



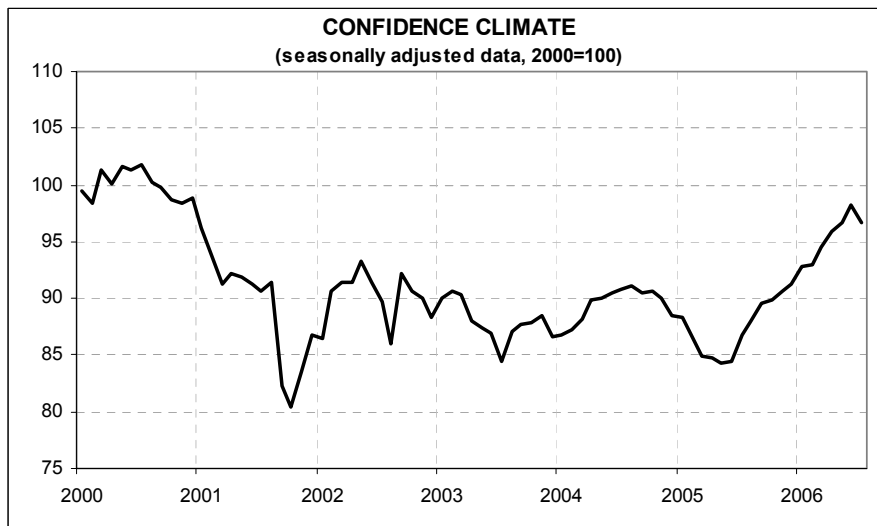
Date: July 25, 2006  
TEL.: 06/444821

## MANUFACTURING FIRMS' CONFIDENCE SUFFERS A SETBACK IN JULY

- After 13 months of continuous growth, the seasonally adjusted confidence index (2000=100) declined in July to 96.7 from 98.3 in June, returning close to the level recorded last May: the opinions on current order books stabilized around historical heights, whereas inventories slowly began to build up again, and, above all, production expectations declined with respect to the high levels reached in the last months (the balance reverted to the figure posted last April)
- Confidence worsened for consumer and intermediate goods (from 99.9 to 97.7 and from 98.7 to 96, respectively), while it extended its upward path the investment goods sector (to 95.5 from 94.4 in June)
- With respect to the previous month, surveyed firms gave a less confident appraisal of the trend in foreign orders, though they continued to improve their assessment on current production
- Expectations for orders suddenly fell back, while those for the overall situation of the Italian economy bettered (the related balance was back in positive territory), and expectations for the selling price trend declined
- The fall in confidence was evenly spread across regions: the seasonally adjusted index deteriorated markedly in the North West (from 99.2 to 96.8) and in *Mezzogiorno* (from 99.5 to 96.4) and moderately in the North East and the Centre (from 95.2 to 95.1 and from 99.4 to 97.7, respectively)

## IN THE 2Q 2006, INDUSTRY PLANT UTILIZATION HITS A NEW PEAK SINCE THE 1Q 2001

- Firms continued to report a substantial flow of new orders, and anticipated favourable developments in the volume of exports for the following months
- The improvement in current and expected demand was matched by an increase in work hours. However, the length of production assured by current order books slightly declined
- Firms considered obstacles to production to have remained overall unchanged: demand constraints declined, but financial constraints and shortage of labour, equipment and material - probably due to inadequate inventories of raw materials and semi-finished products - increased



### Data on August shall be released on August 31, 2006

The next ISAE surveys are scheduled as follows:

**July 26, 2006:** ISAE Monthly Business Services Survey (reference period: July)

**July 27, 2006:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: June), and ISAE Monthly Survey on Construction (reference period: June)

**August 3, 2006:** ISAE International Comparison of Consumer and Business Surveys (reference period: July)

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))

