



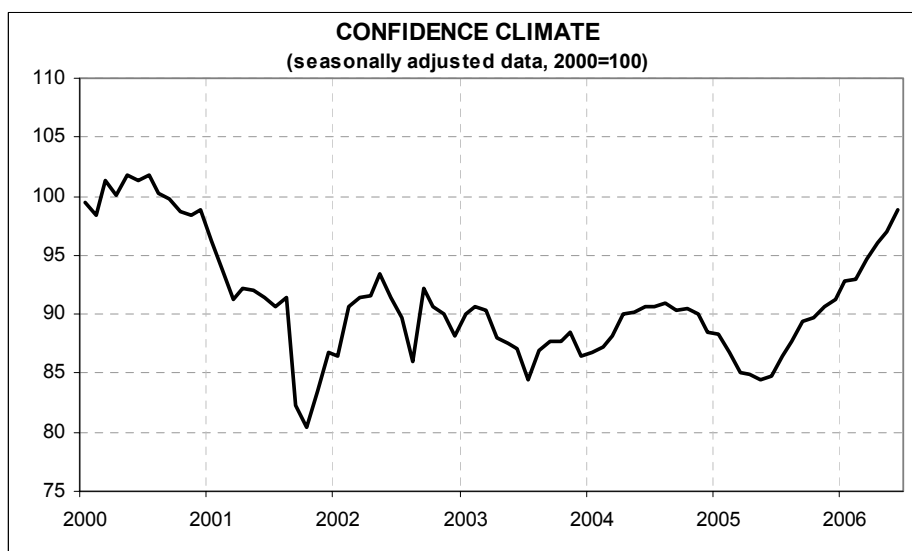
Date: **June 27, 2006**
TEL.: **06/444821**

MANUFACTURING FIRMS' CONFIDENCE EXTENDS ITS UPWARD PATH IN JUNE

- The seasonally adjusted confidence index (2000=100) rose to 98.9 from 97 in May, thus remain at its highest level since December 2000
- Current cyclical developments sent clear signs of improvement which were widespread across sectors, and were particularly strong among producers of consumer goods
- Furthermore, surveyed firms generally gave a more optimistic appraisal of short term developments for orders and production. They nevertheless generally portrayed a less favourable picture for the Italian economy and some pressures for selling prices
- On a regional basis, the confidence index increased in the North West (from 96.3 to 99.6), the Centre (from 98 to 99.6) and the *Mezzogiorno* (from 96.9 to 99.8), while it decreased - following the rises posted in the last months - in the North East (from 96.2 to 95.2)
- The assessment on the level of orders improved homogeneously across the country, whereas production expectations and opinions on inventories of finished products sent contrasting signals

IN THE 2Q 2006 ASSESSMENTS AND EXPECTATIONS ON EXPORT TURNOVER IMPROVED

- The balances of assessments and expectations on export turnover increased from 4 to 8 and from 13 to 15, respectively, while the balance for the evaluation of export price developments edged down
- Among export markets, the share of exports going to the United States and to the European countries, other than France, Germany, the United Kingdom and the Benelux, grew, while the percentage of those going to the non-European countries (excluding the United States) declined
- Finally, firms pointed to a rise in competitive pressures from the United States, the European Union countries and China. Competitiveness of the non-EU European countries and of the rest of the world diminished instead



Data on July shall be released on July 25, 2006

The next ISAE surveys are scheduled as follows:

June 28, 2006: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: May), ISAE Monthly Business Services Survey (reference period: June) and ISAE Monthly Survey on Construction (reference period: May)

July 6, 2006: ISAE International Comparison of Consumer and Business Surveys (reference period: June)

