



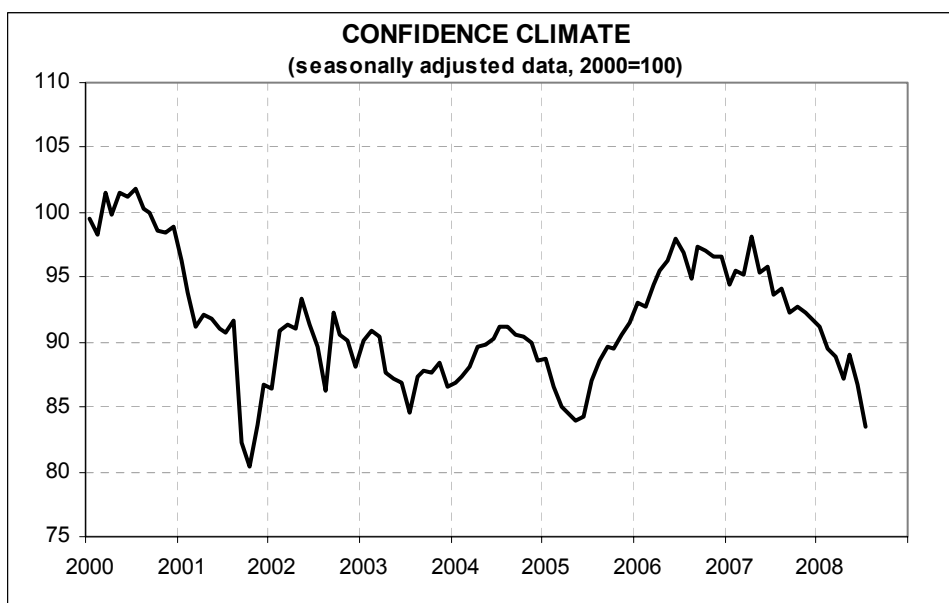
Date: July 24, 2008
TEL.: 06/444821

MANUFACTURING FIRMS' CONFIDENCE TUMBLES IN JULY

- The seasonally adjusted confidence index (2000=100) headed down to 83.5 from 86.7 in the previous month, reaching the lowest level since October 2001
- Italian entrepreneurs were more pessimistic about the current state of demand and production prospects. Also inventories continued to build up
- Confidence declined in all sectors and regions. The index dropped as much as five points for investment goods (from 86.6 to 81.6), while it decreased from 90.4 to 87.9 for consumer goods and from 83.7 to 80.3 for intermediate goods
- In the North West and the North East, the index lowered from 86.5 to 82.7 and from 83.1 to 81, respectively, while the fall was particularly sharp in the Centre (from 91.8 to 87) and the *Mezzogiorno* (from 89 to 85.5)

IN THE 2Q 2008 INDUSTRIAL PLANT UTILIZATION DECREASES

- The rate of operating capacity stood at 75.7% (compared to 76.2% in the previous quarter). Accordingly, also the number of work hours diminished and the share of respondents considering their rate of capacity utilization "more than adequate" increased
- Negative indications also came from the flow of new orders. Moreover, the proportion of firms complaining of obstacles limiting productive activity rose, especially because of insufficient demand
- Short-term expectations for the volume of exports moderately recovered instead and also firms' competitive position bettered slightly (in both domestic and EU markets, as well as in non-EU ones)
- Lastly, the length of production assured by current order books remained unchanged and inventories of raw materials and semi-finished products edged down slightly



Data on August shall be released on September 3, 2008

The next ISAE surveys are scheduled as follows:

July 25: 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 5: 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)

