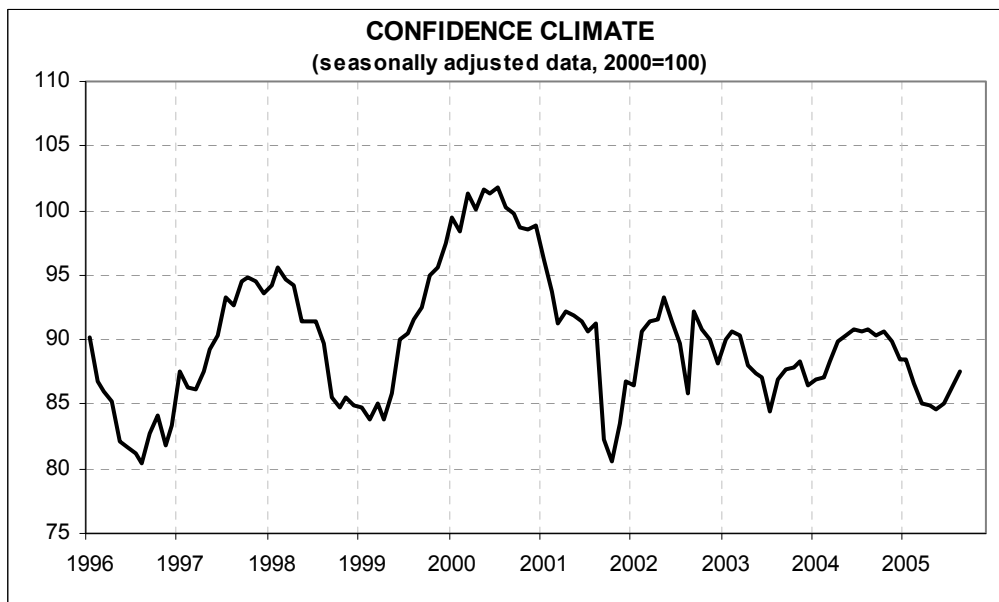




Date: September 8, 2005
TEL.: 06/444821

THE MANUFACTURING FIRMS' CONFIDENCE GROWS AGAIN IN AUGUST

- In August, the seasonally adjusted confidence index (base year 2000 = 100) rises from 86.4 to 87.5, thus reaching its peak since January 2005. The improvement mainly comes from assessments on order books and from improving short-term forecasts on production, while inventories remain stable
- The recovery is diffused in all sectors and it is particularly intense in intermediate goods, where the index rises from 82 to 84.1; the index passes from 90.9 to 91.2 in consumer goods and from 88.3 to 89.5 in investment goods, thus reaching one of the hikes since August 2001
- The order-book recovery is common to both domestic and foreign markets: among non confidence-building variables, the assessments on the production level grow, as do expectations on employment and, particularly, short-term forecasts on the general economic situation
- Manufacturing firms' confidence shows signals of recovery also in Germany: the IFO index – seasonally adjusted by ISAE – rises in August from 91 to 93, thus getting close to the early-2005 figures



Data referring to September shall be diffused on **September 28, 2005**.

Next ISAE surveys are scheduled as follows:

September 22, 2005: ISAE Monthly Consumer Survey (Reference month: September)

September 29, 2005: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: July-August) and ISAE Monthly Business Service Survey (Reference month: August-September)

October 3 2005: Comparative Business Surveys for Italy, Germany and France (Reference month: August-September)

The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site www.isae.it)

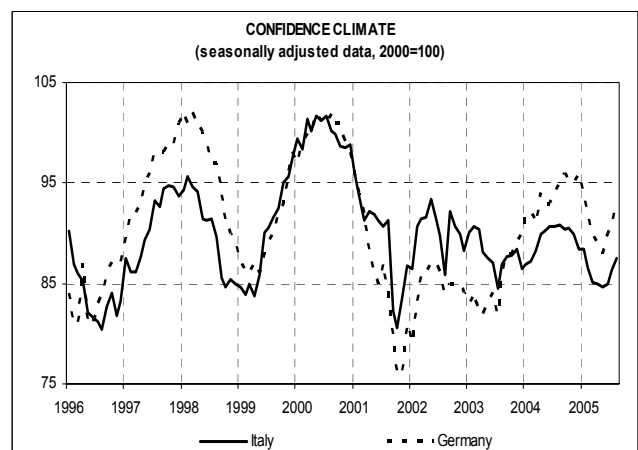
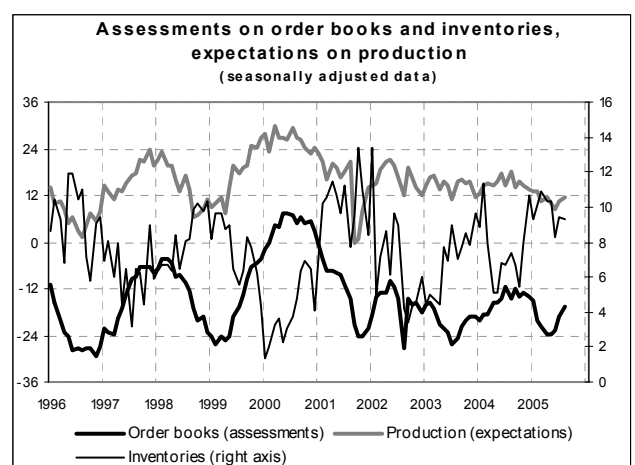
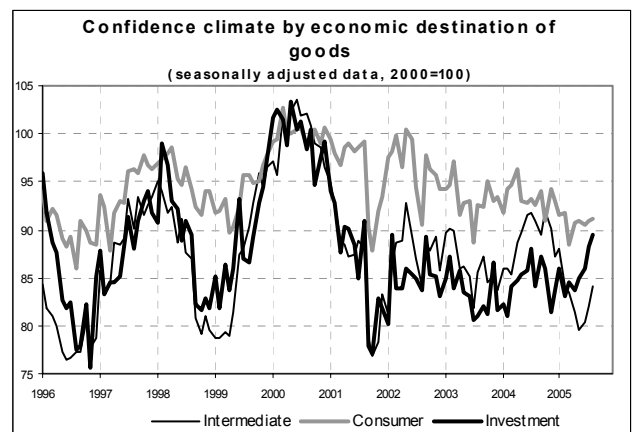
General Results