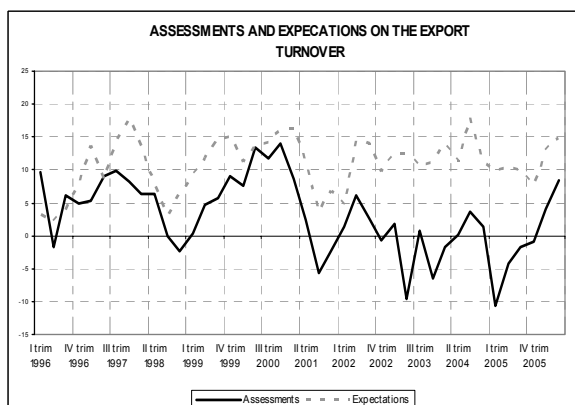
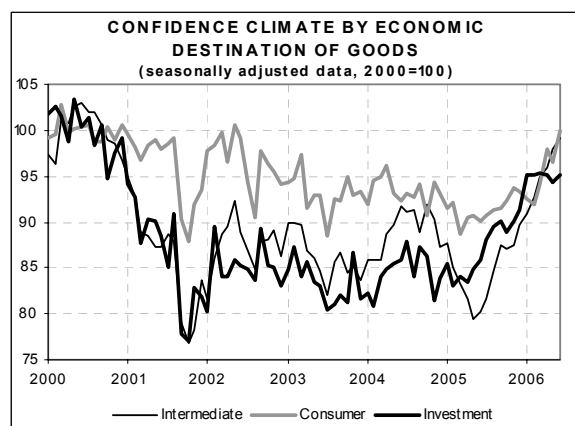
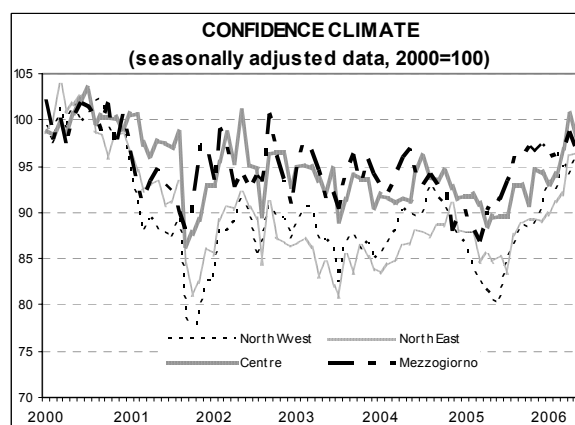
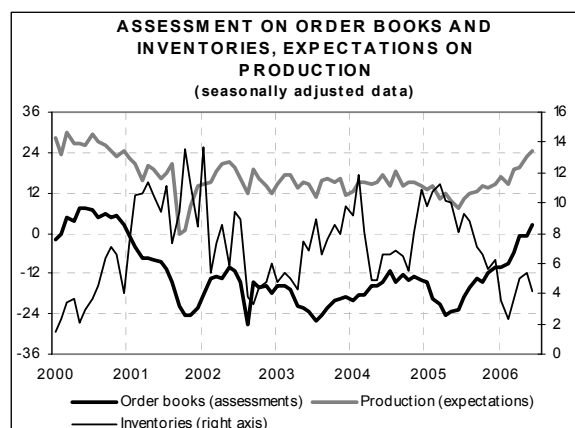
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between June 5 and June 19, pointed to a rise in the seasonally adjusted confidence index of manufacturing and mining firms. The index moved from 97 in May to 98.9 in June, hovering around its highest level since December 2000: production expectations improved and the balance for current orders went back in positive territory for the first time since December 2000. Confirming their positive trend, firms also recorded a slight de-stocking of inventories compared to the previous month. Respondents were also more optimistic about the prospects for orders, liquidity and employment, while (in line with what emerged from the ISAE survey of consumer confidence) short term expectations on the Italian economic trend worsened.

The improvement in confidence mainly characterized the consumer goods sector where the index jumped from 96.5 to 99.9, the best result since May 2002. The indicator increased from 98 to 99.1 for intermediate goods and from 94.4 to 95 for investment goods. On a regional basis, confidence grew in the North West (from 96.3 to 99.6), the Centre (from 98 to 99.6) and the *Mezzogiorno* (from 96.9 to 99.8), while it worsened – following the improvements recorded in the last months – in the North East (from 96.2 to 95.2). The assessment on orders bettered homogeneously across the country, while production expectations and opinions on inventories of finished products sent contrasting signals.

The traditional ISAE quarterly survey on exporting firms also confirmed the broad improvement in the general economic trend: the survey showed an enhancement in assessments and forecasts on export turnover. With regard to the geographical breakdown of export destinations, the share of exports going to the United States and to the European countries, other than France, Germany, the United Kingdom and the Benelux, grew, while the percentage of those going to the non-European countries (excluding the United States) declined. Finally, firms pointed to a rise in



