

July 29, 2010

Data on August shall be released
on August 31, 2010

The next ISAE surveys are scheduled as
follows:

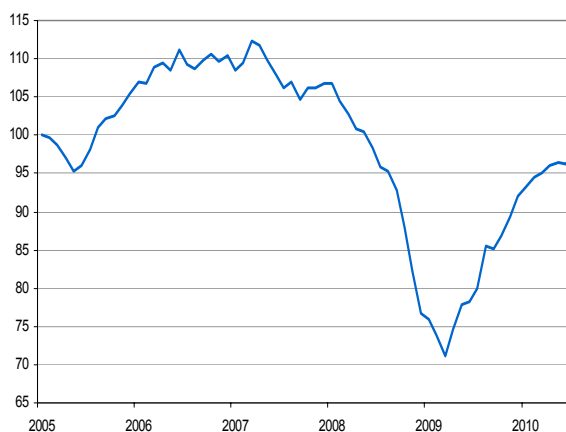
August 26: ISAE Monthly Consumer Survey
(reference period: August)

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or electronic format) is available for sale (for
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MANUFACTURING FIRMS' CONFIDENCE INCREASES FURTHER IN JULY

- The seasonally adjusted overall confidence index (2005=100) rose to **98.3** from **96.3** in the previous month, going back to its **June 2008** value
- The improvement stemmed from clear recovery in orders and demand, which came along with virtual stability for production expectations and slight restocking of inventories of finished products
- Differences emerged at sector level: confidence improved in the consumer goods sector (the index rose to **101.2** from **99.3**) and especially in the investment goods one (to **97.6** from **91.5**), but worsened instead for intermediate goods (to **100.8** from **102**)
- Partially favourable signals also came from a special additional question, included each year in the July survey, about plant closure during the summer break: the share of manufacturing firms planning to raise the number of days of summer closure actually declined from **27%** (in July 2009) to **10%**, whereas the percentage of those planning to shorten the period increased from **4%** to **9%**
- The improvement in confidence was virtually widespread across the country: the index increased markedly in the North West and the *Mezzogiorno* (from **101.7** to **103.8** and from **85.8** to **88.5**, respectively) and more moderately in the North East (from **98.4** to **99.6**). It remained practically stable instead in the Centre (moving from **95.0** to **95.1**)

CONFIDENCE CLIMATE (index 2005=100, seasonally adjusted)



THE QUARTERLY SURVEY ON CAPACITY UTILIZATION ALSO GIVES ENCOURAGING INDICATIONS

- In the second quarter of 2010, the rate of capacity utilization extended its slow expansion, reaching **69.5%** compared to **67.8%** in first quarter. The length of production assured by current order books held steady instead (at 3 months, as in the previous quarter)
- Moreover, manufacturing firms reported a recovery in the flow of new orders and expected a slight progress in the volume of exports in the following months, also connected to the improvement in the perception of their competitive position on domestic and foreign markets
- The balance for the number of work hours recovered as well, but inventories of intermediate products built up. Finally, after four quarters, the share of firms considering more than sufficient the rate of plant utilization increased

Manufacturing firms' confidence

According to the ISAE Survey, carried out between July 1 and July 19 on a panel of about 4,000 firms, in July the seasonally adjusted confidence index of manufacturing and mining firms increased from 96.3 (in June) to 98.3, three points above its yearly average. Firms were more optimistic about the current trend in orders and production. However, inventories recovered slightly (though remaining below normal levels) and production expectations held steady. Firms also maintained unchanged their June forecasts for the future volume of production and employment, but moderately improved their expectations for orders and the country's overall economic trend.

However, the improvement in confidence was not homogeneous at sector level. Optimism improved among producers of consumer goods (the index rose to 101.2 from 99.3) and especially in the investment goods sector (to 97.6 from 91.5). Confidence declined instead for producers of intermediate goods (to 100.8 from 102). The improvement in confidence was instead fairly widespread across the country. The index rose in the North (from 101.7 to 103.8 in the North West and from 98.4 to 99.6 in the North East) and the *Mezzogiorno* (from 85.8 to 88.5) and remained basically stable in the Centre (moving from 95.0 to 95.1).

