



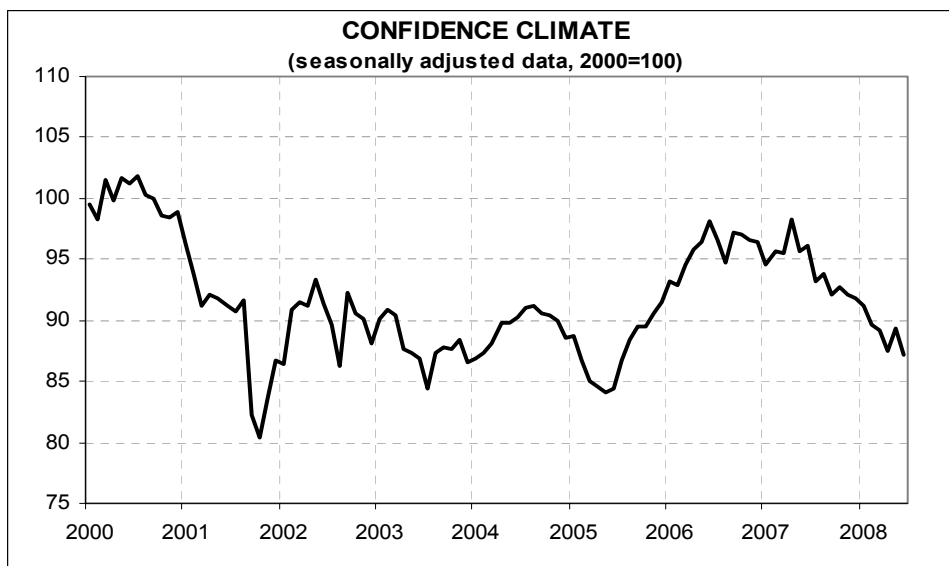
Date: **June 26, 2008**  
TEL.: **06/444821**

### IN JUNE MANUFACTURING FIRMS' CONFIDENCE GOES AGAIN INTO A DECLINE

- The seasonally adjusted confidence index (2000=100) decreased to 87.1 from 89.4 in the previous month, reaching the lowest level since July 2005
- According to the IFO Survey, a similar fall in confidence characterized German manufacturing firms
- Entrepreneurs were more pessimistic about the current state of demand and production prospects. Inventories continued to build up, coming in above their long term level
- Confidence worsened in all main sectors: the index lowered from 90.3 to 87.4 for investment goods, from 92.7 to 90.7 for consumer goods, and from 86.7 to 84.2 for intermediate goods
- At the regional level, developments were somewhat mixed: confidence increased slightly in the Centre (from 92.3 to 92.5), but diminished in the North West (from 90 to 87), the North East (from 87.8 to 83.4), and the *Mezzogiorno* (from 90.3 to 89.5)

### EXPORT TURNOVER CONTINUES TO LOWER IN THE 2Q 2008, BUT IS EXPECTED TO RECOVER IN THE FOLLOWING THREE MONTHS

- According to surveyed entrepreneurs, the export to domestic price ratio started to rise once more, while factors limiting export activity were considered to have remained stable
- With regard to export destinations, the proportion of exports going to Germany diminished, whereas the one for those headed for the United Kingdom increased, in a situation of virtual stability for the share of exports going to all other main markets
- Lastly, competitive pressures from China and from the other countries, apart from the European ones and the United States, began to climb again



**Data on July shall be released on July 24, 2008**

*The next ISAE surveys are scheduled as follows:*

**June 27:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: June), ISAE Monthly Business Services Survey (reference period: June) and ISAE Monthly Survey on Construction (reference period: May)