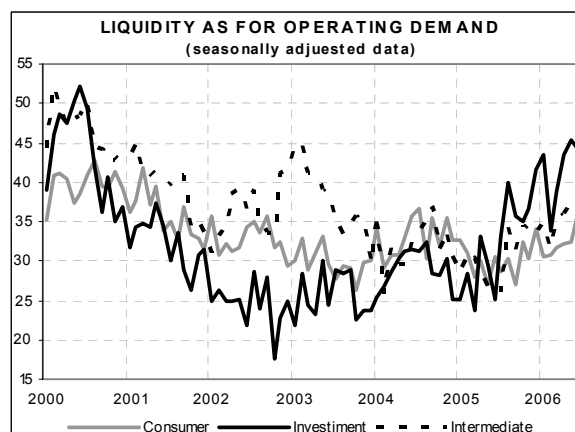
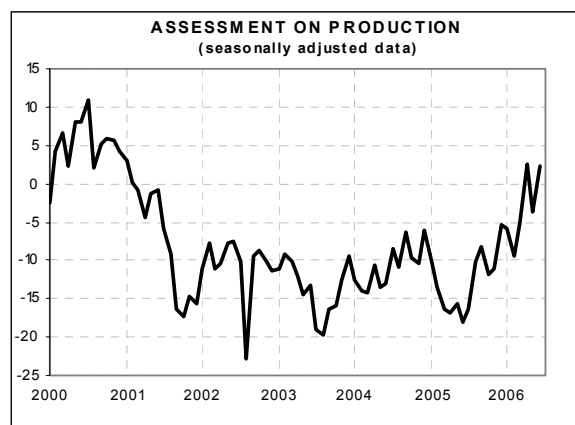
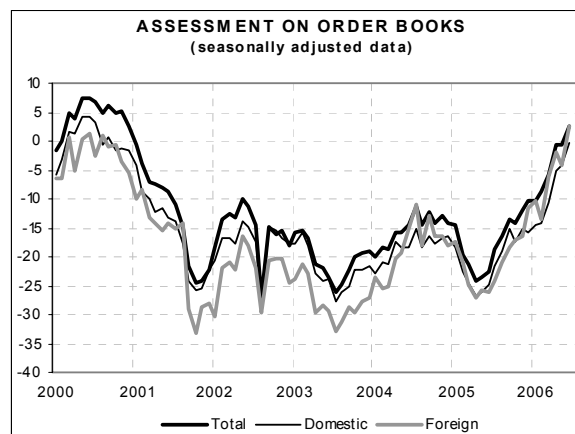
competitive pressures from the United States, the European Union countries and China. Competitiveness of non-EU Europe and of the rest of the world diminished.

Situation in the reference period (June 2006)

In June, current cyclical developments sent clear signs of improvement which were widespread across sectors and were particularly strong among producers of consumer goods.

For the first time since December 2000, firms posting favourable opinions on the trend for orders and demand started once more to outnumber those expressing a negative assessment: the seasonally adjusted balance thus increased to 2 (from -1), and the improvement mainly characterized foreign markets (where the balance jumped from -4 to 3, compared to a rise from -4 to 0 for domestic orders). Likewise, the balance for current production levels grew from -4 to 2, also in this case returning in positive territory. According to surveyed firms, the balance for the ratio of liquidity to operational requirements rose as well (from 37 to 38). Finally, stocks of inventories slightly declined compared to the previous month (the balance moved from 5 to 4), staying below the long term average of the variable.

Particularly favourable indications came from producers of consumer goods, who gave a more confident appraisal of orders (the balance rose from -7 to 0: from -10 to -4 for domestic orders, and from -14 to -7 for foreign ones), of production (from -8 to 0) and of the ratio of liquidity to operational requirements (from 32 to 35). The balance for inventories remained instead unchanged at 7, around its long term average. Positive developments were also disclosed by producers of investment goods: the assessment on orders increased from 3 to 4 (from 0 to 2 in the domestic market and from 4 to 6 in foreign markets), the evaluation of production rose from 1 to 3, while that of liquidity held steady at its previous month level (at 45). In this case, stocks of inventories declined from 8 to 6. Finally, for intermediate goods, the assessment



on orders recovered (from 1 to 3), rising homogeneously in both domestic (from -5 to 0) and foreign markets (from 2 to 7). Also the evaluation of production clearly recovered (from -2 to 4), and the building up in stocks slowed down (the balance moved from 4 to 3). The balance for the assessment on liquidity remained unchanged, at 37.

Outlook for the following three months

In June surveyed firms were generally more optimistic about short term developments for orders and production. However, they portrayed on the whole a less favourable situation for the Italian economy and some pressures for selling prices.

