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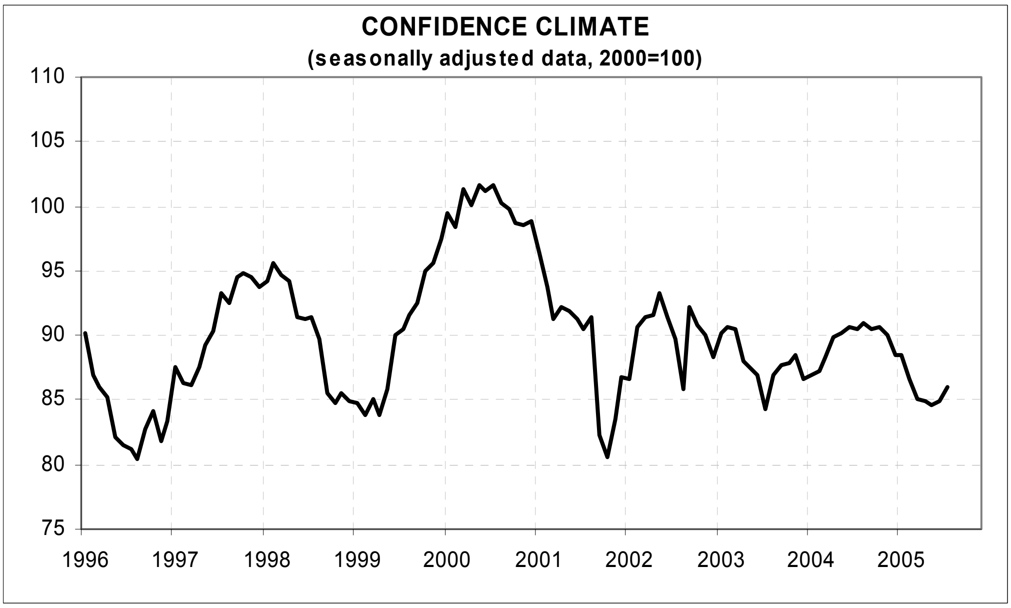
THE MANUFACTURING FIRMS' CONFIDENCE GROWS AGAIN IN JULY, PARTICULARLY IN INVESTMENT GOODS

- **In July, the seasonally adjusted confidence index (base year 2000 = 100) rises from 84.9 to 86, thus offsetting the contraction observed between March and May. The improvement is mainly due to improving assessments on order books and short-term forecasts on production, while inventories slightly rise**
- **The recovery is diffused in all sectors and is particularly intense in investment goods, where the index rises from 84.8 to 87.1, which is one of hikes since September 2004: the indicator passes from 90.6 to 90.9 in consumer goods and from 80.5 to 81.4 in intermediate goods**
- **The order-book recovery is common to both domestic and foreign markets: among non confidence-building variables, also assessments on production grow (both in terms of levels and of current variations), as do short-term forecasts on the general economic situation, which have registered depressed values in the past few months. In some cases, firms expect selling price rises**

THE DEGREE OF INDUSTRIAL PLANT UTILISATION DECREASES IN Q2

- **Cautious indications come from the usual quarterly questions: indeed, both the industrial plant utilisation and the ensured production duration diminish, even though the share of firms considering the present level of industrial capacity "more than sufficient" is decreasing**
- **The order flow is also decreasing, alongside with a contraction in the expected export volume and in worked hours. Finally, the number of firms signalling obstacles to production is contracting**



Data referring to August shall be diffused on **September 8, 2005.**

Next ISAE surveys are scheduled as follows:
July 27, 2005: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: June) and ISAE Monthly Business Service Survey (Reference month: July)*
August 1, 2005: *Comparative Business Surveys for Italy, Germany and France (Reference month: July)*

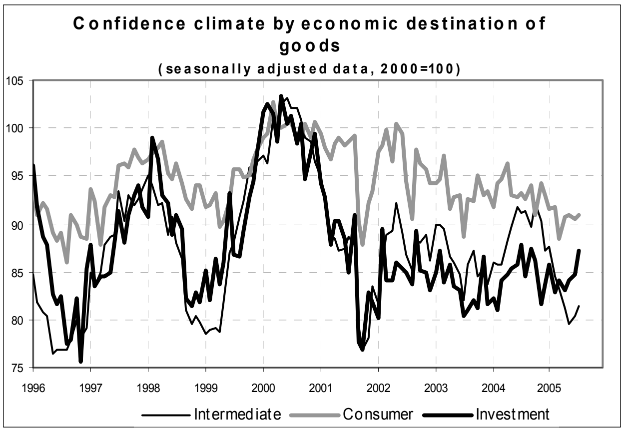
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site www.isae.it)