**July 3:** 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](http://www.isae.it))**

## General results

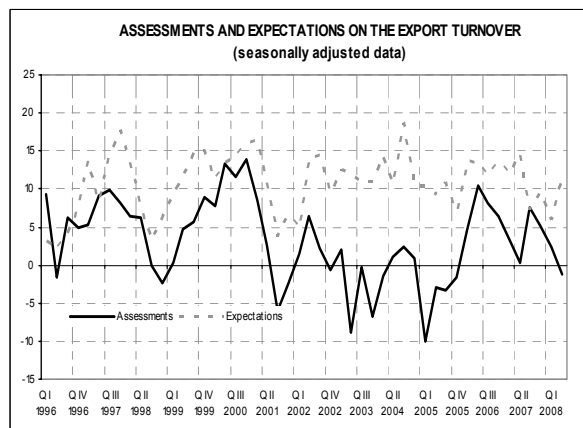
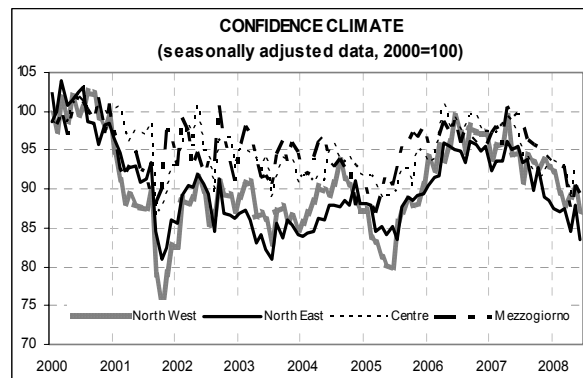
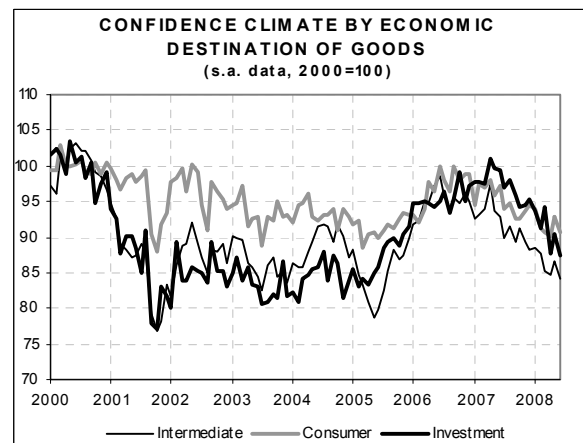
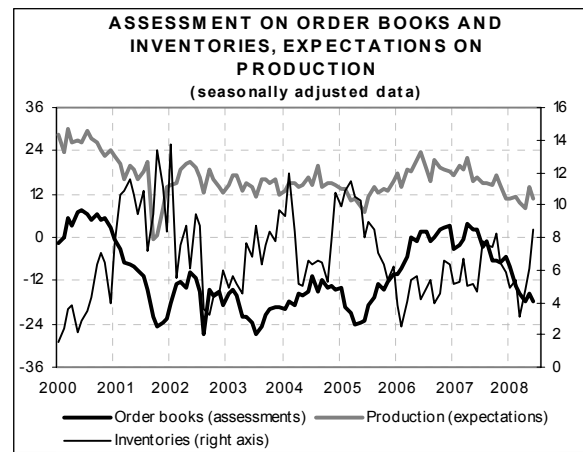
According to the ISAE Survey, carried out on a panel of about 4000 firms between June 3 and June 18, the confidence index of manufacturing and mining firms resumed a downward path. In June, the seasonally adjusted index (2000=100) declined to 87.1 from 89.4 in the previous month, the lowest level since July 2005. The IFO Survey pointed to a similar fall in confidence for German manufacturing firms.

Italian entrepreneurs were more pessimistic about the current state of demand (both domestic and foreign) and production prospects. Inventories continued to build up, coming in above their long term value. Also the level of production declined, and forecasts for orders and the general economic trend deteriorated. Expectations for employment and company liquidity remained instead unchanged.