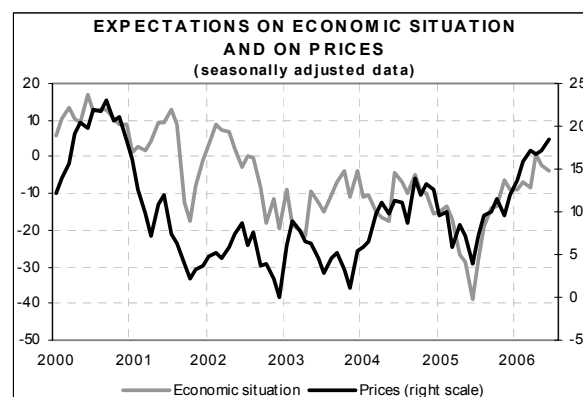
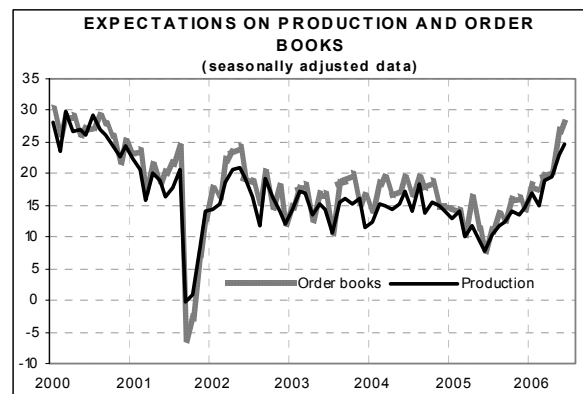
The balance for production expectations rose to 25 (compared to 23 in May) and that for orders increased to 29 (from 27), reaching, in both cases, the highest level since September 2000. Also expectations on employment improved somewhat (from 3 to 4), while those for liquidity worsened (the balance declined from 6 to 3, after the rises posted in the last months). In line with the ISAE survey on consumer confidence, in June respondents were nevertheless more concerned about the general prospects for the Italian economy: the related balance declined to -4 from -2 in the previous month. In addition, expectations for a new rise in selling prices grew; the balance reached its highest level since November 2000.

Forecasts were generally favourable among producers of consumer and intermediate goods, while surveyed firms were more reserved in the investment goods sector. Producers of consumer goods improved their expectations for production and orders (from 19 and 24 to 22 and 25, respectively), and for liquidity (from 0 to 3). In this sector, firms were also more optimistic about general economic prospects (the balance rose from 1 to 2). Employment and price expectations represented an exception to the above favourable picture: the balance for the former variable lowered from 3 to 2, and that for the latter rose from 7 to 9. In the intermediate goods sector, expectations for orders, production, employment and company liquidity

all improved (from 29 to 33, from 26 to 27, from 1 to 5 and from -1 to 1, respectively), and the balance of expectations for selling prices also decreased compared to the high levels of the previous months (moving from 25 to 24). Nevertheless, firms viewed Italian economic prospects more negatively (the related balance lowered from -3 to -9). Finally, investment goods firms sent negative signals regarding expectations for orders (the balance declined from 26 to 21), production (from 22 to 21), liquidity and employment (the last two variables both lowered from 6 to 3) and the general economic situation (from 8 to 1). On the contrary, expectations on selling prices increased (from 16 to 18).