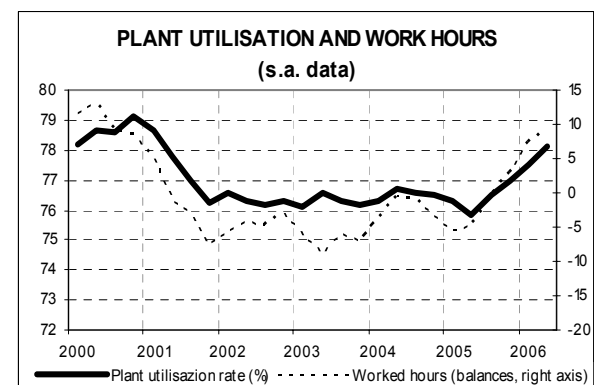
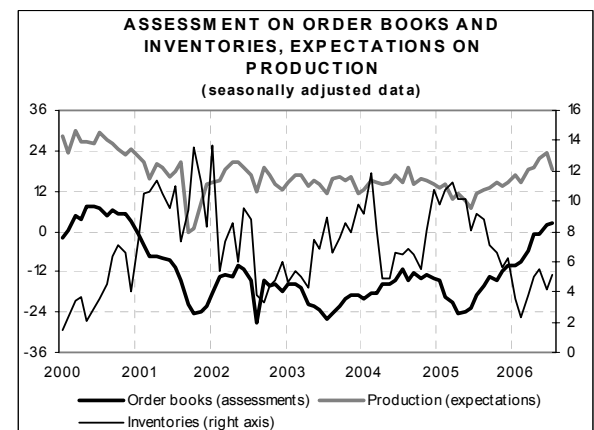
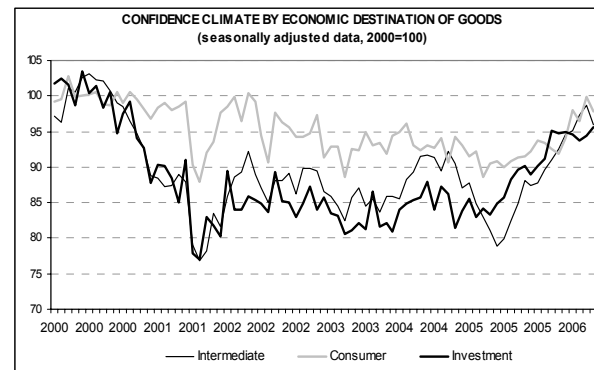
## General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between July 3 and July 18, pointed to a decline, after 13 months of continuous growth, in the seasonally adjusted confidence index of manufacturing and mining firms. The index moved from 98.3 in June to 96.7 in July: the assessment on current orders stabilized, but production expectations worsened and inventories started to build up again. Respondents were also more pessimistic about prospects for orders and employment, whereas expectations on liquidity and on the short term Italian economic trend improved (in line with the results of the ISAE survey of consumer confidence).

The deterioration in confidence characterized producers of consumer goods (the index declined from 99.9 to 97.7) and intermediate goods (from 98.7 to 96), while in the investment goods sector the index improved (from 94.4 to 95.5). The worsening in confidence was instead evenly spread across regions: the seasonally adjusted index deteriorated markedly in the North West (from 99.2 to 96.8) and in the *Mezzogiorno* (from 99.5 to 96.4) and moderately in the North East and the Centre (from 95.2 to 95.1 and from 99.4 to 97.7, respectively).

The traditional ISAE quarterly survey portrayed different pictures: current plant utilization hit a new peak since the first quarter of 2001; an increase also characterised the number of work hours and the flow of new orders (at record heights compared, respectively, to the first and the second quarter of 2000), as well as the capacity utilization trend and expectations for the volume of exports. However, the length of assured production shrank. The competitive position on the domestic market remained virtually unchanged with respect to the previous month, while competitiveness improved in the European market and deteriorated outside the EU. Furthermore, the share of those that considered meeting obstacles to production stayed practically stable, due to the combined effect of a fall in demand constraints and a rise in financial constraints