Confidence worsened in all main productive sectors: the index lowered from 90.3 to 87.4 for investment goods, from 92.7 to 90.7 for consumer goods, and from 86.7 to 84.2 for intermediate goods. At the regional level, developments were instead somewhat mixed: confidence increased slightly in the Centre (from 92.3 to 92.5), but diminished in the North West (from 90 to 87), the North East (from 87.8 to 83.4), and the *Mezzogiorno* (from 90.3 to 89.5)

According to the traditional ISAE Survey on exporting firms, in the second quarter of 2008 turnover on foreign markets continued to lower, but was expected to recover in the following three months. The export to domestic price ratio started to rise once more, while factors limiting export activity were considered to have remained stable. With regard to export destinations, the proportion of exports going to Germany diminished, whereas the one of those headed for the United Kingdom increased, in a situation of virtual stability for the share of exports going to all other main markets.

Competitive pressures from China and from other countries, apart from the European ones and the United States, began to climb again.



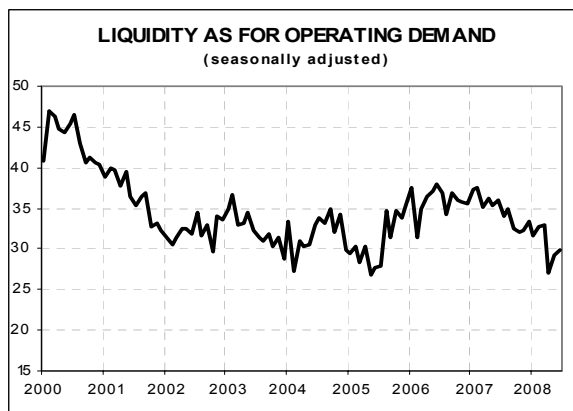
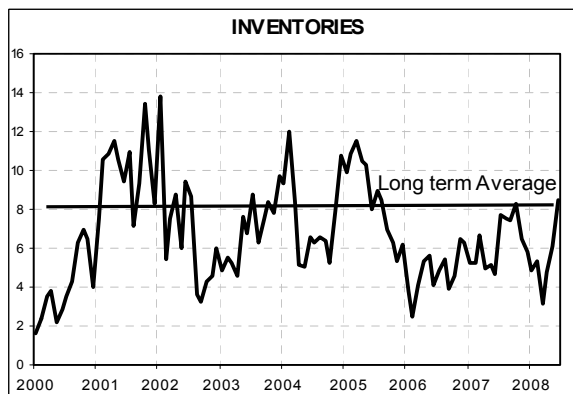
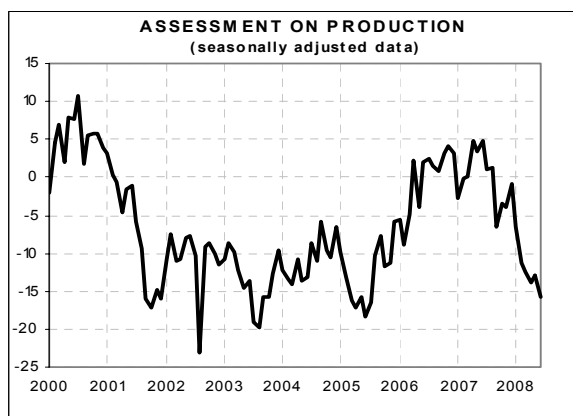
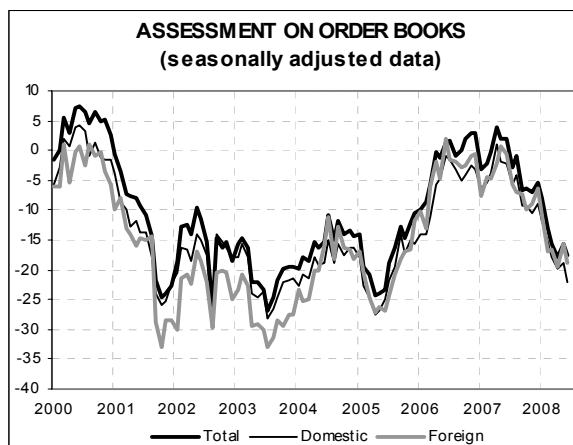
### Situation in the reference period (June 2008)

In June, firms' evaluation of the trend in main company variables worsened. The balance for the opinions on orders declined to -18 (from -16 in May), due to a fall in both domestic demand (from -19 to -22) and orders from abroad (from -16 to -19). Also the level of production was considered to have diminished (from -13 to -16), while inventories sharply built up (the balance rose from 6 to 9). Company liquidity showed some signs of recovery instead (from 29 to 30).