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

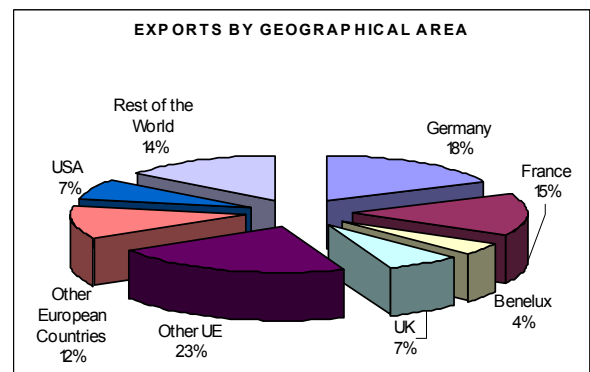
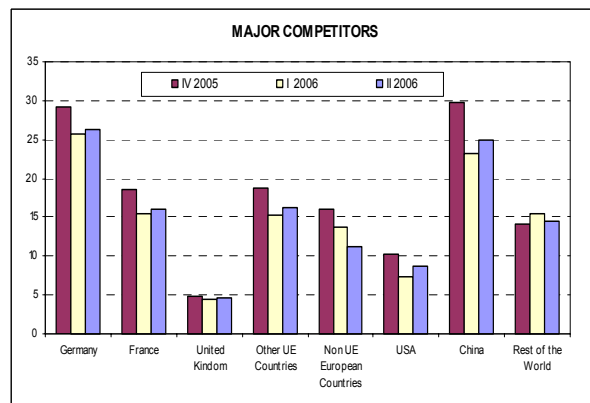
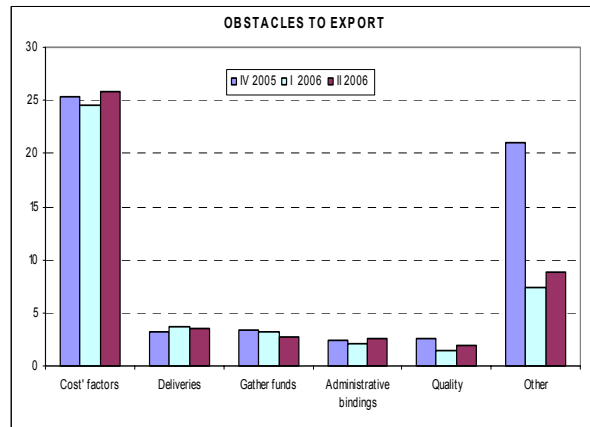
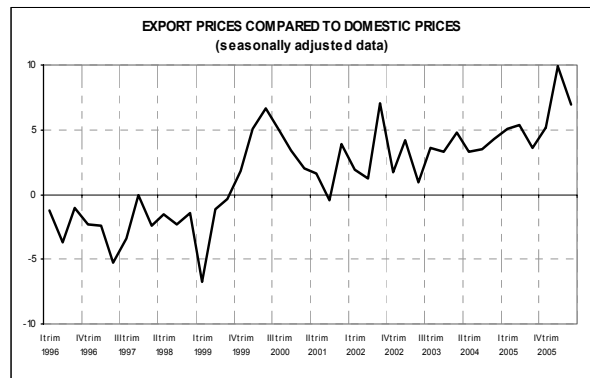
	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Mar. 2006	94,7	-6	4	19
Apr 2006	96,1	-1	5	20
May 2006	97,0	-1	5	23
June 2006	98,9	2	4	25



The ISAE quarterly survey on exporting firms

According to the ISAE quarterly survey on exporting firms (for which exports accounted for about 37.2% of total sales), export turnover improved in the second quarter and was expected to rise further in the third quarter of 2006: the balances increased from 4 to 8 and from 13 to 15, respectively, reaching the highest level of the last years. However, export constraints reflected some uncertainties: a rising share of respondents perceived the existence of factors limiting their export activity (36% of the sample, compared to 32% in the first quarter). The increase largely stemmed from problems connected to the cost and the quality of goods. The exchange rate appreciation may have also played a part, as shown by the respondents' perception of higher competitive pressures coming from the United States, as well as from China and the European Union countries. Firms' competitive position improved instead with respect to non-EU European countries and to the rest of the world.

The geographical breakdown of export destinations pointed to a slight rise in the second quarter in the proportion of exports going to the European Union countries and to the United States, while the share of non-EU Europe and of the rest of the world remained stable. Finally, according to the surveyed firms, the ratio between export and domestic prices slightly declined, moving to 7 from 10 in the previous survey.



Regional breakdown of ISAE survey results

The improvement in confidence was not equally spread across regions: the seasonally adjusted index rose in the North West (from 96.3 to 99.6), the Centre (from 98 to 99.6) and the South (from 96.9 to 99.8), while it declined in the North East (from 96.2 to 95.2). The assessment on the level of orders improved homogeneously across the country, while expectations on production and opinions on inventories of finished products showed contrasting trends.

North West: the recovery in confidence, which started in the second half of 2005, continued in June. The index returned near the level posted in the second half of the year 2000. The improvement was backed by a rise in the balance for inventories and orders (in both foreign and domestic markets) and, above all, by greater optimism about short term prospects for production.

North East: the upward trend in the index, ongoing since December 2005, suffered a setback: the worsening mainly stemmed from a fall in production expectations and from a deterioration in the opinions on the level of inventories. Positive signals came, instead, from the assessments on orders and demand, chiefly regarding foreign markets.

Centre: in this region the index rose nearly two points, reaching the highest level of the last months, mainly thanks to an improvement in the opinions on orders (foreign and domestic). Negative indications came, instead, from inventories which were considered to be building up, and from production expectations, for which the balance underwent a slight decline.

Mezzogiorno: following the drop in the previous month, in June the index recovered three points, regaining the average level posted at the end of 2000. The improvement is the result of the sum of generally positive opinions: the balance for the assessment on the level of orders rose (the improvement was noticed both in foreign and domestic markets), returning close to positive values for the first time since 2000. Optimism also characterized the assessment on inventories of

finished products and expectations on the production trend.