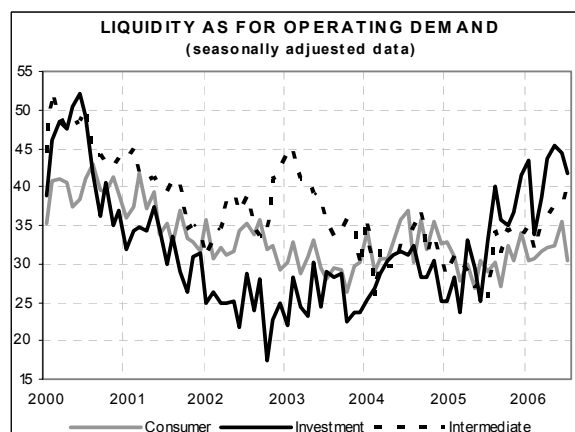
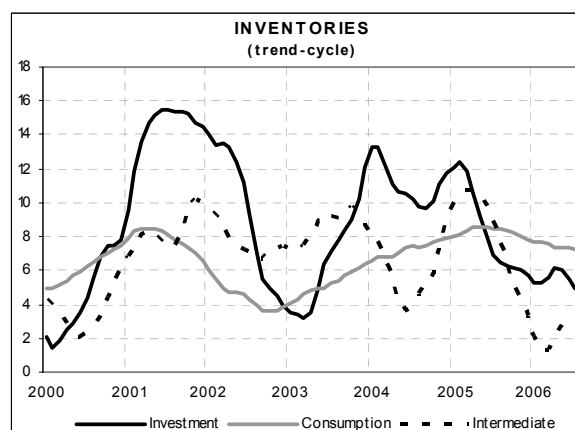
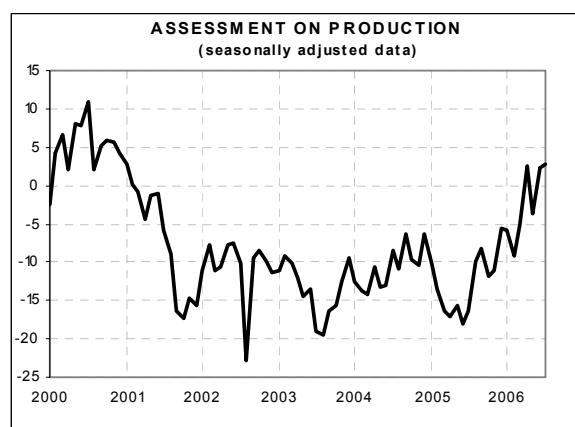
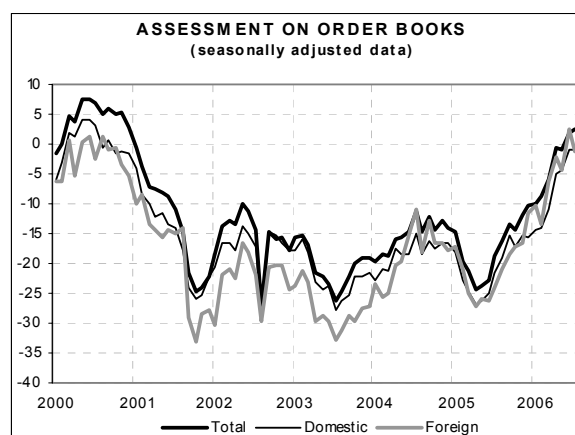
and in the shortage of labour force, equipment and material (for which inventories were inadequate).



### Situation in the reference period (July 2006)

In July, the assessment on orders was virtually stable, notwithstanding a worsening in foreign markets. Particularly, the overall balance stabilized at 2 - confirming that positive evaluations prevailed over negative ones -, the balance for orders in the domestic market stayed the same (at -1), while that in foreign markets declined (from 3 to -1). Furthermore, the assessment on the ratio of available liquidity to operational requirements remained practically unchanged, while that on the level of production continued to improve moderately (the balance moved from 2 to 3). Finally, inventories extended the slow upward trend recorded in the last months, and the related balance regained 5, the highest level recorded this year.

Above all, favourable indications came from producers of investment and intermediate goods. The former gave in fact a more confident appraisal of orders (the balance rose from 4 to 8) both on domestic (from 1 to 2) and foreign markets (from 6 to 8), they did not change their view on the level of production (3), while they considered inventories to have markedly declined (from 6 to 2) and the ratio of liquidity to operational requirement to have shrunk (from 45 to 42). For the latter, the opinions on orders and production improved (from 3 to 6 and from 4 to 8, respectively), but inventories, in this case, increased somewhat and the ratio of liquidity to operational requirements declined instead. Particularly negative developments were disclosed by producers of consumer goods: the balance for the level of orders actually decreased from 0 to -6 (because of a worsening in both domestic and foreign markets, from -4 to -8 and from -6 to -14, respectively), and the balance for the level of production lowered from 0 to -3. Furthermore, inventories slightly built up, and the balance of liquidity to operational requirements markedly declined.



