



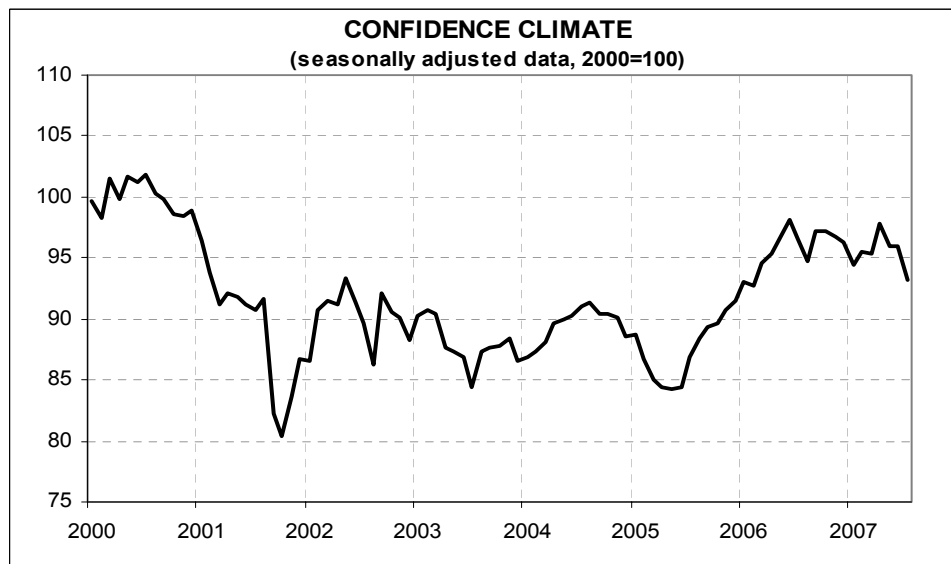
Date: July 25, 2007  
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### MANUFACTURING FIRMS' CONFIDENCE SUFFERS A SETBACK IN JULY

- The seasonally adjusted confidence index (2000=100) declined to 93.3 from 95.9 in June
- Assessments on the current level of orders and demand turned down sharply, and inventories began to climb once more. Production expectations decreased moderately with respect to the level posted in the previous month
- More favourable indications stemmed from a specific question about August plant closure included this month in the ISAE survey. Firms planning same August closure as in the previous year largely prevailed. Moreover, 10% of the sample forecast a shorter period of closure (thus higher plant utilization), while only 4% predicted a longer one
- The fall in the index was widespread among main sectors and regions: confidence lowered from 99.2 to 96.8 for investment goods, from 97.1 to 93.9 for consumer goods and from 92.7 to 89.7 for intermediate goods. At the regional level, the indicator declined from 94.2 to 90.5 in the North West, from 98 to 94.8 in the Centre, from 95.3 to 93.8 in the North East and from 99.9 to 98.7 in the *Mezzogiorno*

### IN THE 2Q 2007 THE LENGTH OF ASSURED PRODUCTION INCREASES AND PLANT UTILIZATION REMAINS HIGH

- The rate of plant utilization came in at 78.2% (compared to 78.6% in the first quarter), remaining at historical high level. The length of production assured by current order books increased slightly, and short-term forecasts for the volume of exports remained stable. Raw materials inventories declined further on
- However, firms indicated a reduction in the flow of new orders, a fall in work hours and an increase in demand constraints limiting production
- Also firms' perception of their competitive position on both domestic and foreign markets (EU and non-EU markets) deteriorated



**Data on August shall be released on August 31, 2007**

*The next ISAE surveys are scheduled as follows:*

**July 26:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: July), ISAE Monthly Business Services Survey (reference period: July) and ISAE Monthly Survey on Construction (reference period: June)