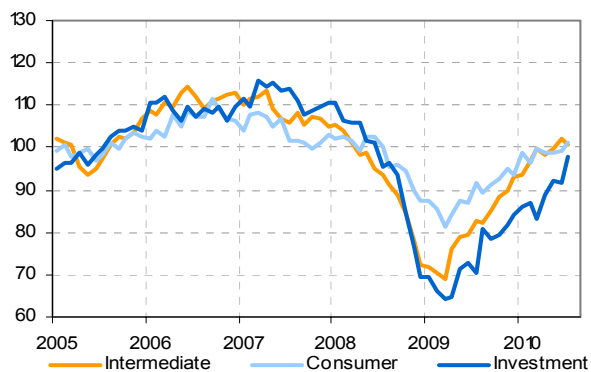
Situation in the reference month (July 2010)

In July, manufacturing firms gave considerably more optimistic assessments on orders in general (from -37 to -31), due to the improvement in the domestic component of demand (from -39 to -35) which came along with stability for the foreign component (the balance stood at -34). Compared to the previous month, in July firms indicated a lower de-stocking of inventories (from -4 to -3) and an improvement in the level of production (from -35 to -30), as well as slight deterioration in liquidity (from 16 to 14).

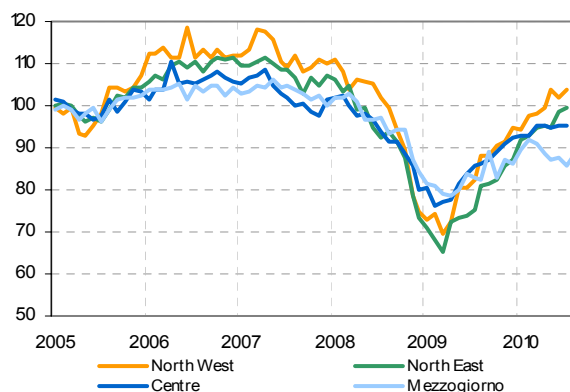
Investment goods firms were the most optimistic: the balance for orders and production increased from -39 to -32 and from -38 to -26, respectively. Inventories stabilized (the balance stood at -3) and liquidity improved markedly (from 14 to 19).

In the consumer goods sector, optimism was more moderate: the balance for assessments on overall orders rose from -31 to -26; the ones related to the level of production and inventories decreased instead (from -33 to -34 and from -3 to -4). Moreover, firms considered liquidity to have slightly worsened (from 15 to 13). Lastly, producers of intermediate

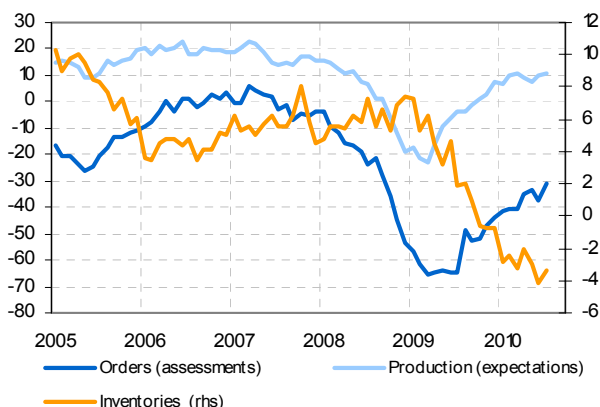
CONFIDENCE IMPROVES FOR CONSUMER AND INVESTMENT GOODS, BUT WORSENS INSTEAD FOR INTERMEDIATE ONES



CONFIDENCE BETTERS IN THE NORTH AND THE MEZZOGIORNO AND REMAINS STABLE IN THE CENTRE



ORDERS IMPROVE, PRODUCTION EXPECTATIONS STABILIZE, AND INVENTORIES INCREASE SLIGHTLY



goods gave less negative opinions regarding orders (the balance rose from -31 to -24) and the level of production (from -31 to -25). The balance related to inventories moved moderately back up (from -7 to -5), remaining however below normal values, and company liquidity worsened slightly (from 17 to 16).

