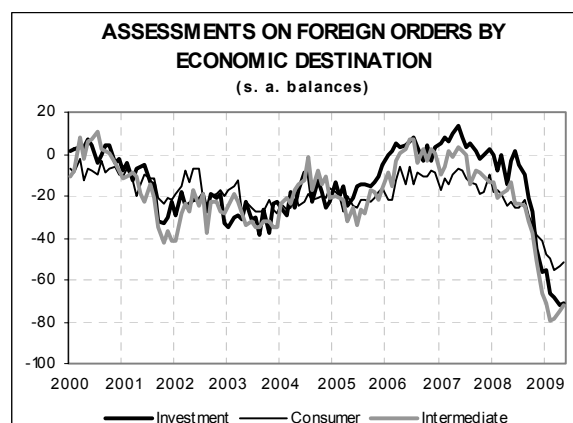
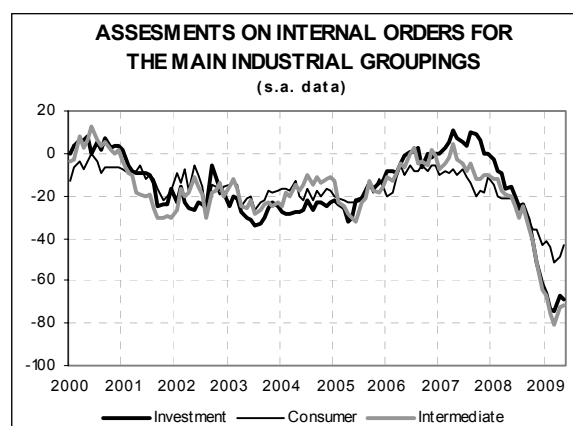
Firms' assessments showed a mixed picture at both sector and regional levels. Confidence mostly increased for consumer goods (the index surged from 74.8 to 78.2, going back to the value posted in January 2009). The index grew also for intermediate goods (from 61.6 to 64.6), while the recovery was more moderate for investment goods (from 61.2 to 63.2). At the regional level, the confidence index improved in the North West and the *Mezzogiorno* (bouncing from 62.3 to 67.5 and from 73 to 77.3, respectively). Firms in the North East and the Centre were positive but more reserved (the index moved from 64.3 to 66.7 and from 72.1 to 74.5).



### Situation in the reference period (May 2009)

In May, manufacturing firms gave a more confident appraisal of main company variables, confirming the modest signs of recovery emerged in the previous month. The balance for the opinions on orders reached -62 (from -64 in April), thanks to a modest recovery in both the domestic and foreign components of demand (from -62 to -61 and from -68 to -67, respectively). Compared to the previous month, entrepreneurs considered a rise in the level of production (the balance rose from -60 to -58) but a decline in company liquidity (from 5 to 3). Moreover, firms signalled a de-stocking of inventories for the second consecutive month (from 5 to 3).

Consumer and intermediate goods firms were the most optimistic. Producers of consumer goods indicated an improvement in the opinions on orders (from -49 to -43), mainly regarding domestic demand (the balance rose from -48 to -43; from -54 to -52 for foreign demand). Firms in this sector indicated stability in the level of production (at -42) and a moderate de-stocking of inventories (from 6 to 4). Company liquidity was considered to have worsened instead (from 10 to 5). Producers of intermediate goods gave positive assessments on overall orders (the balance rose from -74 to -72), but were more guarded with respect to the level of domestic demand (from -73 to -71). Firms in this sector recorded a fall in company liquidity (from 5 to 4) and a recovery, for the second month in a row, for the level of production (from -71 to -67). Moreover, the level of inventories diminished (from 2 to 1). For investment goods, the opinions on orders increased only one point (from -70 to -69), compared to a four-point recovery in the previous month. The improvement was held back by firms' still negative assessments on domestic demand (the balance declined from -67 to -69) and by their view of virtual stability for the level of foreign demand (at -72, its April level). In contrast, inventories diminished (from 7 to 5). Lastly, in this sector the balance for production edged down (from -64 to -65), whereas the one for liquidity improved (from 0 to 1).