**August 7:** ISAE International Comparison of Consumer and Business Surveys (reference period: July)

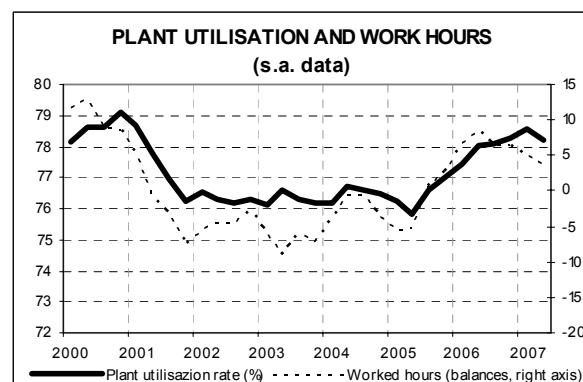
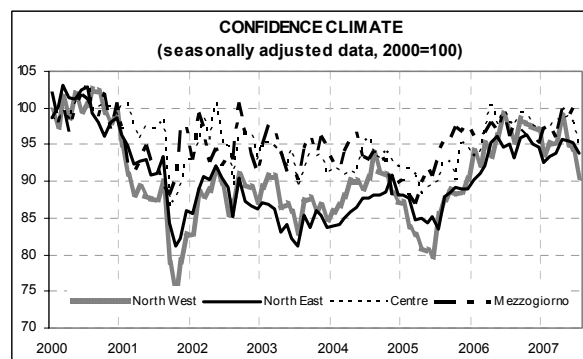
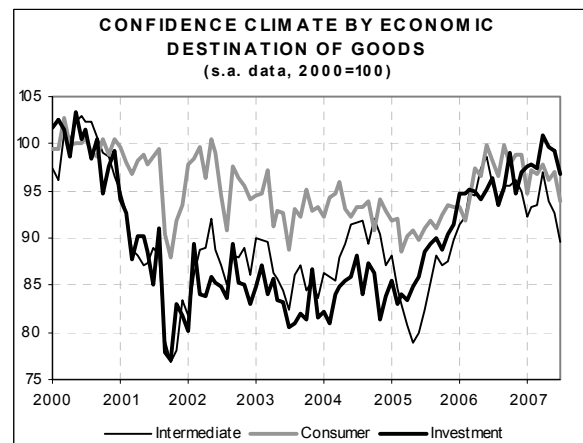
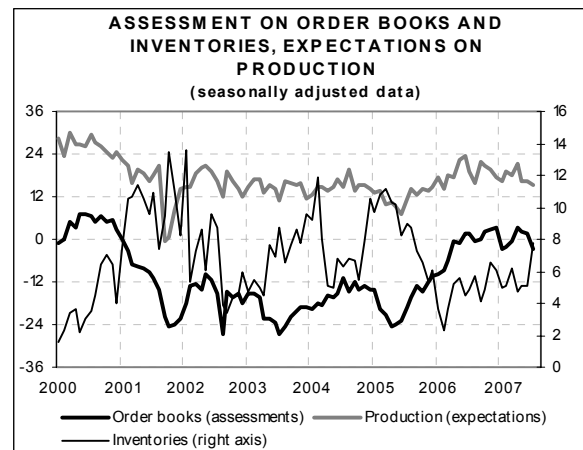
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site [www.isae.it](http://www.isae.it))

## General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between July 1 and July 19, pointed to a decline in the seasonally adjusted confidence index of manufacturing and mining firms. In July, the indicator lowered to 93.3 (from 95.9 in June), reaching its lowest level since February 2006. The opinions on current orders and demand clearly dropped and inventories started to rise once more. Also production expectations declined slightly over the previous month. More favourable indications stemmed from a specific question about August plant closure included this month in the ISAE survey. Firms planning same August closure as in the previous year largely prevailed. Moreover, 10% of the sample forecast a shorter period of closure (thus higher plant utilization during the month), while only 4% predicted a longer one.

The fall in the confidence indicator was widely spread across main sectors and regions: the index decreased from 99.2 to 96.8 for investment goods, from 97.1 to 93.9 for consumer goods, and from 92.7 to 89.7 for intermediate goods. At the regional level, the indicator declined from 94.2 to 90.5 in the North West, from 98 to 94.8 in the Centre, from 95.3 to 93.8 in the North East and from 99.9 to 98.7 in the *Mezzogiorno*.