Pessimism about the current situation distinguished all main productive sectors. For investment goods, however, opinions on orders recovered slightly (from -3 to -2), thanks mainly to the foreign component (from -3 to 1), whereas domestic orders declined instead (from -15 to -19). Nevertheless, in this sector assessments on the level of production and company liquidity decreased (from -1 to -6 and from 37 to 32, respectively) and inventories markedly increased (from 6 to 12). In the consumer goods sector, opinions on orders worsened instead (from -18 to -21), lowering in both domestic and foreign markets (from -20 to -23 and from -23 to -26, respectively). Also the balance for the level of production diminished (from -16 to -20), while the one for company liquidity remained stable (at 25). Differently from the other sectors, in the consumer goods one inventories diminished slightly (from 6 to 5). Also producers of intermediate goods gave negative indications: opinions on orders lowered from -19 to -21, lowering in both domestic and, mainly, foreign markets (from -20 to -24 and from -14 to -24). Also assessments on the level of production worsened slightly (from -16 to -17) and inventories continued to build up (from 7 to 11). In opposing trend, company liquidity partially recovered (from 31 to 33).

### Outlook for the following three months

In June, prospects for nearly all main company variables and the general economic situation worsened. Moreover, inflationary pressures further accelerated.

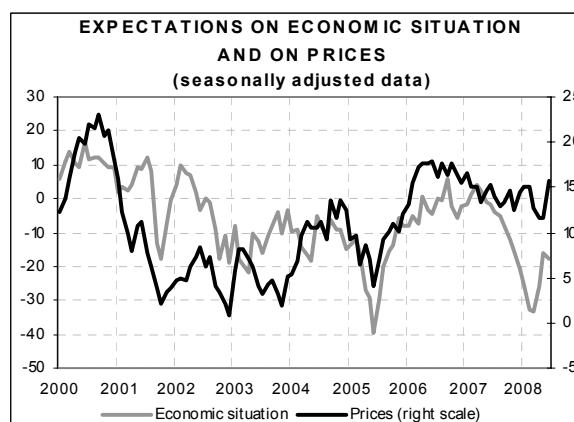
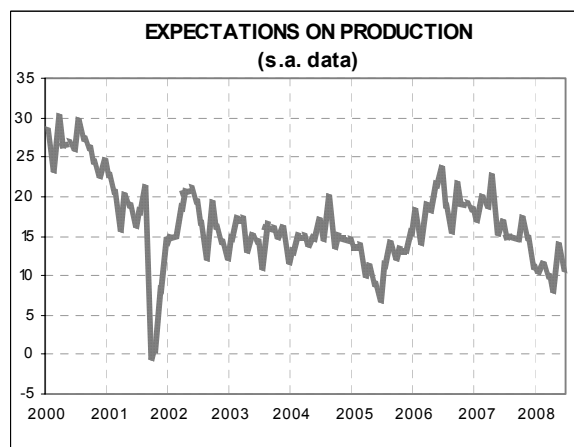
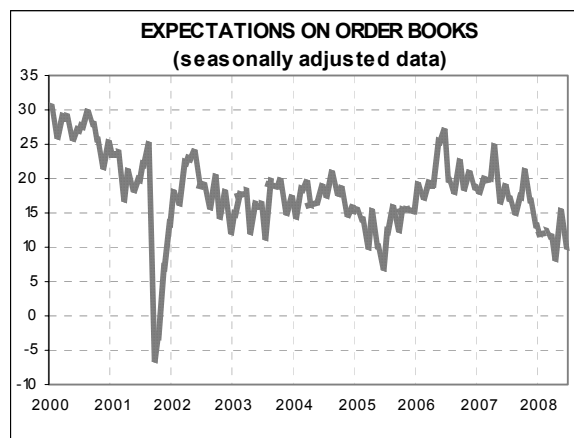


The balance for orders and production expectations declined from 15 to 10 and from 14 to 11, respectively. Forecasts for employment stabilized instead (at -2) and those for company liquidity recovered slightly (from -3 to -1). On the other hand, the balance for the country's economic situation declined (from -16 to -18) and expectations for higher selling price inflation started to increase once more (moving from 12 to 16).