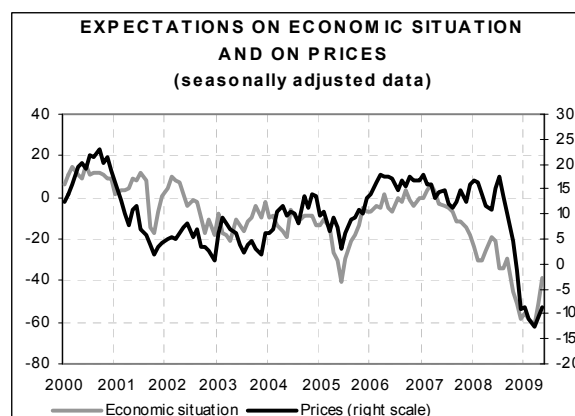
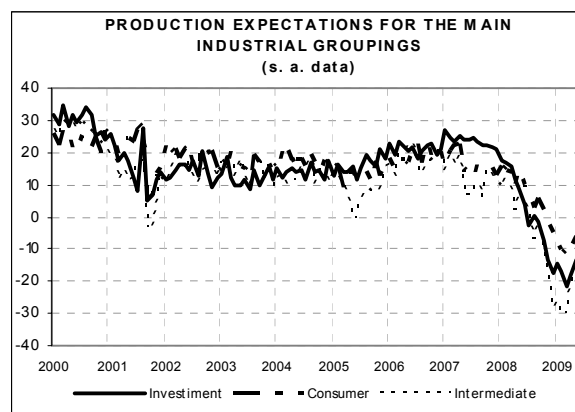
### Outlook for the following three months

In May, firms made more favourable forecasts, for the following three months, for developments in main company variables and the Italian economy in general. The balance for order expectations bounced indeed from -12 to -6 and the one for production from -17 to -11. Firms were decidedly more optimistic about expectations for the general economic situation (from -51 to -39). Instead, prospects for selling prices, company liquidity, and employment improved more moderately (from -10 to -9, from -22 to -20, and from -24 to -22, respectively).

At sector level, the survey showed a particularly positive trend for the forecasts of producers of investment and intermediate goods. Expectations of consumer goods firms improved only modestly. In detail, in the investment goods sector, firms' prospects for demand and the country's general economic situation markedly increased (from -14 to -4 and from -50 to -27, respectively). Forecasts for production and company liquidity recorded a more moderate improvement (from -18 to -13 and from -25 to -20). Expectations for employment and selling prices bettered only slightly (from -22 to -21 and from -10 to -8). For consumer goods, optimism rose more moderately than in the other sectors with regard to forecasts for orders, production, and the general economic situation (the related balances increased, in the order, from -9 to -4, from -10 to -6, and from -46 to -26). The balance for selling price prospects declined (from -1 to -3), the one for liquidity marginally recovered (from -13 to -12), while the balance for employment remained stable (at -20, as in April). Lastly, in the intermediate goods sector, the clear improvement in the forecasts for orders (from -20 to -11), production (from -21 to -14), and the country's general economic situation (from -51 to -38) came along with a small decrease in price expectations (from -17 to -15), a modest worsening in prospects for company liquidity (from -26 to -27), and a slight improvement in employment forecasts (from -22 to -21).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Feb. 2009	64,4	-64	4	-21
Mar. 2009	61,3	-69	7	-23
Apr. 2009	65,5	-64	5	-17
May 2009	68,7	-62	3	-11