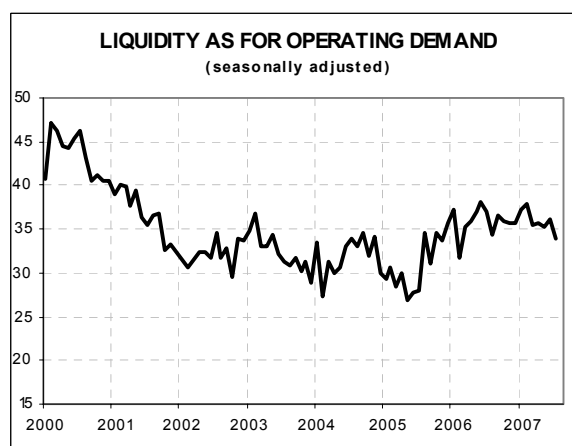
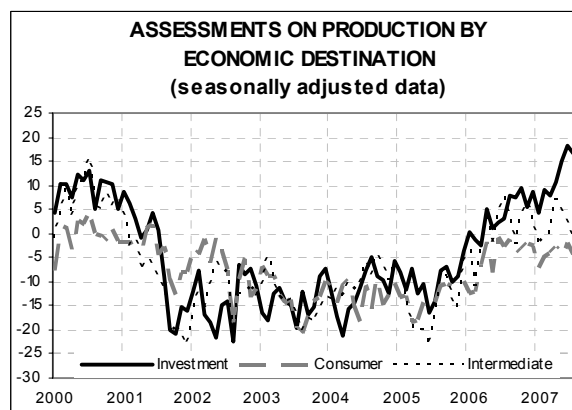
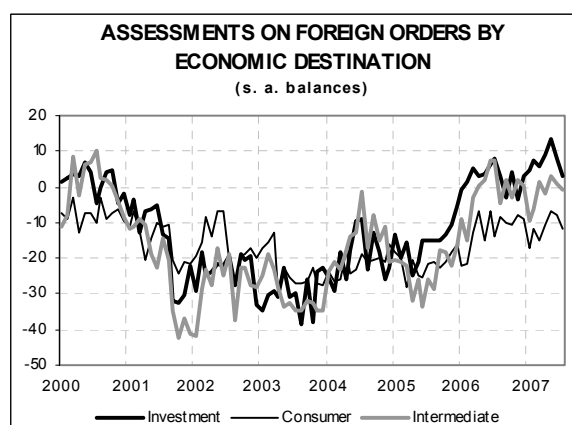
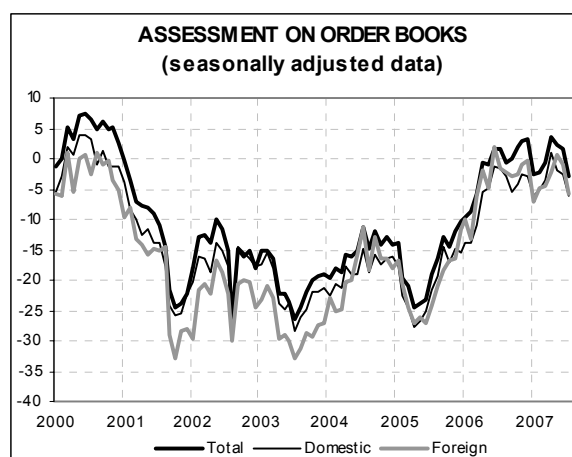
The traditional ISAE quarterly survey recorded instead less negative and, in some cases, contrasting indications. The rate of plant utilization stood at 78.2% (78.6% in the first quarter), remaining at historical high level. The length of assured production edged up slightly, and short-term forecasts for the volume of exports remained stable. Raw materials inventories extended their downward path. However, firms indicated a fall in the flow of new orders, a decline in hours worked, and a rise in demand constraints limiting production. Also firms' perception of their competitive position on both domestic and foreign markets (EU and non-EU markets) deteriorated.