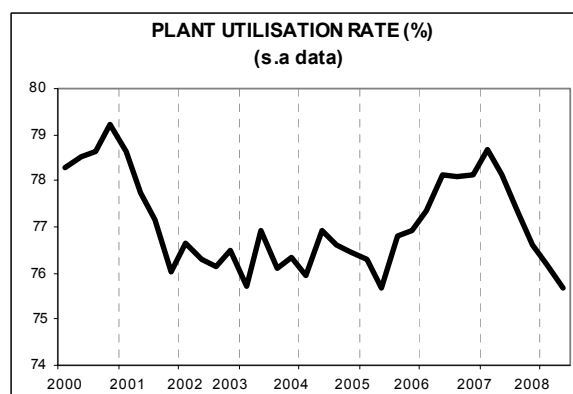
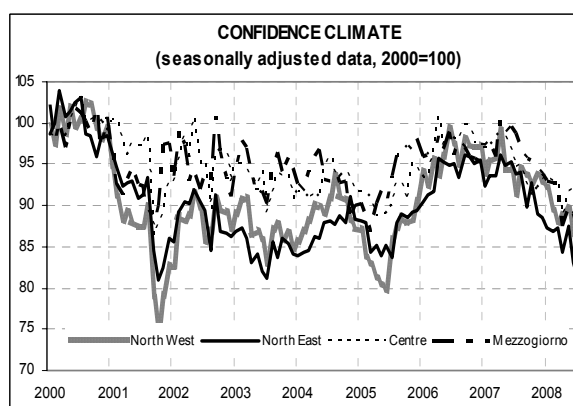
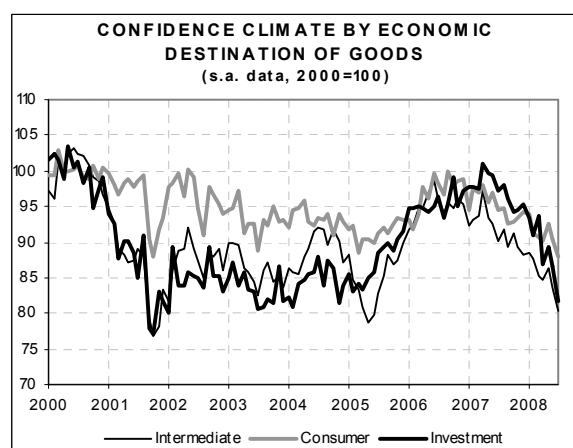
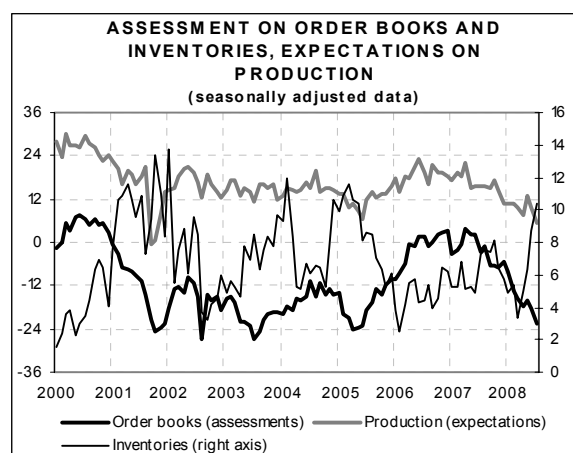
General results

According to the ISAE Survey, carried out on a panel of about 4000 firms between July 1 and July 18, confidence of manufacturing and mining firms plunged in July. The seasonally adjusted index (2000=100) dropped to 83.5 from 86.7 in the previous month, the lowest level since October 2001.

Italian entrepreneurs were more pessimistic about the current state of demand (both domestic and foreign) and production prospects. Also inventories continued to build up, coming in well above their long term value. The level of production declined slightly further and forecasts for orders, company liquidity and employment deteriorated. Lastly, expectations for the country's economic situation practically collapsed.

Confidence worsened homogeneously in all sectors and regions. The index dropped as much as five points for investment goods (from 86.6 to 81.6), while it decreased from 90.4 to 87.9 for consumer goods and from 83.7 to 80.3 for intermediate goods. In the North West and the North East, the index lowered from 86.5 to 82.7 and from 83.1 to 81, respectively. Lastly, the fall was particularly sharp in the Centre (from 91.8 to 87) and the *Mezzogiorno* (from 89 to 85.5).

