



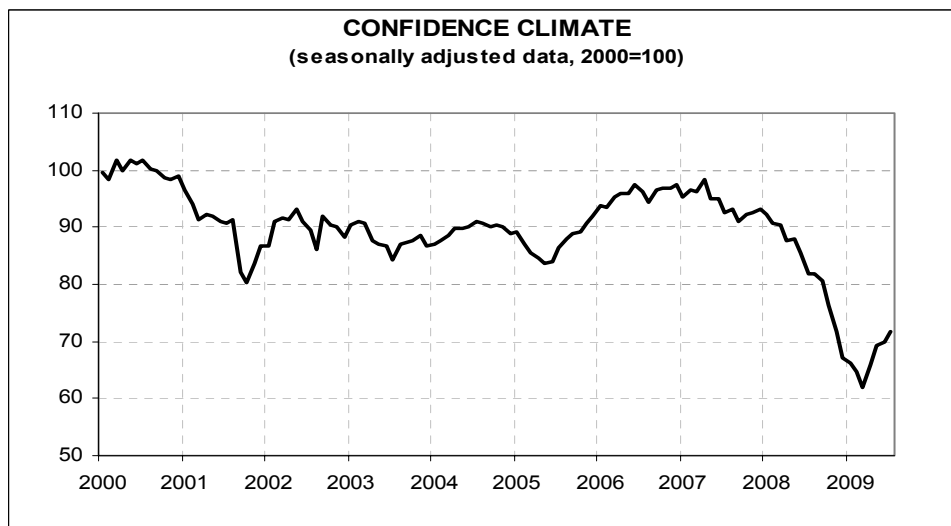
Date: July 29, 2009

IN JULY MANUFACTURING FIRMS' CONFIDENCE RISES FOR THE FOURTH MONTH RUNNING

- The seasonally adjusted confidence index (2000=100) increased to 71.7 from 69.8 in the previous month, going back to its November 2008 value
- Growth was again prompted by the de-stocking of inventories, which came along with the recovery of production expectations, in the presence of virtual stability – at low levels – for orders and demand
- However differences emerged at both sector and regional levels. Confidence improved above all for consumer goods (to 81.9 from 78.8), as well as intermediate goods (to 68.9 from 66.3). The index declined instead in the investment goods sector (to 60.3 from 61.7)
- The Centre and mostly the North West sent signs of optimism (the index rose to 78.4 from 76.7 and to 71.3 from 67.9, respectively). Confidence recovered also in the North East (to 67.9 from 67.1), but declined in the *Mezzogiorno* (to 76.7 from 77.4)
- Production difficulties recorded in recent months seem to have pushed businesses to plan a longer period of summer closure compared to the previous year (mainly producers of intermediate and investment goods and large-sized firms located in the North of the country)

THE QUARTERLY SURVEY ON INDUSTRIAL PLANT UTILIZATION SENDS SOMEWHAT CONTRASTING SIGNALS

- In the 2Q 2009, the rate of operating capacity continued to decrease, moving to 65 from 65.8 in the previous quarter. Also the length of production assured by current order books shortened
- However, firms considered a recovery for the flow of new orders and expected an improvement in export activity in the following months, also due to the perception of their enhanced competitiveness in domestic and foreign markets
- Moreover, the balance for work hours recovered, inventories continued to diminish and, for the first time in the last six quarters, the number of respondents considering “more than adequate” the current rate of operating capacity declined
- Also the share of firms viewing the existence of obstacles limiting their productive activity shrunk, mainly thanks to a decrease in the role of insufficient demand (though this constraint was still mentioned by about 46% of surveyed firms, compared to 50% in the previous quarter)



Data on August shall be released on September 1, 2009

The next ISAE surveys are scheduled as follows:

August 27, 2009: ISAE Monthly Consumer Survey (reference period: August)

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 between July 1 and July 20 on a panel of about 4,000 firms, the seasonally adjusted confidence index of manufacturing and mining firms (2000=100) rose in July for the fourth straight month, reaching 71.7 compared to 69.8 in June.