### Situation in the reference period (July 2007)

In July, firms' evaluation of the trend in main company variables worsened: the balance for the opinions on orders decreased from 2 to -3, turning negative for the first time since March and reaching the lowest level since January. The fall was particularly marked in foreign markets (from -1 to -6, probably also because of the recent appreciation of the exchange rate), but it affected also the domestic market (from -3 to -6). The recovery in the opinions on the level of production came to a halt: the balance fell back to 1 from 5 in June, in the presence of a sharp restocking of inventories and a moderate decline in the ratio of liquidity to operational requirements (from 36 to 34). In particular, the balance for inventories reached 8 (compared to 5 in June) and regained a two-year high (August 2005),

The worsening was evenly spread across sectors. In the investment goods sector, the opinions on orders fell from 19 to 12 (the lowest level since March), prompted by a fall mainly in foreign markets (from 8 to 3 for the overall balance, and from 6 to 3 for the balance related to foreign markets). Accordingly, in this sector a decline characterized also the opinions on the trend in current production (from 18 to 17) and company liquidity (from 44 to 41). Inventories remained instead stable at 9. For consumer goods, the evaluation of orders deteriorated (from -4 to -9) uniformly in domestic (from -7 to -11) and foreign markets (from -8 to -12). Also the level of production and of liquidity declined (from -2 to -5 and from 30 to 29, respectively), and inventories increased (from 7 to 8). Lastly, in the intermediate goods sector, the opinions on orders lowered (from -1 to -5), but in this case the decline was sharper in domestic markets (from -4 to -8) than in foreign ones (from 1 to -1). Therefore, also in this case assessments on the level of production and company liquidity declined (from 2 to -1 and from 37 to 35, respectively), whereas inventories started to build up once more (rising from 3 to 7).



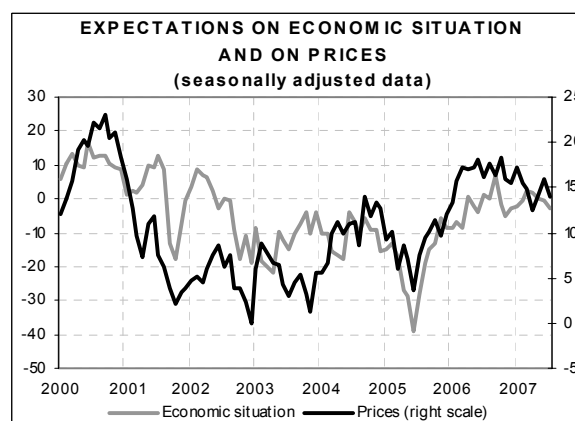
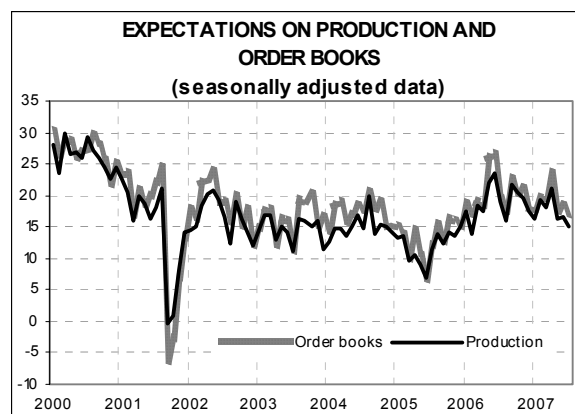
### Outlook for the following three months

In July, forecasts for the main company variables and for the Italian economy deteriorated. The balance related to expectations for orders and production lowered from 18 to 17 and from 17 to 15, respectively. Predictions for industrial selling prices were scaled down (the balance lowered from 16 to 14), while the ones for liquidity inched up (from 18 to 19). Prospects for employment developments held steady (at 3). Lastly, a sharp drop characterized expectations for the country's general economic trend: the share of respondents anticipating a worsening prevailed over "optimistic" ones for the first time since last February (the balance moved from 0 to -3).