### Outlook for the following three months

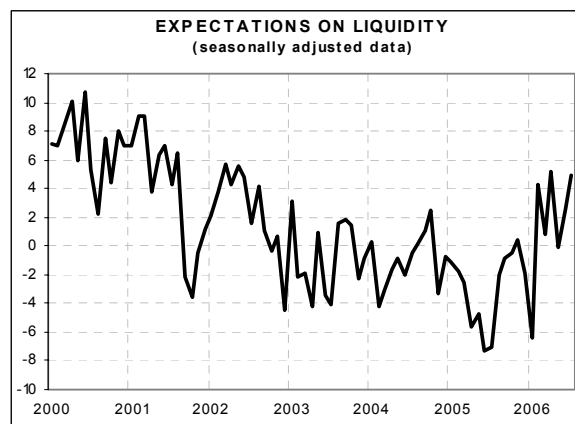
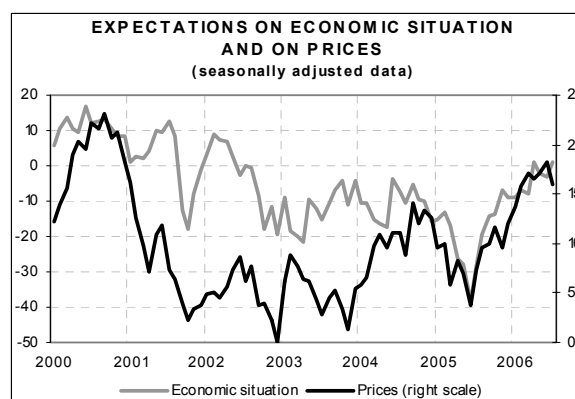
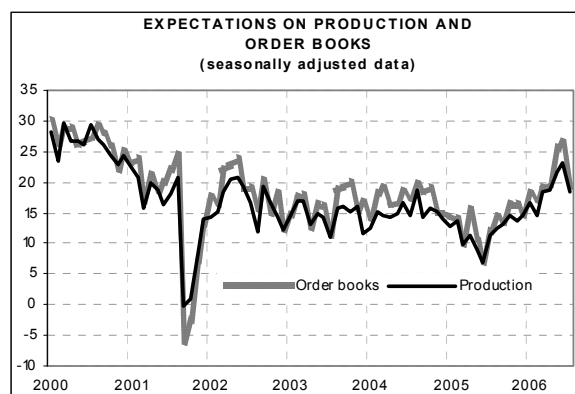
In July surveyed firms were more pessimistic with respect to the previous month about short term developments for orders, production and employment. However, they portrayed more favourable forecasts for the Italian economy and, with respect to financial variables, for available liquidity and short term developments in selling prices.

The balance for production, orders and employment expectations declined (from 23 to 19, from 27 to 19 and from 4 to -1, respectively), whereas that for liquidity grew (from 3 to 5). In line with the ISAE survey on consumer confidence, prospects for the Italian economy started to improve once more (the related balance increased to 1 from -3 in June), along with a new decline in expectations for selling prices, for which the balance lowered from 18 to 16.

Forecasts for orders and production were generally less favourable among producers of intermediate and investment goods. The balances declined to 18 (from 32) and to 15 (from 25), respectively, in the intermediate goods sector and to 14 (from 21) and to 15 (from 19) in the investment goods one. However, in both sectors respondents improved their forecasts on the country's economic situation and, regarding financial variables, on liquidity and selling prices. For consumer goods, expectations on orders and labour market developments slightly worsened (from 25 to 23 and from 2 to 1, respectively); expectations on production and the overall economy remained stable with respect to the previous month (at 22 and 2), while those on selling prices edged down (from 9 to 8). Finally, expectations on liquidity increased: the related seasonally adjusted balance rose from 3 to 5.