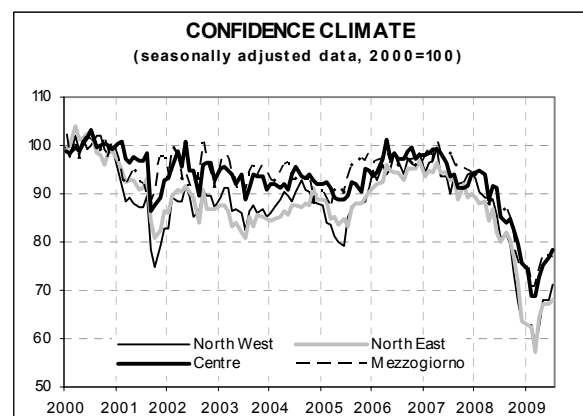
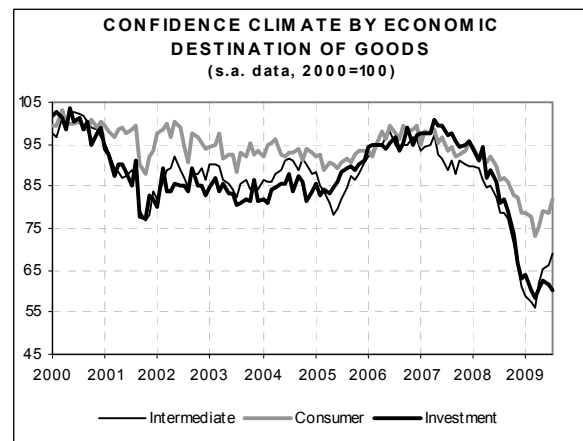
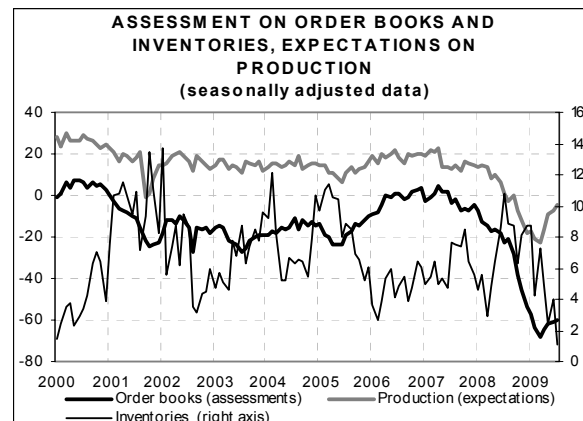
Firms recorded moderate signs of recovery for the state of current orders and demand and, above all, inventories continued to diminish. Also production expectations recovered slightly.

However, firms' opinions were rather different at sector and regional level. At sector level, pessimism eased mainly for producers of intermediate and consumer goods, though at different rates: the confidence index improved mostly in the latter sector (to 81.9 from 78.8, compared to a rise to 68.9 from 66.3 in the intermediate goods sector). Confidence of producers of investment goods extended instead its downward path (the index dropped to 60.3 from 61.7). At the regional level, signs of optimism emerged in the Centre (where the index moved to 78.4 from 76.7) and, above all, in the North West (to 71.3 from 67.9). The rise in confidence slowed down in the North East (moving to 67.9 from 67.1) and continued to decline, though moderately, in the *Mezzogiorno* (to 76.7 from 77.4).

Production difficulties recorded in recent months seem to have pushed businesses to plan a longer period of summer closure than in the previous year, mainly in the intermediate and investment goods sectors and in large-sized firms located in the North of the country.

The traditional quarterly survey on capacity utilization sent somewhat contrasting signals. In the second quarter of 2009, the rate of industrial plant utilization continued to decrease. Also the length of assured production shortened. However firms considered a recovery for the flow of new orders and expected an improvement in the volume of exports in the following months, also because of the perception of their enhanced competitiveness. Moreover, the balance for work hours recovered, inventories continued to