At the industry level, producers of intermediate and consumer goods gave particularly negative indications. For intermediate goods, expectations for orders fell sharply (from 14 to 9). Also those for production lowered (from 11 to 9), whereas liquidity forecasts recovered (from -1 to 1) and those for employment remained stable (at 0). Moreover, firms also expected lower selling price pressures (the related balance declined from 20 to 18), and anticipated still unfavourable developments for the national economy (from -4 to -3), even though, in contrast with the average for the sector, the balance came in slightly higher than in the previous month. For consumer goods, expectations for orders, production, employment and, above all, the general economic situation worsened (in the order, from 17 to 15, from 16 to 13, from 3 to 0 and from 2 to -7). Prospects for company liquidity were instead slightly higher (from 4 to 5), in a situation also characterized by a fall in expected selling price pressures. On the other hand, in the investment goods sector, forecasts for orders and employment improved instead (from 28 to 31 and from 9 to 11, respectively), whereas those for production and company liquidity held steady (at 23 and 5 respectively). Finally, the balances for the prospects for selling prices and for the Italian general economic situation came in marginally lower (from 13 to 10 and from 6 to 4).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
April	97.9	3	5	21
May	96.0	2	5	16
June	95.9	2	5	17
July	93.3	-3	8	15

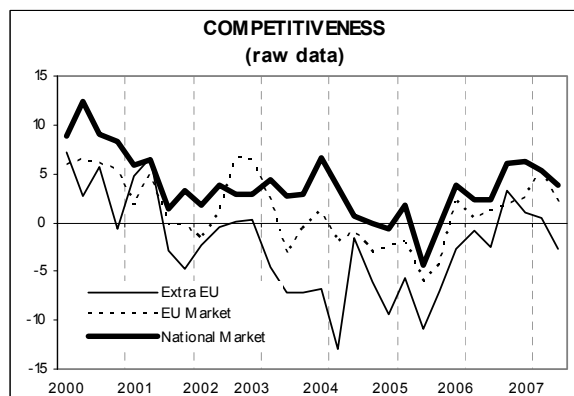
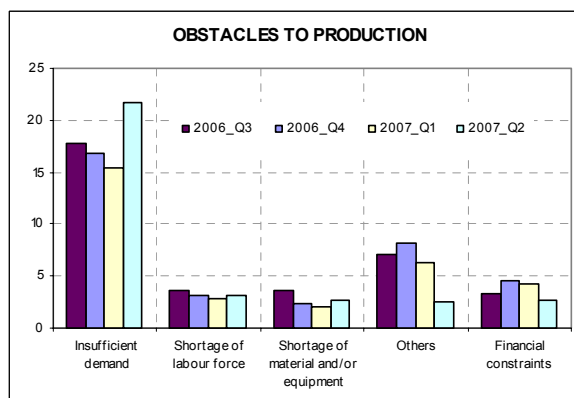
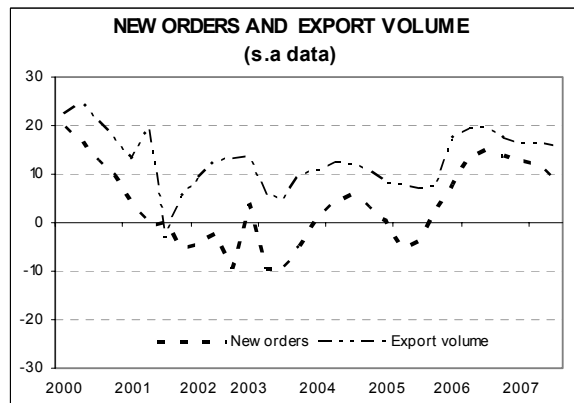
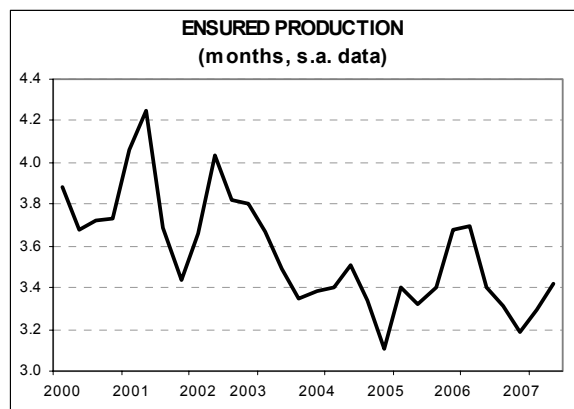