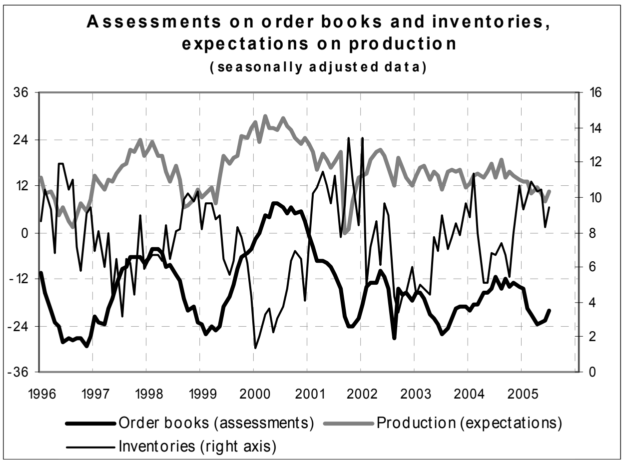
General Results

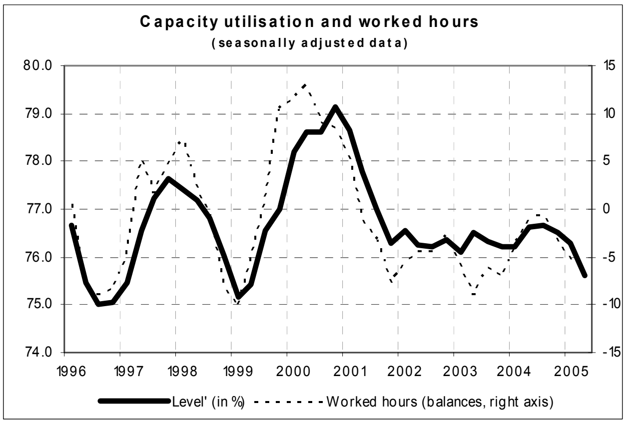
According to the ISAE Monthly Survey carried out between July 1 and 19 on a panel of about 4,000 firms, the seasonally adjusted confidence index rises in July from 84.9 to 86. The upturn is mainly due to growing assessments on order books and to improving short-term forecasts on production, and it is particularly intense in investment goods. Among non confidence-building variables, assessments on the current production variation and expectations on demand and on the country's general economic situation definitely improve.

Confidence is increasing in all sectors: the index rises from 90.6 to 90.9 in consumer goods, from 80.5 to 81.4 in intermediate goods and from 84.8 to 87.1 in investment goods, which marks a coming back to the September 2004 figures.

Cautious indications come from the usual quarterly questions: indeed, the productive capacity trend, the number of worked hours, expectations on the export volume, the ensured production length and the industrial plant utilisation all slightly diminish. A larger contraction is observed in assessments on the order-book level and in those on domestic and foreign competition (referring to both within and outside the EU). Indeed, the share of firms considering the present level of industrial capacity "more than sufficient" decreases, as does the number of entrepreneurs reporting obstacles to production.