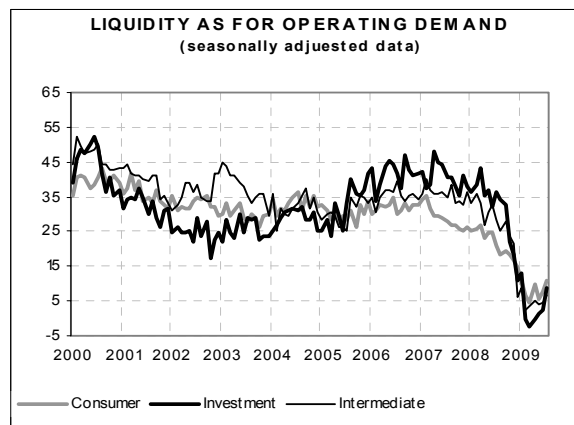
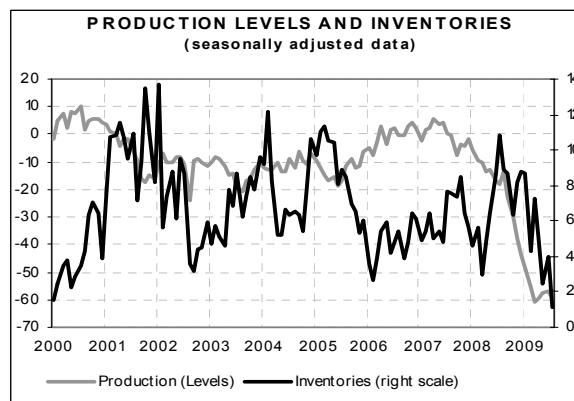
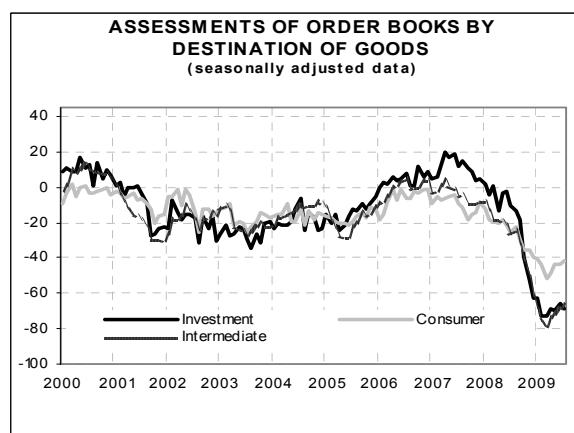
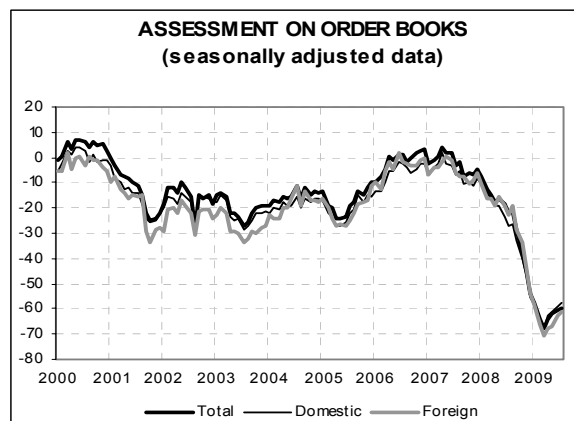
diminish and, for the first time in the last six quarters, the number of respondents considering "more than adequate" the current rate of operating capacity declined. Also the share of firms viewing the existence of obstacles limiting their productive activity shrank, mainly thanks to a decline in the role of insufficient demand.



Situation in the reference period (July 2009)

In July, manufacturing firms' assessments on the level of demand bettered slightly, confirming the very modest signs of recovery already emerged in the previous month. The balance reached -60 (from -61 in June), thanks to a recovery in both domestic and foreign demand (to -58 from -59 and to -61 from -62). However, entrepreneurs considered production to have started to decline once more (the balance lowered to -59 from -57). Consistently, they also signalled a destocking of inventories (to 1 from 4). Lastly, firms indicated a moderate improvement in company liquidity (to 8 from 5). The improvement in the current situation distinguished producers of consumer and, mostly, intermediate goods, where the main company variables recorded more favourable developments. A different situation, instead, characterized producers of investment goods. At sector level, consumer goods firms recorded an increase in orders and in demand in general, with a two-point rise for the balance with respect to June (from -44 to -42). This improvement was due above all to the recovery of foreign demand (from -46 to -43) and to a more moderate upturn in the domestic component (from -43 to -42). Firms gave instead slightly lower assessments on the level of production (the balance moved from -40 to -43) and better opinions on liquidity (from 8 to 11). Positive indications also came from the evaluation of the level of inventories (from 6 to 2). Producers of intermediate goods were more optimistic. The improvement in this sector mainly stemmed from clearly less negative opinions on the level of foreign demand (the balance increased from -71 to -63); also the balance for liquidity rose (from 4 to 7). The opinions on the level of production remained instead stable (at -65), while inventories went back to normal levels (from 1 to 0). Producers of investment goods were more cautious. They gave more negative assessments on overall orders (the balance declined from -66 to -69) and mostly foreign demand (from -66 to -72). Firms in this sector viewed a sharp drop in the level of production (from -66 to -73), and thus in inventories (from 11 to 8). As

in the other sectors, producers of investment goods considered a clear recovery in company liquidity (from 2 to 9).