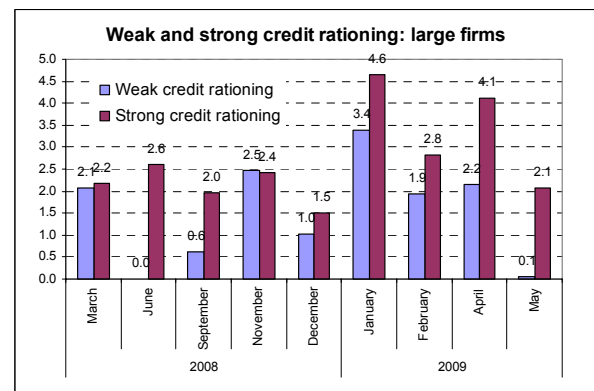
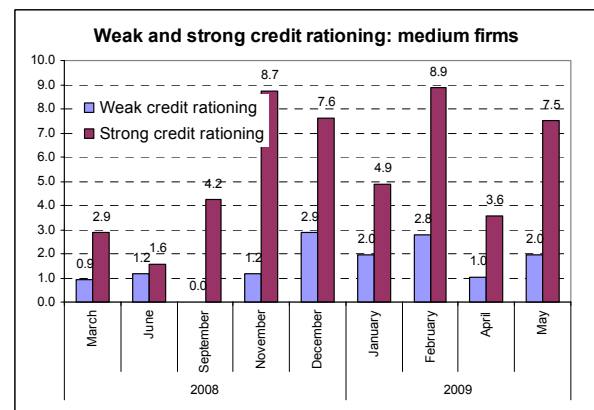
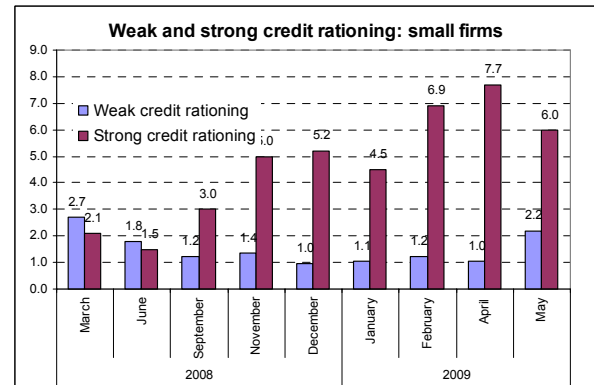
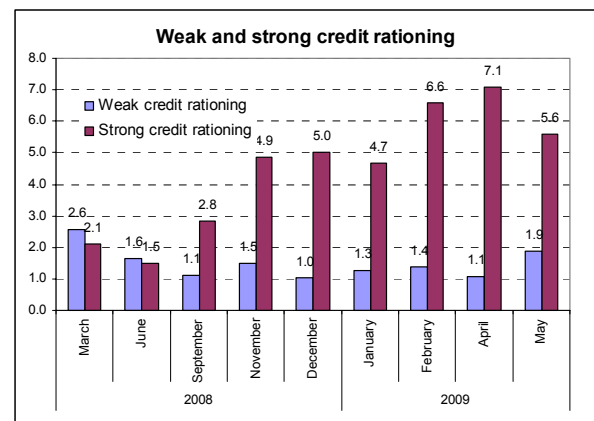


## Credit access conditions

In May, manufacturing and mining firms' opinions on credit access conditions improved. The share of firms considering deterioration for credit availability declined from 33.6% to 28.2% of the sample. The fall was particularly sharp for medium-sized firms (from 37.9% to 29.5%) and large-sized ones (from 32.3% to 25.5%). At the regional level, mainly firms in the North East and the *Mezzogiorno* experienced more favourable credit terms.

The percentage of firms which stated they did not obtain credit from financial institutions in the last months diminished (from 8.2% to 7.5%), showing however large differences according to firm size. Actually, the proportion of credit rationed firms only slightly decreased for small and large firms, whereas rationing increasingly affected medium-sized ones. At regional level, the picture did not show significant differences.

The failure to obtain credit was again increasingly caused by explicit denial by banks, though less than in the previous month; medium-sized firms which considered they endured "harsh" rationing instead noticeably increased (from 3.6% to 7.5%). Lastly, the share of firms that rejected funding because of too onerous credit terms ("soft" rationing) slightly rose from 1.1% to 1.9%. In this case, firms refusing excessively costly conditions were mainly small-sized firms and, at regional level, firms in the North West and the Centre.