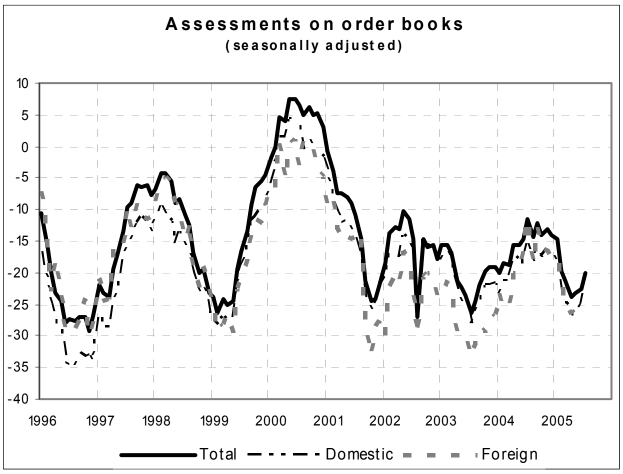


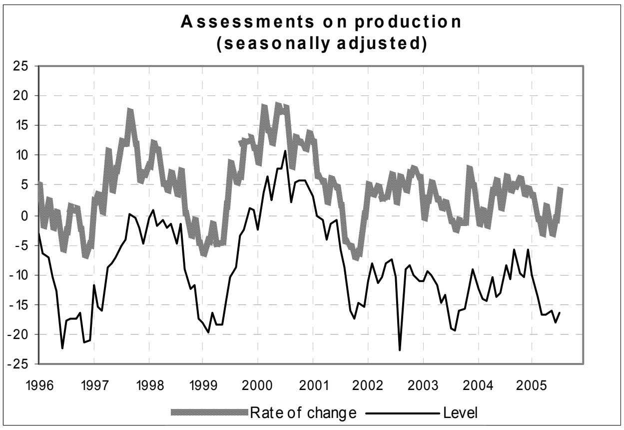


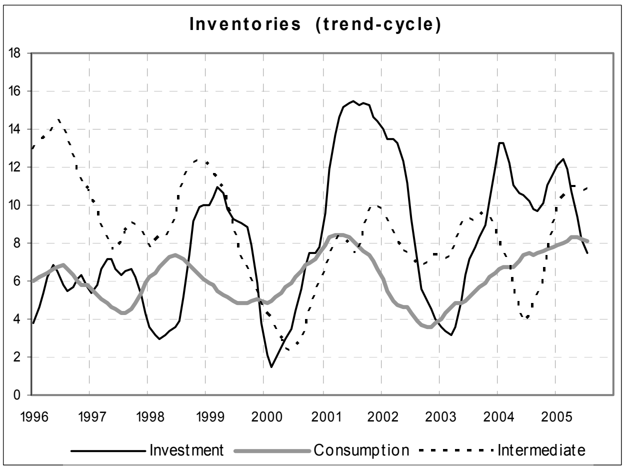
Situation in the reference month (July 2005)

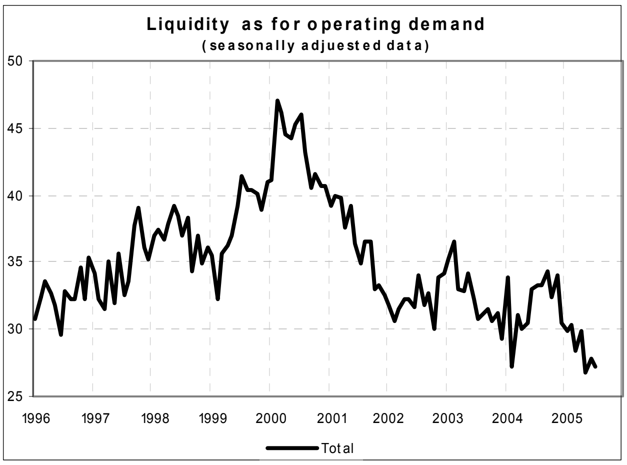
In July, ISAE respondents give definitely favourable signals on their order-book trend (the balance passing from -23 to -20), both on the domestic (from -25 to -23) and on the foreign (from -27 to -25) markets. Also assessments on production considerably improve, both in terms of variation (from -1 to 4) and in terms of level (from -18 to -16). However, the balance of inventories grows from 8 to 9. Finally, firms indicate that their available liquidity for current operational needs is slightly decreasing compared to June, while the balance goes from 28 to 27.

Assessments are particularly favourable in investment goods: indeed, entrepreneurs signal an order-book improvement from -16 to -13, accompanied by a production growth – in level (from -16 to 15) and variation (from 2 to 4) - and a stock reduction (from 7 to 5). Finally, a rise is registered in the available liquidity for operational needs (the balance passing from 25 to 33). In intermediate goods, inventories increase again (the balance passing from 9 to 12), while the balance of order books improves from -27 to -23 thanks to a rosier trend both on the domestic and on the foreign markets (the balances passing from -31 and -34 to -23 and -26 respectively). Besides, this sector witnesses a production growth (from -23 to -17) offset by a deterioration in the production variation (from 0 to -2). In consumer goods, the order-book balance rises from -20 to -19, while the domestic demand remains stable (-22). Indeed, in this sector, the production level slightly worsens (from -15 to -14) and the production variation balance grows from 1 to 3, while inventories remain constant at 8. Finally, firms signal a liquidity contraction compared to their operational needs both in consumer and in intermediate goods (from 31 and 27 to 28 and 25 respectively).