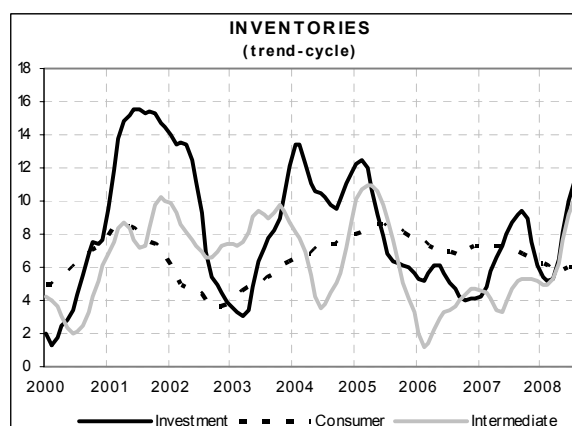
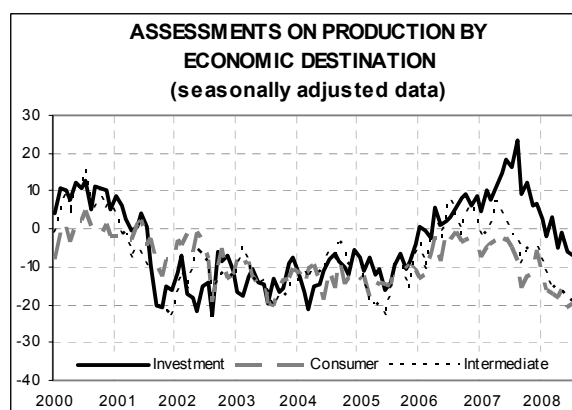
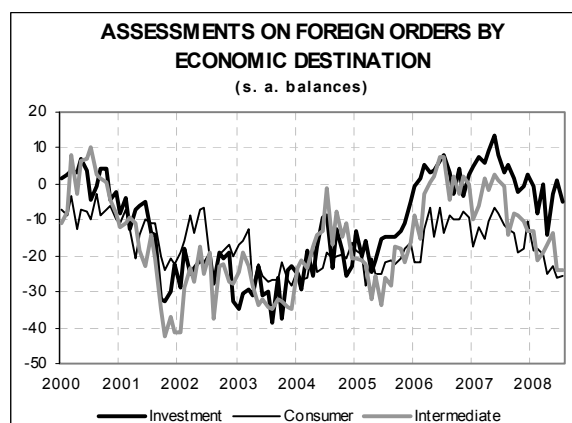
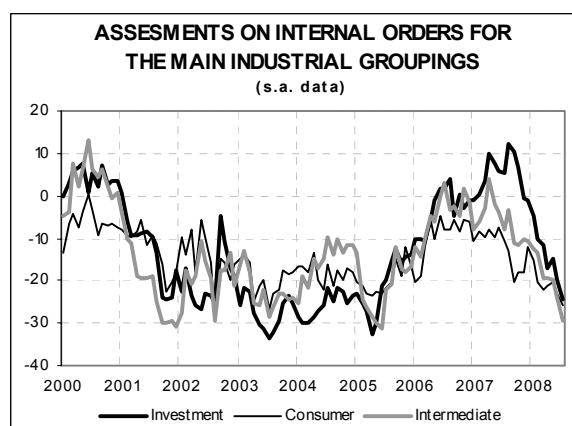
The traditional ISAE quarterly survey showed a decline in operating capacity and work hours in the second quarter of 2008. Moreover, the share of respondents considering their capacity utilization rate "more than adequate" and the proportion of those complaining about obstacles limiting their activity increased. Negative indications also came from the flow of new orders. Short-term expectations for the volume of exports and assessments on firms' competitive position moderately recovered instead.