Developments were rather homogenous across sectors: for investment goods, demand and production expectations dropped sharply (from 18 to 9 and from 13 to 8). Employment prospects recovered instead (from 5 to 7). However, forecasts for the country's general economic situation worsened (from -6 to -13), following the marked recovery posted in the previous month, and inflationary pressures rekindled (the balance rose from 14 to 19). In the consumer goods sector, deterioration characterized expectations for orders (from 19 to 13), production (from 17 to 12), employment (from -5 to -6), and the general economic situation (from -10 to -14). Prices and liquidity expectations sent instead less unfavourable signals: the balance for the former variable remained stable at 9 and the one for the latter variable edged up from 1 to 2. Lastly, for intermediate goods, the balance related to expectations for orders, production, liquidity, and the general situation declined, in the order, from 11 to 9, from 12 to 11, from -5 to -7, and from -16 to -19. New, strong inflationary pressures emerged (the balance surged from 11 to 18) and employment expectations remained unchanged (at -3).

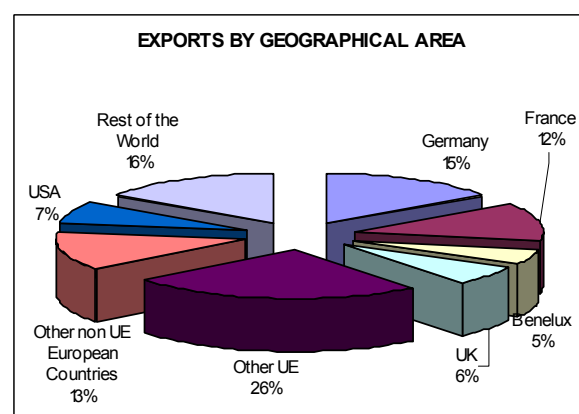
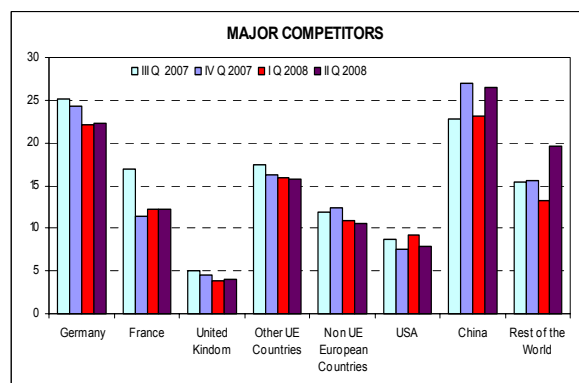
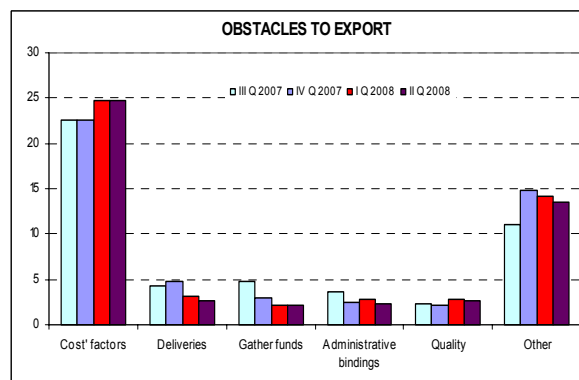
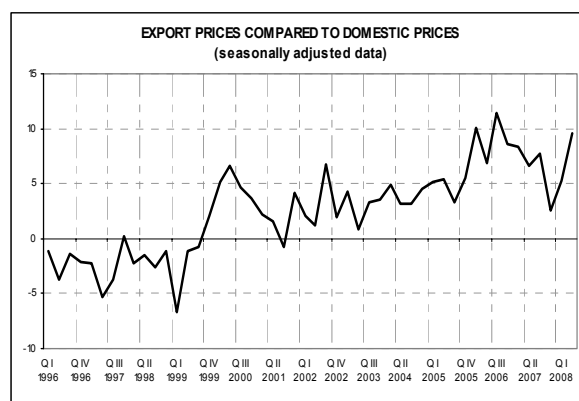
**Manufacturing firms' confidence climate and balances of indicator-building series**