Forecasts for next quarter

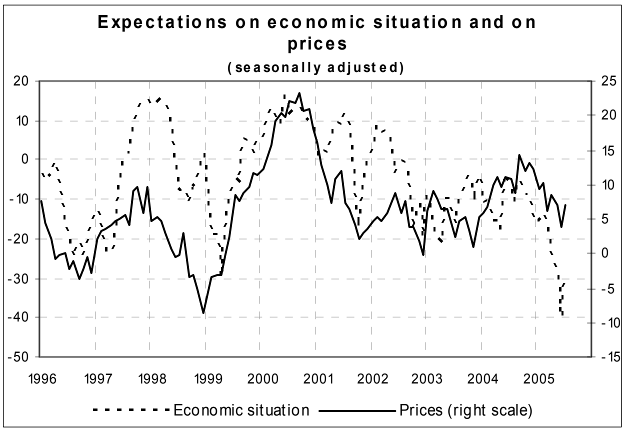
In July, ISAE respondents are more optimistic than in June on their main firm variables and, in particular, on the general economic trend. In financial terms, forecasts on the available liquidity and on the cost of money are stable.

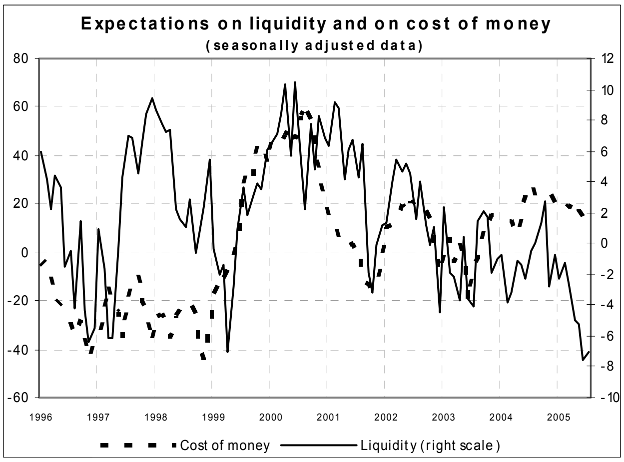
The balances of order-book and production expectations rise from 8 to 11 and 10 respectively; besides, firms expect a substantial employment stability in the next few months (the raw balance equalling -7) and a selling price rise (the balance growing from 4 to 7). Expectations on the firm liquidity and on the cost of money are stable at 14 and -7 respectively. General expectations on the Italian economic situation, though remaining negative, improve again and the balance passes from -40 to -29, thus recovering the June contraction.

Forecasts are rather homogeneous in the various sectors. In investment goods, the balance of expectations on order books rises from 2 to 7, the one of production goes from 8 to 10, the one referring to prices increases from 6 to 10 and the one on the general economic situation grows from -29 to -18. Firms also expect an employment contraction (the raw balance falling from -8 t -9), alongside with a liquidity worsening (from -9 to -119. In consumer goods, expectations improve less with reference to order books (from 16 to 17), production (from 13 to 14) and the general economic situation (from -40 to -32). In this sector too, employment is expected to decrease (from -4 to -5). In intermediate goods, expectations on order books, production and the general economic situation rise (from 4, 2 and -42 to 7, 4 and -30 respectively). Unlike what happens in other sectors, intermediate good producers foresee an employment improvement (the balance passing from -11 to -7).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
April 2005	84.9	-24	10	12
May 2005	84.6	-23	10	10
June 2005	84.9	-23	8	8
July 2005	86.0	-20	9	10





The main quarterly Survey results

(Q2 2005)

According to the traditional quarterly surveys referring to Q2 2005, the ISAE respondents provide partially contradictory information on the present situation and on the future prospects of production and demand. Indeed, new order books decrease (from -4 to -7) and the ensured production becomes shorter (from 3.4 to 3.3 months), while the current productive capacity level falls (from 75.6 to 76.3), as does the number of worked hours (from -5 to -6). The share of firms considering their present productive capacity level "more than sufficient" is decreasing (from 28 to 27, in terms of balance), as do production constraints (which are relevant for 41% of the sample). In this particular case, all the obstacles considered are generally less important (lack of demand, lack of manpower, insufficient plants, other reasons and financial constraints).

Turning to competitiveness, the (raw) balance referring to the competitive stand is worsening with reference to domestic competition (from 2 to -4) and to competition towards the EU (from -2 to -6) and the non-EU countries (from -6 to -11). However, for the next quarter, respondents expect a further worsening in the export volume, the balance of which falls from 8 to 7. Finally, the balance of inventories of raw materials and semi-finished products is stable at -7.