Situation in the reference period (July 2008)

In July, Italian manufacturing firms' evaluation of the trend in demand, production and inventories markedly worsened. The balance for the opinions on orders declined to -22 (from -18 in June), due to a fall in both domestic demand (from -23 to -27) and orders from abroad (from -19 to -22). Also the level of production was considered to have diminished (from -16 to -17), while inventories continued to build up (the balance rose from 9 to 10) and company liquidity lowered (from 30 to 28).

Pessimism about the current situation distinguished all main productive sectors. Deterioration was particularly sharp for investment goods, where opinions on orders clearly worsened, dropping from -2 to -11 (domestic orders diminished from -20 to -25 and orders from abroad fell from 1 to -5). Also assessments on production and inventories deteriorated (from -6 to -7 and from 12 to 15, respectively), but company liquidity improved (from 32 to 36). In the consumer goods sector, opinions on orders declined from -21 to -24, due to the fall in the domestic component (from -23 to -26), while foreign orders remained stable (at -26). Also in this sector, the opinions on the level of production held steady (the balance amounted to -20), but inventories continued to increase (from 5 to 7) and company liquidity diminished (from 25 to 22). Lastly, for intermediate goods, orders declined from -22 to -27 (also in this case, domestic orders fell from -24 to -29, while foreign orders stabilized at -24). The level of production and of company liquidity declined as well (from -17 to -20 and from 33 to 29) and inventories remained unchanged at a high level (12).



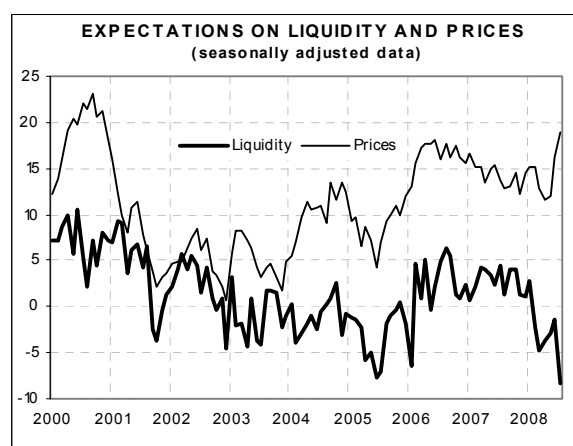
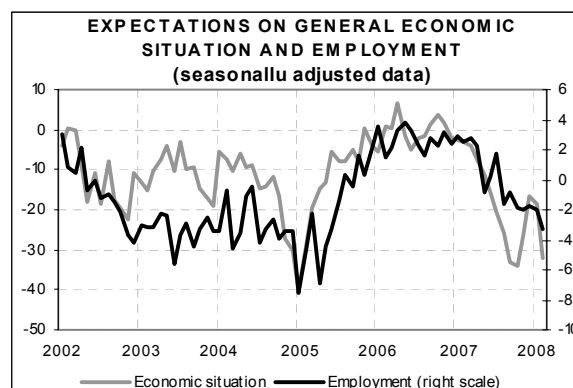
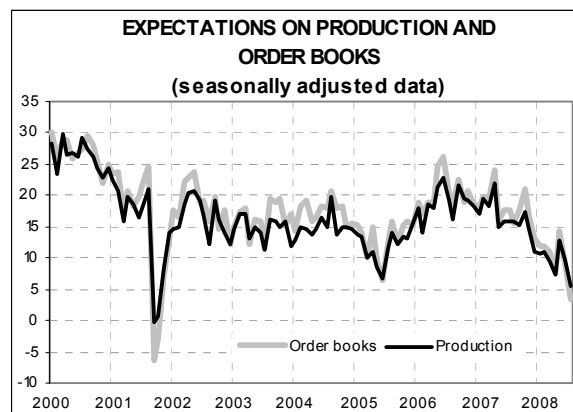
Outlook for the following three months

In July, prospects for all main company variables worsened and those for the country's general economic situation collapsed. Moreover, inflationary pressures further increased. The balance for orders and production expectations declined from 9 to 3 and from 10 to 5, respectively, the lowest levels since September-October 2001. A decrease also distinguished employment forecasts (from -2 to -3) and, above all, company liquidity prospects (from -1 to -8). Also inflationary pressures continued to grow (the balance rose from 16 to 19). Lastly, due to increasing concerns about the international economic cycle, an actual slump characterized short-term expectations for the country's economic situation: the related balance lowered from -19 to -32, reverting to the value recorded last March.