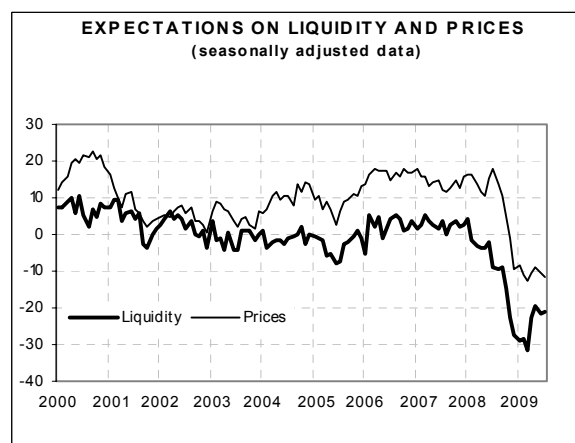
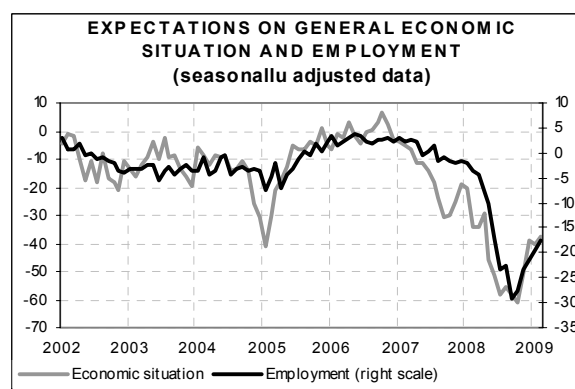
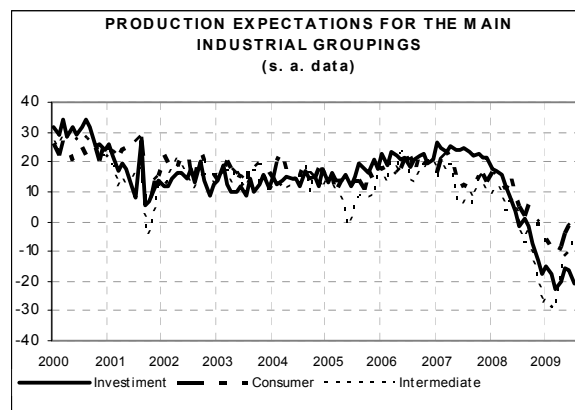


Outlook for the following three months

In July, firms expressed contrasting forecasts for the following three months with regard to the trend in main company variables and the Italian economy in general. The balance for expected orders increased three points (from -4 to 0), slightly more than for production (from -7 to -5) and employment (from -19 to -18). Prospects for the country's general economic situation bounced from -40 to -38. Instead, the balance for future selling prices declined slightly (from -10 to -11) while the one for company liquidity remained stable (at -21, its June value). At sector level, overall forecasts showed contrasting signals; producers of intermediate goods gave more positive indications. In detail, in the investment goods sector, firms' prospects for demand decreased slightly (from -2 to -3) and those for production and prices tumbled (from -16 to -21 and from -13 to -16). Forecasts for company liquidity and employment moderately improved (from -26 to -24 and from -17 to -15), while those for the economy in general held steady (at -32, as in the previous month). For consumer goods, instead, firms were markedly optimistic about expectations for orders (from 0 to 5) and production (from -2 to 2). However, their forecasts for the overall economic situation and for selling prices worsened (from -29 to -32 and from -6 to -8). The balance for employment prospects increased (from -19 to -18), while the one for liquidity remained unchanged (at -16, its June value). Lastly, in the intermediate goods sector, stability in selling price forecasts (at -14) came along with a clear improvement in prospects for demand (from -10 to -5), production (from -11 to -5) and the country's general economic situation (from -42 to -38). Moreover, firms in this sector predicted a modest improvement for company liquidity (from -28 to -27) and employment in the following three months (from -23 to -21).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Apr. 2009	65.8	-64	5	-16
May 2009	69.2	-62	2	-9
June 2009	69.8	-61	4	-7
July 2009	71.7	-60	1	-5