**Focus: Confidence trend by firm size**

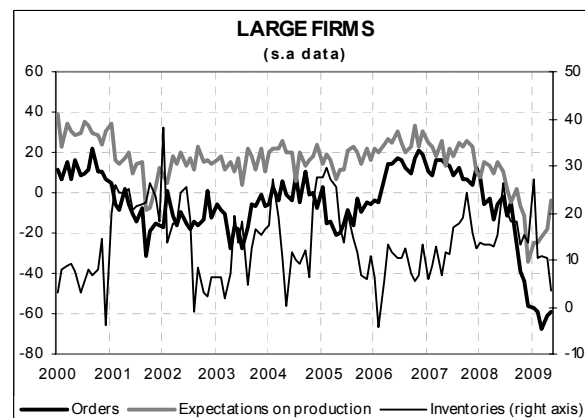
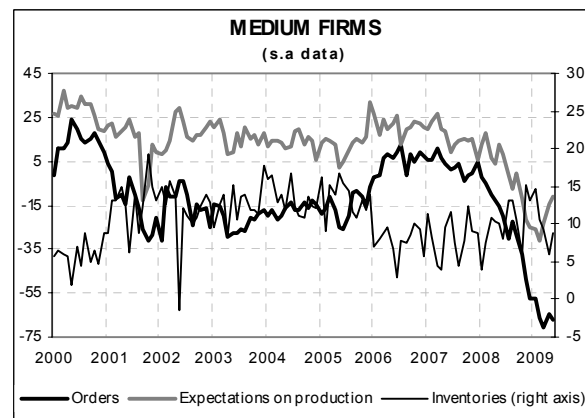
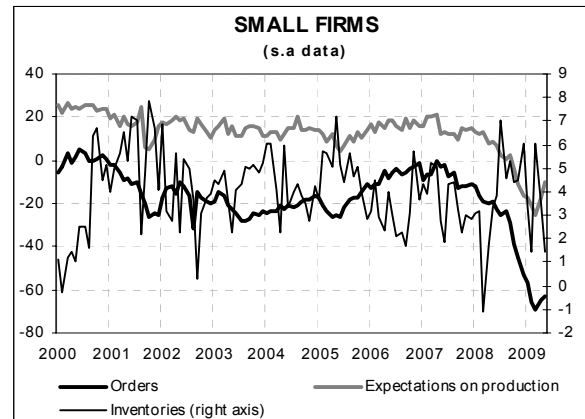
Following another fall in March, manufacturing firms' confidence showed signs of recovery in April and May. The related indicator was about four points higher than last February. The splitting out of data by firm size pointed to sharper improvement for large firms (with more than 250 employees) and medium-sized ones (employing 100-250 persons). The increase was however significant also for small firms (with less than 100 employees).

In particular, for the latter, the confidence indicator abruptly fell in March (from 66 to 61.9) and recovered in April and May (reaching 66.5 and 69.9, respectively). For medium-sized firms, the confidence indicator posted instead a moderate upturn in March (from 57.3 to 58.4) and increased mostly in April (to 64.1), but deteriorated slightly in May (to 63.5). Large firms showed developments similar to those recorded by smaller ones: the index actually lowered in March, but recuperated in April and May (moving on the whole from 59.5 in March to 69.8 in May).

As for the variables included in the calculation of the confidence climate, for all firm sizes the recovery posted between March and May was mainly due to a gradual de-stocking of inventories, which came along with a recovery in short-term production expectations. Also the opinions on orders sent positive signals, rising in April and May from the lows hit at the end of the last quarter.

**Confidence climate by firm size**

	Confidence Climate	Small Firms	Medium Firms	Large Firms
Feb. 2009	64,4	66,0	57,3	61,2
Mar. 2009	61,3	61,9	58,4	59,5
Apr. 2009	65,5	66,5	64,1	62,6
May 2009	68,7	69,9	63,5	69,8



## Regional breakdown of ISAE survey results

In May, the recovery in manufacturing firms' confidence posted at the national level mirrored the clear progress of the index in the North West and the *Mezzogiorno* (from 62.3 to 67.5 and from 73 to 77.3, respectively). In the North East and the Centre the index improved more moderately (reaching 66.7 from 64.3 and 74.5 from 72.1). The underlying components of the indicator showed a general improvement in production expectations - across all areas - and a slight fall in inventories, mainly in the North West and the *Mezzogiorno*. The opinions on orders gave instead contrasting indications: the balance improved in the North West and the Centre, remained stable in the North East, and worsened in the *Mezzogiorno*.

### North West

The confidence index increased for the second month running, reaching the level posted in November 2008. In this area, the improvement mainly distinguished the opinions on the level of orders (from -71 to -68; lower pessimism characterized both domestic and foreign demand) and production expectations (from -23 to -12). Also the level of inventories of finished products sent positive signals (the balance moved from 3 to 0).

### North East

Following the improvement recorded in the previous month, in May entrepreneurs' confidence in this area continued to increase. The recovery mainly stemmed from more favourable expectations regarding production (from -16 to -9), while orders were considered to have remained stable (at -63). The favourable picture was completed by the positive indications coming from the level of inventories of finished products, which slightly edged down (from 7 to 6).

### Centre

In May, in the Centre the confidence index increased once more, hitting the level posted in January 2009. The improvement characterized both the opinions on the level of orders (from -57 to -54, rising by the same amount in domestic and foreign markets) and

production expectations (from -10 to -6). Also inventories moderately decreased (from 1 to 0).

### Mezzogiorno

The sharp increase in firms' confidence in the *Mezzogiorno* was due to a marked improvement in production expectations (from -4 to 6). The balance for the opinions on the level of orders worsened instead (from -50 to -51), showing higher pessimism for foreign orders (from -51 to -58). Also in this area, inventories diminished (from 11 to 7).