	Confidence climate	Order-book level	Inventories	Expectations on production
Mar. 2008	89.1	-16	3	10
Apr. 2008	87.4	-18	5	8
May 2008	89.4	-16	6	14
June 2008	87.1	-18	9	11



## The ISAE quarterly survey on exporting firms

In the second quarter of 2008, the traditional ISAE quarterly survey on exporting firms (for which exports accounted on average for about 38.7% of total sales, one percentage point above the previous survey) showed that respondents gave negative assessments on current export turnover, but projected a recovery in the following three months (the related balances moved from 2 to 0 and from 8 to 10, respectively). Furthermore, the ratio between export and domestic prices continued to increase (the balance went up from 6 to 8). With regard to export constraints, the share of respondents reporting considerable obstacles held steady at 39%. In particular, the proportion of firms signalling constraints related to costs, delivery delays and “other factors” remained unchanged at 25%, 3% and 14%, respectively. The share of firms mentioning red tape declined instead from 3% to 2% of the sample. As for competitive pressures, those from China started to markedly increase once more (they were mentioned by 26% of the firms in the sample, thus nearing the record posted in the fourth quarter of 2007). Furthermore, pressures exerted by other non-European countries apart from the United States, which amounted to 20% of the sample, also increased. Pressures coming from the United States, instead, decreased slightly, while those stemming from the European countries remained unchanged. Lastly, with regard to the main countries of destination, the share of exports going to Germany diminished, while the one of those headed for the United Kingdom increased, in a situation characterized by virtual stability for the proportion of flows directed towards Italy’s main export markets.



## Regional breakdown of ISAE survey results

The worsening in confidence recorded at the national level was the result of diverging trends across areas. The index deteriorated in the North (from 90 to 87 in the North West and from 87.8 to 83.4 in the North East) and the *Mezzogiorno* (from 90.3 to 89.5), but improved slightly in the Centre (from 92.3 to 92.5). Assessments on demand and inventories of finished products worsened everywhere. Instead, production expectations were characterized by pessimism in the North, but improved in the Centre and the South. According to the ISAE traditional quarterly survey, export turnover declined in the second quarter of 2008, but was expected to recover in the following three months. Lastly, opinions on export prices sent contrasting signals.

### North West

Following two consecutive months of growth, in June the indicator declined nearly three points, hitting the lowest level since July 2005. In this area, the fall was essentially due to sharp deterioration in production expectations and in opinions on demand (both domestic and foreign). Assessments on inventories of finished products also sent negative signals. As for export turnover, opinions on the current situation remained stable and forecasts improved. Export prices were considered to have increased more than domestic ones.

### North East

Confidence in the North East started to worsen once more, reaching, also in this case, the worst showing since July 2005: deterioration distinguished opinions on demand (domestic and foreign) and inventories, as well as production expectations. With regard to exports, turnover and the export to domestic price ratio markedly diminished. Also in this area, optimism characterized turnover in the following quarter.

### Centre

In June, for the second month in a row, confidence moderately improved, thanks to a comfortable recovery in production expectations. Assessments on orders and inventories of finished products worsened instead.

With regard to export turnover, the opinions on the current situation worsened, but expectations improved. Lastly, the balance for export prices increased.

### Mezzogiorno

After the recovery posted in the previous month, entrepreneurs' confidence in this area started to worsen once more. The decline mainly stemmed from the sharp rise in inventories, which was not offset by the improvement in the opinions on orders and in production expectations. Also in this case, assessments on export turnover worsened, but expectations bettered, and export prices declined compared to domestic ones.