Outlook for the following months

In July, prospects for main company variables and the country's economic situation bettered. In detail, the balance related to expectations for orders rose from 11 to 13 and the one for the country's economic situation increased from -13 to -11. Also prospects for company liquidity and employment recovered (from -5 to -3 and from -11 to -10, respectively). Expectations for selling prices increased (from 5 to 7), while those for production remained unchanged (at 10).

At sector level, producers of investment goods were clearly more optimistic about expectations for orders (from 8 to 17), production (from 5 to 16), and the overall economic trend (from -15 to -10). Also prospects for liquidity recovered (from -7 to -6).

Forecasts for employment and selling prices held steady instead (the balances amounted to -11 and 0, respectively). In the consumer goods sector, expectations for demand and production levelled out (both at 13), while prospects for employment markedly improved (from -13 to -9). However, forecasts for liquidity and the country's overall economic situation deteriorated (from -3 to -4 and from -15 to -16). Lastly, the balance related to expectations for selling prices increased from 3 to 5. Producers of intermediate goods were instead highly pessimistic about expectations for orders, production, and employment. The related balances lowered from 13 to 10, from 12 to 5, and from -9 to -12. The balance for selling price prospects increased instead (from 10 to 12), while the one for the overall economic situation stayed stable (at -11).

CONFIDENCE CLIMATE AND BALANCES FOR THE INDEX-BUILDING SERIES

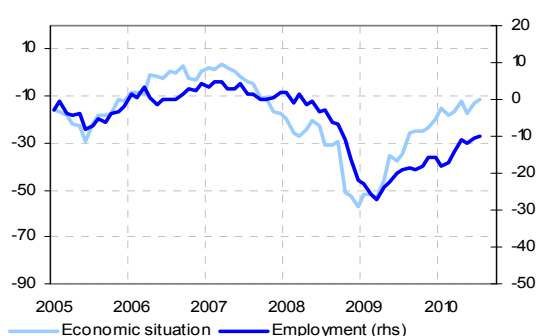
(seasonally adjusted data)

Month	Confidence climate	Level of orders	Inventories	Production forecasts
Mar. 2010	95.0	-41	-3	11
Apr. 2010	96.0	-35	-2	9
May 2010	96.4	-33	-3	8
June 2010	96.3	-37	-4	10
July 2010	98.3	-31	-3	10