Pessimism evenly spread across sectors: for investment goods, production and demand expectations dropped sharply (from 6 to 0 for the former variable and from 8 to -2 for the latter one, which went in negative territory for the first time since October 2001). Also prospects for liquidity and employment declined (from 6 to 4). Inflationary pressures heightened (from 20 to 23) and forecasts for the country's general economic situation markedly worsened (from -13 to -34). In the consumer goods sector, deterioration characterized expectations for orders (from 12 to 19), production (from 11 to 8), employment (from -7 to -10), and company liquidity (from 2 to -5). Price prospects remained stable (at 9), but those for the general economic situation plummeted (from -14 to -28). Lastly, for intermediate goods, the balance related to expectations for orders, production and liquidity declined, in the order, from 8 to 2, from 10 to 4, and from -8 to -10. The balance for employment remained instead stable (at -3). New, strong inflationary pressures emerged (the balance rose from 18 to 22) and, also in this case, expectations for the country's economic situation headed sharply lower (from -19 to -31).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Apr. 2008	87.2	-18	5	8
May 2008	89.0	-16	6	13
June 2008	86.7	-18	9	10
July 2008	83.5	-22	10	5

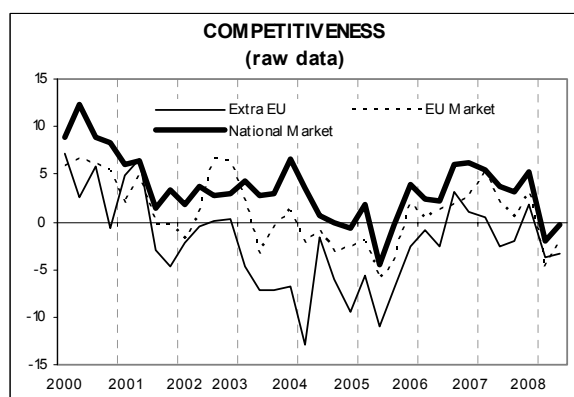
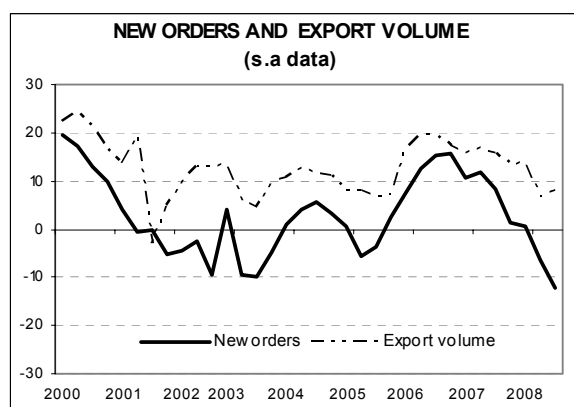
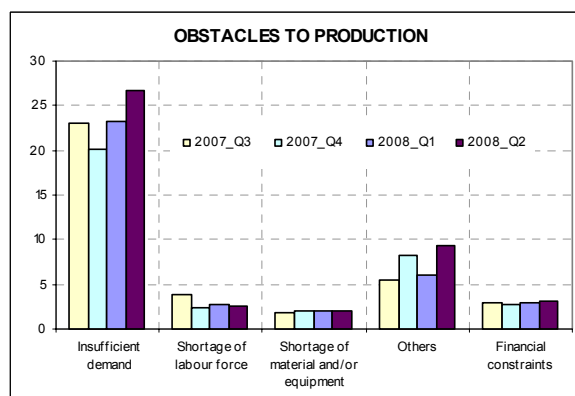
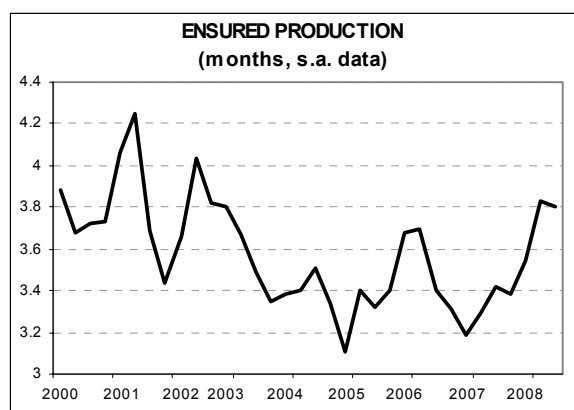