## Main quarterly survey results (second quarter 2007)

According to the traditional ISAE quarterly survey, in the second quarter of 2007, firms reported a high rate of capacity utilization (78.2%, only slightly lower than the record rate of 78.6% recorded in the previous quarter), in the presence of a level of current order books which guaranteed a rise in the length of assured production (to 3.4 months, from 3.3 in the first quarter). The number of work hours moderately declined instead (the related balance moved from 5 to 3).

However, prospects for a rise in new orders sent negative signals (the balance lowered from 12 to 9). Unfavourable indications also characterized the existence of factors limiting production (the percentage of respondents perceiving obstacles increased to 31%, compared to 28% in the first quarter). In this case, respondents indicated a worsening in demand constraints with respect to the previous survey (22% of surveyed firms, compared to 15% in the first quarter). The balance for expectations for the volume of exports remained unchanged (at 16). Lastly, the balance for inventories of raw materials and semi-finished products declined from -9 to -7.

Finally, with regard to competitiveness, firms signalled a worsening in the balance referring to their own competitive position on both domestic and, mainly, foreign markets. The related balance declined from 5 to 4 in the domestic market, and from 5 to 2 in EU markets and from 0 to -3 in non-EU markets.



## Regional breakdown of ISAE survey results

In July, the fall in confidence recorded at the national level was not evenly spread across the country. The seasonally adjusted index worsened markedly in North West (from 94.2 to 90.5) and the Centre (from 98.0 to 94.8), while in the North East and the *Mezzogiorno* the deterioration was more moderate (from 95.3 to 93.8 and from 99.9 to 98.7, respectively). The analysis of the underlying components of the confidence climate showed an overall worsening in the assessments on the level of orders and on inventories of finished products. Respondents were cautious also with regard to expectations on the level of production. The rate of industrial capacity utilization declined homogeneously everywhere but in the *Mezzogiorno*.

### North West

Confidence worsened for the third month running, reaching the lowest level since December 2005. The deterioration was mainly prompted by the sharp decline in the balance for opinions on the level of orders (on both foreign and, mainly, domestic markets) and to a significant restocking of inventories of finished products. Production expectation worsened, even though the related balance remained around the average level posted in the last months. Lastly, the rate of operating capacity diminished slightly.

### North East

Also in this area, confidence extended its downward trend for the third consecutive month, and the index went back to the level recorded last March. The deterioration was essentially related to the worsening in the balances for the evaluation of the level of orders (due solely to negative developments in foreign markets) and for production expectations. Furthermore, also stocks were considered to be above normal values. The rate of capacity utilization declined in this quarter as well, continuing the trend started in the second quarter of 2006.

### Centre

The indicator worsened for the second straight month, returning to the value recorded in December 2005. The opinions on demand (both foreign and domestic) and

production expectation decreased. Inventories came in well above their normal average level. Lastly, the rate of capacity utilization remained stable.

### *Mezzogiorno*

Confidence worsened (following the recovery posted last month), reverting to its May level. In this case, the fall mainly stemmed from the restocking of inventories, which came along with virtual stability for orders and an improvement in production expectations. Finally, the rate of operating capacity increased, reaching the highest value since the fourth quarter of 2000.