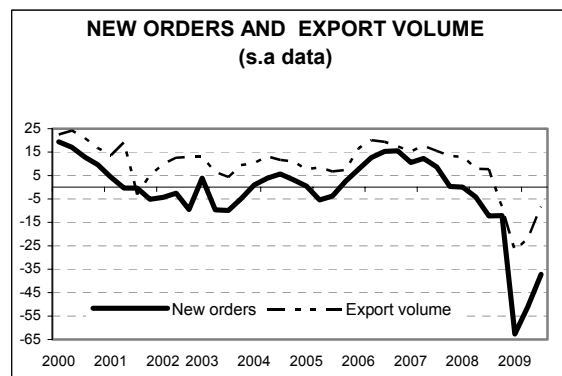
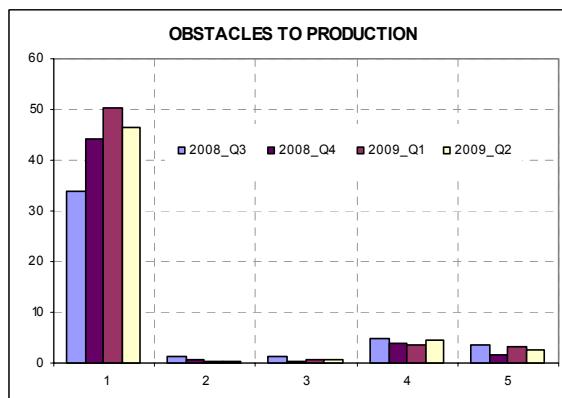
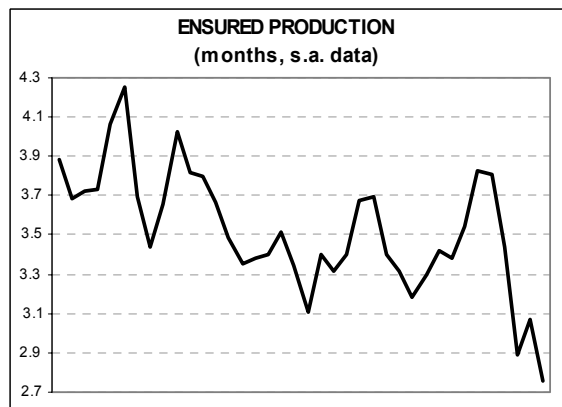
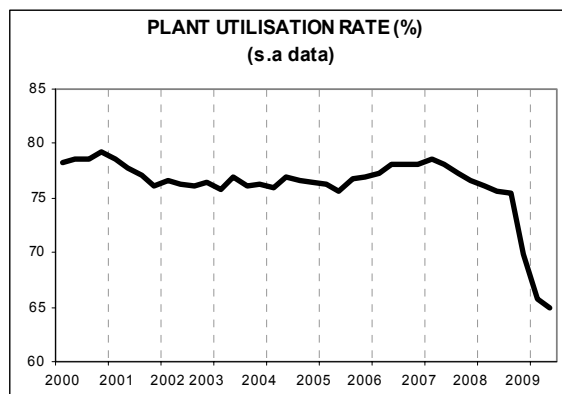


Main quarterly operating capacity survey results (second quarter 2009)

The traditional ISAE quarterly survey on operating capacity gave partly contrasting indications. In the second quarter of 2009, manufacturing firms confirmed the fall in capacity utilization and in the length of production assured by current order books, but recorded instead a recovery in the flow of new orders and in short-term expectations for the volume of exports, as well as lower obstacles for productive activity.

More in detail, industrial plant operating rates declined further, moving from 65.8% to 65%, a historical low for the time series. Also the length of assured production diminished from 3.1 to 2.8 months, while the balance for hours actually worked moved from -47 to -42. Prospects for the following months however seemed to have gradually bettered. The share of firms believing that the current level of capacity utilization was “more than enough” decreased (the balance moved from 44 to 41), new orders recovered (from -51 to -37), and obstacles to productive activity diminished (now signalled by 52% of the firms in the sample, compared to 55% in the first quarter), mainly thanks to a fall in the role of demand constraints. Lastly, inventories of raw materials continued to slump (the balance lowered from -16 to -20).

Foreign markets also sent more favourable indications: expectations for the volume of exports recovered (from -22 to -8), in the presence of a widespread recovery in firms’ perception of their competitive position in both the domestic market (from -7 to -5) and the EU (from -7 to -4) and non-EU ones (from -10 to -7).