Main quarterly survey results (second quarter 2008)

Also the traditional ISAE quarterly survey on operating capacity gave overall negative indications for the second quarter of 2008. The capacity utilization rate actually continued to decline, reaching 75.7%, compared to 76.2% in the previous quarter. Moreover, the share of firms considering capacity utilization to be “more than enough” according to the level of their order books and to demand prospects further increased. Negative indications also came from the trend in the number of work hours (the balance declined from -4 to -6) and the flow of new orders (from -6 to -12). Furthermore, with respect to factors limiting production, an increase characterized the share of firms perceiving the existence of obstacles related to insufficient demand (from 23% to 27% of the sample) and “other factors” (from 6% to 9%, probably due to the rise in raw material prices). However, firms forecast a moderate step up in exports during the following quarter (the balance rose from 7 to 8), along with an improvement in their competitive position on both domestic (the balance rose from -2 to 0) and foreign markets (from -5 to -2 for EU markets and from -4 to -3 for non-EU ones). Lastly, the length of production assured by the level of orders remained stable (at 3.8 months) and the balance for inventories of raw materials and semi-finished products moderately improved (from -7 to -6).

Regional breakdown of ISAE survey results

In July, the worsening in confidence recorded at the national level was homogeneously spread across areas. The seasonally adjusted index markedly deteriorated in the North West (from 86.5 to 82.7) and the Centre (from 91.8 to 87), whereas in the North East and the *Mezzogiorno* the worsening was more modest (from 83.1 to 81 and from 89 to 85.5). The underlying components of the indicator showed that the opinions on the level of orders and of inventories of finished products worsened everywhere. Firms were also very cautious about production expectations. The opinions



on the rate of capacity utilization only partly confirmed the overall negative situation painted by the confidence climate: they worsened in the North and the Centre, but increased slightly in the *Mezzogiorno*.

North West

The indicator decreased for the second straight month, hitting the lowest value since June 2005. Deterioration was essentially due to the sharp drop in the balance for the opinions on the level of orders (both foreign and especially domestic ones) and to the worsening in production expectations. Also inventories of finished products were considered to have moderately increased. Lastly, the rate of industrial operating capacity declined.

North East

Also in this area, confidence worsened for a second month in a row, reverting to its July 2003 level. Deterioration mainly stemmed from the decline in production expectations and the restocking of inventories, which came along with a moderate fall in the level of orders (concentrated in the domestic market). Finally, the cut in the capacity utilization rate, already recorded in the first quarter, continued in the quarter under review.

Centre

Following the recovery posted in May-June, in July the indicator started to worsen once more, losing nearly five points and returning to the low level posted at the end of 2001. Surveyed entrepreneurs showed an overall negative situation for orders and demand (domestic and foreign) as well as production expectations and inventories. Also the rate of industrial operating capacity slightly shrunk.

Mezzogiorno

Also in this case, confidence worsened for the second straight month, reaching one of the lowest levels since 1994. The decline was the result of overall negative opinions about both the level of orders (domestic and foreign) and inventories of finished products. Production expectations also sent negative indications. The only favourable signal came from plant utilization,

which showed some signs of recovery after three consecutive months of decline.