FORECASTS FOR ORDERS ALSO INCREASE, BUT THOSE FOR PRODUCTION STAY THE SAME



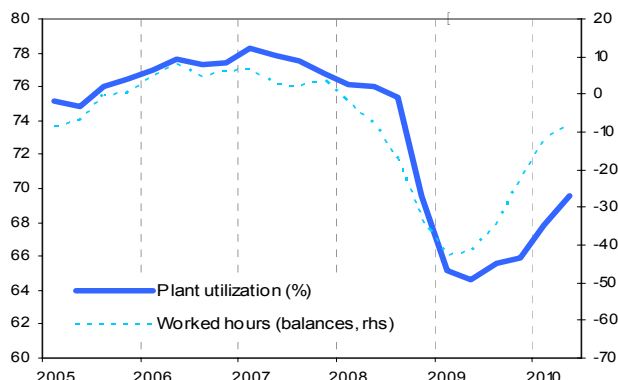
EXPECTATIONS FOR THE OVERALL ECONOMIC SITUATION BETTER



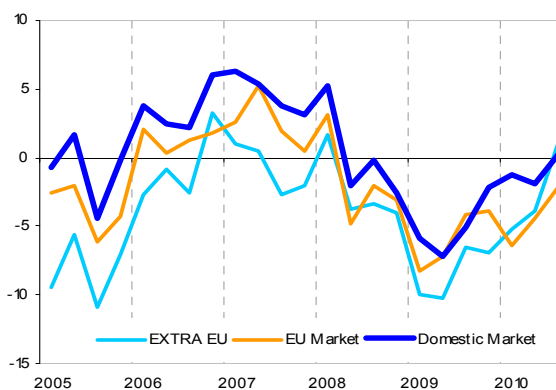
Focus: The ISAE quarterly survey on operating capacity (2Q 2010)

The traditional ISAE quarterly survey on operating capacity showed that in the second quarter of 2010 manufacturing firms' plant utilization expanded slightly compared to the previous quarter, moving from 67.8% to 69.5%. Also the number of work hours clearly recovered (the related balance rose from -12 to -9) and the flow of new orders increased (the balance surged from -3 to 9). The length of production assured by current order books remained instead practically unchanged (2.9 months, compared to 3 months in the previous quarter). Virtual stability also characterized inventories of raw materials and semi-finished products (at -18) and the share of firms perceiving the existence of obstacles hampering their productive activity (43% of respondents, compared to 44% in the first quarter). In the latter case, insufficient demand was again the main limitation (according to 35% of the respondents, as against 37% in the previous quarter). As for foreign markets, expectations for the volume of exports in the following months recovered slightly (the balance rose from 6 to 7) and firms' evaluation of their competitive position improved on both domestic (from -2 to 0) and EU markets (from -4 to -2) and, above all, on non-EU ones (from -4 to 1).

THE CAPACITY UTILIZATION RATE AND WORK HOURS INCREASE



THE COMPETITIVE POSITION IMPROVES



THE MAIN QUARTERLY SURVEY RESULTS

Quarter	Rate of capacity utilization	Length of assured production	Trend in capacity utilization	Level of worked hours	Level of inventories	Level of new orders
2Q 2009	64.7	2.8	42	-42	-18	-35
3Q 2009	65.6	2.6	37	-35	-18	-31
4Q 2009	65.9	2.6	37	-23	-19	-20
1Q 2010	67.8	3.0	33	-12	-18	-3
2Q 2010	69.5	2.9	39	-9	-18	9

Focus: August industrial plant closure

During periods of uncertainty, firms can use the summer break to adapt the level of production to demand. They might tend to lengthen the period of plant closure to reduce production in periods of insufficient demand or, on the contrary, cut the number of days of closure to meet an unforeseen higher flow of new orders. Thus, from this viewpoint, data regarding projected August plant closure can give useful information about the cyclical trend of the industrial sector. For this reason, in the last years, ISAE has asked the panel of surveyed firms to specify whether the planned number of days of August closure was “higher”, “equal” or “lower” than in the previous year.

PERIOD OF SUMMER PLANT CLOSURE (COMPARED TO THE PREVIOUS YEAR)

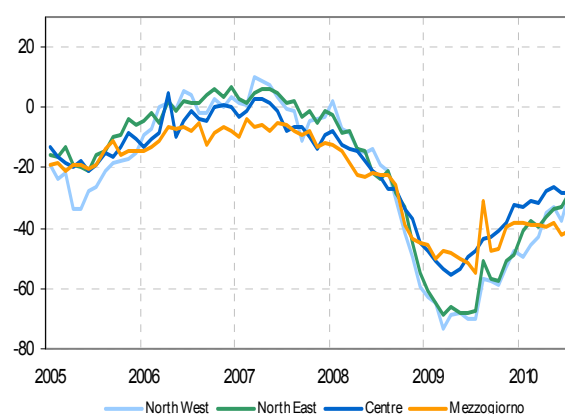
Month	Higher (%)	Equal (%)	Lower (%)	Balance
July 2007	6	85	8	-2
July 2008	8	85	6	2
July 2009	27	68	4	23
July 2010	10	81	9	1