Focus: August industrial plant closure

In times of crisis and uncertainty, companies can use the summer period to better adapt the level of production to the current and expected level of demand, planning a shorter period of summer closure to cope with an unexpected rise in demand or increasing the number of closing days to compensate for its decrease. Thus, from this point of view, information on plant closures in August may provide useful indications about cyclical developments in the industrial sector. For this reason, in the last years, ISAE included in the July manufacturing survey a specific question on whether the planned days of plant closure in August were higher, equal or lower than in the previous year.

Production difficulties recorded in recent months seem to have pushed businesses to plan a longer period of summer closure than in 2008: 27% of sample firms declared they intended to make such a choice, as against 8.3% in the previous year. The share of firms projecting to increase the days of closure was particularly high among producers of investment and intermediate goods (39% and 31.6%, respectively), whereas it was lower in the non-durable consumer goods sector. Moreover, mostly large-sized firms said they were going to use this way for adjusting production levels. Lastly, firms planning to lengthen the period of closure compared to the previous year were mainly those in the North, with respect to those in the Centre and the *Mezzogiorno*.

Number of days of summer industrial plant closure

	Higher		Equal		Lower	
	2008	2009	2008	2009	2008	2009
Total						
Manufacturing	8,3	27,22	84,6	67,74	5,7	3,53
Economic Destination						
	Higher		Equal		Lower	
	2008	2009	2008	2009	2008	2009
Food	6,8	11,24	86,6	80,13	3,5	4,07
Non-Food	10,5	10,74	82,7	84,67	5,6	3,86
Durables	6,6	24,36	81,6	62,05	6,3	7,11
Intermediate	8,7	31,6	85,9	64,66	4,8	2,99
Investment	6,8	39,01	83,9	56,93	8,0	3,11
Firms size						
	Higher		Equal		Lower	
	2008	2009	2008	2009	2008	2009
Small	8,2	24,74	84,6	70,67	6,4	3,53
Medium	9,9	27,05	85,2	67,03	4,3	5,23
Large	7,4	35,91	83,5	57,95	4,3	2,61
Geographical areas						
	Higher		Equal		Lower	
	2008	2009	2008	2009	2008	2009
North West	8,2	31,53	85,1	64,67	5,6	2,12
North East	8,8	28,73	82,2	65,87	6,6	3,77
Centre	9,0	19,02	85,4	74,74	4,9	5,49
Mezzogiorno	5,0	15,87	88,2	76,91	5,2	5,81

Regional breakdown of ISAE survey results

In July, the moderate recovery in manufacturing firms' confidence posted at the national level was the result of different patterns across areas. Higher optimism emerged in the North West, where the index bounced from 67.9 to 71.3. Firms in the North East and the Centre were instead more cautious (the index moved from 67.1 to 67.9 and from 76.7 to 78.4, respectively), whereas confidence started to decline in the *Mezzogiorno* (from 77.4 to 76.7). The opinions on demand in general improved everywhere, but in the *Mezzogiorno*. Assessments on the level of inventories of finished products and production expectations gave contrasting indications as well. Also prospects for the economic trend were not homogenous across areas. Lastly, with regard to the rate of capacity utilization, in the second quarter of 2009 an increase was recorded in the Centre and the *Mezzogiorno*, while stability characterized the North East and a significant decline was staged in the North West.

North West

In this area, the confidence index rose nearly four points, due to the recovery in the opinions of foreign orders (from -68 to -61) and to a sharp de-stocking of inventories (from 4 to -2). Also production expectations gave signs of improvement (from -10 to -4). However, in the second quarter of 2009, the rate of operating capacity lowered (from 66.9% to 64%).

North East

The confidence indicator showed some moderate signs of recovery, thanks to better opinions on demand (from -64 to -61) and to the fall in inventories (from 8 to 4). Production expectations were instead less favourable (from -5 to -9). In the second quarter, the rate of plant utilization remained virtually unchanged (moving from 64.5% to 65.1%).

Centre

The indicator recovered about two points over June, essentially because of a clear improvement in the opinions on orders (both domestic and foreign) and in production expectations (from -4 to 0). Unlike the other areas, inventories were considered to have increased

(from 0 to 3). Lastly, the rate of operating capacity edged up slightly compared to the previous quarter (from 65.9% to 68%).

Mezzogiorno

In this area, confidence diminished, though remaining above its yearly average. Negative indications on the level of orders (from -51 to -52) came along with more pessimistic forecasts for production (from 8 to 6), while inventories remained stable (at 7). Moreover, in this area the quarterly survey showed an increase in capacity utilization (from 64.8% to 68.1%).