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

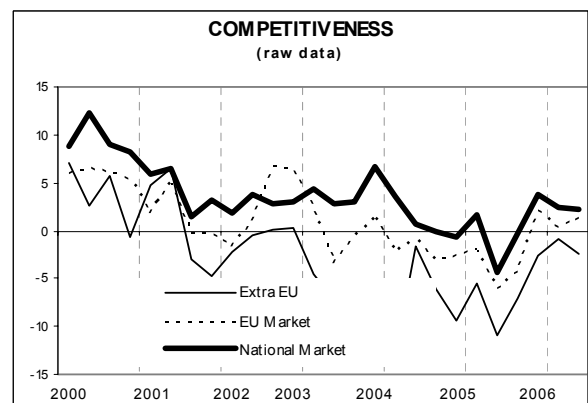
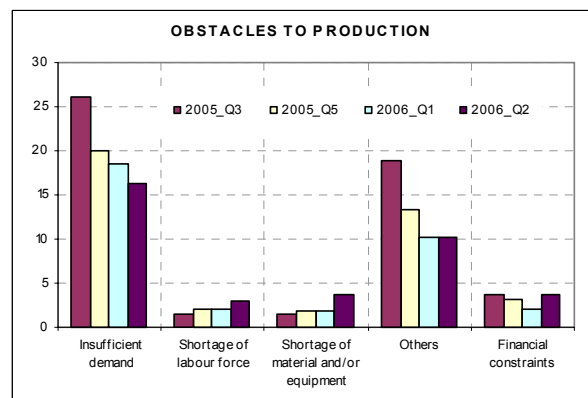
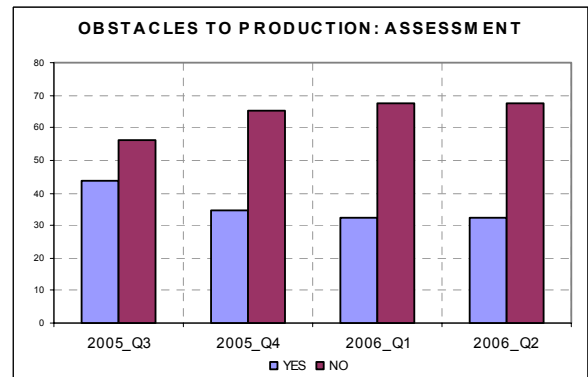
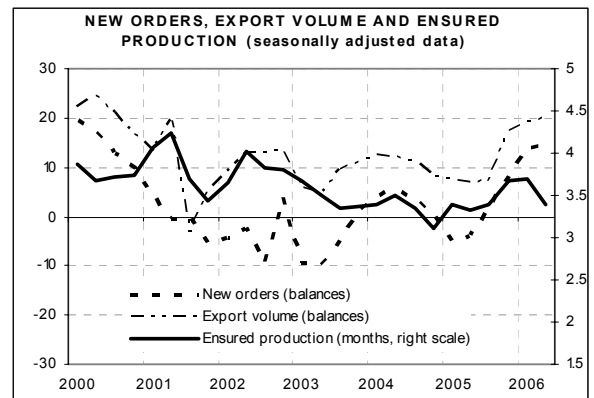
	Confidence climate	Order books level	Finished goods inventories	Expectations on production
April	95.9	-1	5	19
May	96.6	-1	5	22
June	98.3	2	4	23
July	96.7	2	5	19



## Main quarterly survey results (second quarter 2006)

According to the traditional ISAE quarterly survey, in the second quarter of 2006 surveyed firms gave fairly divergent indications. The appraisal of current plant utilization, employment, demand and productive capacity was basically positive. Negative signals came instead from the length of assured production.

New orders continued their upward trend (the balance rose from 14 to 15) and expectations on the volume of exports improved (from 19 to 20). Accordingly, an increase characterized the rate of capacity utilization (from 77.5% to 78.1%), the number of work hours (the related balance rose from 7 to 9) and the trend in productive capacity (from 22 to 24). The length of production assured by current order books shrank instead from 3.7 to 3.4 months. The relevance of obstacles to production remained instead virtually unchanged. In the face of a reduction in demand constraints, there was a rise in financial constraints and in the shortage of employment and of equipment and material (inventories of raw materials and semi-finished products were considered to be insufficient and at record lows for the last years). As for competitiveness, the raw balance at the national level remained virtually stable, firms' competitive position worsened at the European level, while it improved with respect to the non-European Union countries.



## Regional breakdown of ISAE survey results

The deterioration in confidence was equally spread across regions, though at different rates: the seasonally adjusted index decidedly worsened in the North West (from 99.2 to 96.8) and the *Mezzogiorno* (from 99.5 to 96.4), while the decline was moderate in the North East and the Centre (from 95.2 to 95.1 and from 99.4 to 97.7, respectively). The assessment on the level of orders and production expectations worsened everywhere, while inventories of finished products sent contrasting signals. Finally, generally positive indications came from the rate of industrial capacity utilization.

North West: following the recovery ongoing since the second half of 2005, confidence decreased two points, though still remaining close to the last months' average level. The worsening was essentially caused by a marked reduction in production expectations. The level of orders continued to increase (in both foreign and domestic markets), and the level of inventories of finished products declined for the second month in a row. Finally, respondents considered plant utilization to have risen for the third straight month.

North East: in this region, the index was practically flat because the slight worsening in the assessment on the level of orders came along with stability for inventories and a moderate increase in production expectations. The rate of plant utilization started to pick up again following the fall which started in October 2005.

Centre: the index lowered, returning to the level posted in May, due to a worsening in the opinions on demand (domestic and foreign) and in production expectations, and to restocking of inventories. The rate of capacity utilization, instead, reported favourable indications for the third month running.

Mezzogiorno: following the sharp improvement recorded in the previous month, in July confidence returned to the level posted last May. The deterioration is the result of a fall in the assessment on the level of orders and in production expectations, summed to a rise in stocks. The rate of capacity utilization posted

instead an increase, regaining its 2Q 2004 average level.