The survey results confirmed that companies were out of the most critical phase of the recession, which had instead a major influence on production choices and strategies in July 2009. The share of entrepreneurs who stated they planned a longer period of plant closure than in the previous year diminished from 27% to 10%, returning slightly above its July 2008 level (8%) and not very far from the July 2007 percentage (6%). The proportion of firms which wanted to keep the length of the summer break unchanged increased to 81% (as against 68% in the previous year), whereas the percentage of those that planned to shorten the closure period bounced from 4% to 9%, the highest level recorded since ISAE introduced this specific question in its Manufacturing Firms Survey (July 2007).

Regional breakdown of ISAE survey results

The recovery in confidence was widely spread across the country, though with some differences: the index increased markedly in the North West and the *Mezzogiorno* (from 101.7 to 103.8 and from 85.8 to 88.5, respectively) and more moderately in the North East (from 98.4 to 99.6). It remained practically stable instead in the Centre (moving slightly up from 95.0 to 95.1). The opinions on overall demand showed an improvement everywhere but the Centre, where they remained stable. Assessments on inventories of finished products and production prospects gave contrasting indications. Regional differences also distinguished forecasts for the economy. Lastly, the rate of capacity utilization increased in the Centre and, mostly, in the North West, while it remained stable in the rest of the country.

OPINIONS ON ORDERS IMPROVE ALL OVER THE COUNTRY, EXCEPT IN THE CENTRE, WHERE THEY LEVEL OUT



North West

In this area, confidence improved by nearly two points, due to sharp recovery in the opinions on orders (from -38 to -28). Inventories increased somewhat (from -7 to -5) and signs of moderate pessimism also distinguished production expectations (from 13 to 12). The rate of capacity utilization grew over the first quarter (from 68.2% to 72%).

North East

Confidence showed moderate signs of recovery, thanks to the upturn in the opinions on demand (from -33 to -29). Inventories built up slightly (from -6 to -4) and production expectations remained stable (the balance stayed at 11). In the second quarter, the rate of operating capacity held steady (at 69.7%).

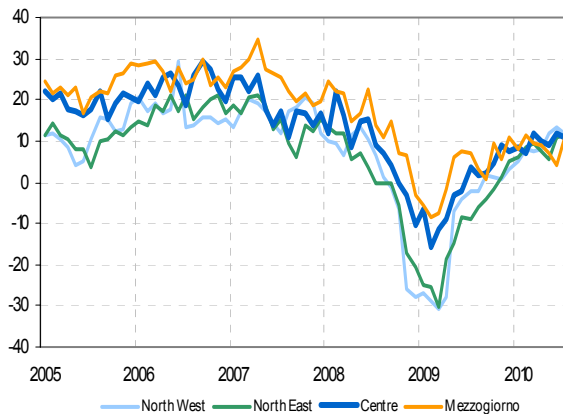
Centre

The index paused due to stability in the opinions on orders (at -28), moderate decline in production expectations (from 12 to 11), and de-stocking of inventories (from 0 to -1). Lastly, the capacity utilization rate fairly increased over the first quarter (from 67.5% to 68.7%).

Mezzogiorno

In this area, the confidence index improved by three points thanks to slightly more favourable assessments on the level of orders (from -42 to -41), which came along with more optimistic forecasts for the future level of production (from 4 to 10). Moreover, inventories stabilized (at 3, as in June). Regarding the quarterly survey on operating capacity, in the second quarter the rate of plant utilization was the same as in the previous one (63%).

PRODUCTION EXPECTATIONS WORSEN IN THE NORTH WEST AND THE CENTRE, REMAIN UNCHANGED IN THE NORTH EAST AND RECOVER IN THE MEZZOGIORNO



THE RATE OF CAPACITY UTILIZATION INCREASES IN THE NORTH WEST AND THE CENTRE AND STABILIZES IN THE NORTH EAST AND THE MEZZOGIORNO