According to the ISAE Monthly Survey carried out between August 1 and 26 on a panel of about 4,000 firms, the seasonally adjusted confidence index significantly rises in August, passing from 86.4 to 87.5, thus reaching its peak since January 2005. The improvement mainly comes from assessments on order books and from improving short-term forecasts on production, and it is particularly strong in intermediate and investment goods.

The order-book recovery is common to both domestic and foreign markets. Among non confidence-building variables, assessments on the production level definitely grow, as do expectations on employment and, particularly, short-term forecasts on the general economic situation.

Confidence recovers in all sectors: in intermediate goods, the index rises from 82 to 84.1; in consumer goods – where the growth is smaller - the indicator passes from 90.9 to 91.2, while in investment goods the index goes from 88.3 to 89.5, thus reaching one of the hikes since August 2001.

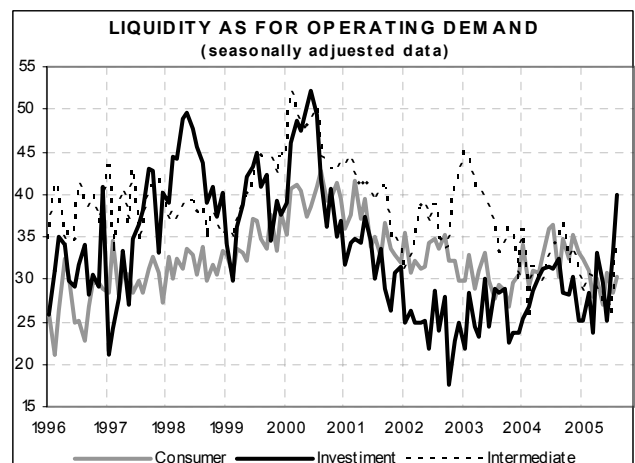
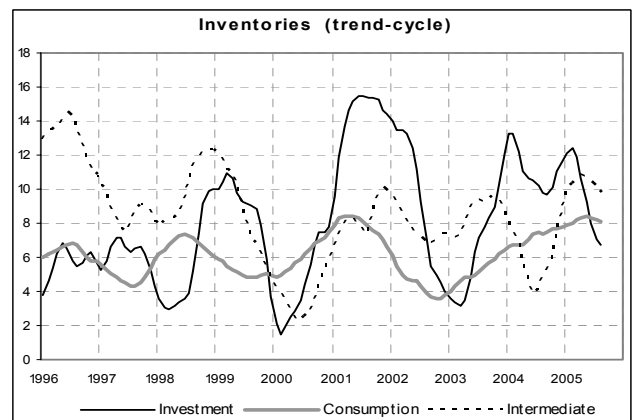
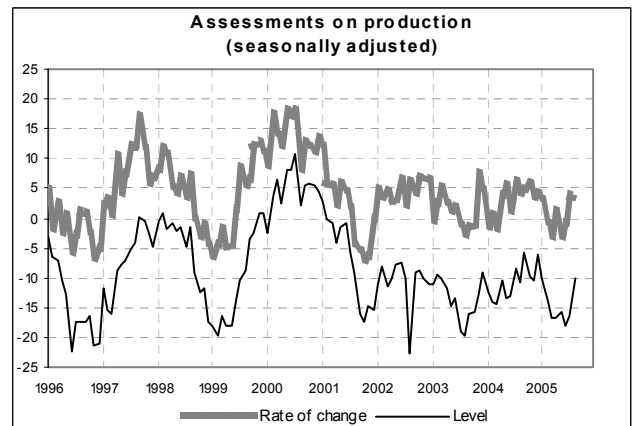
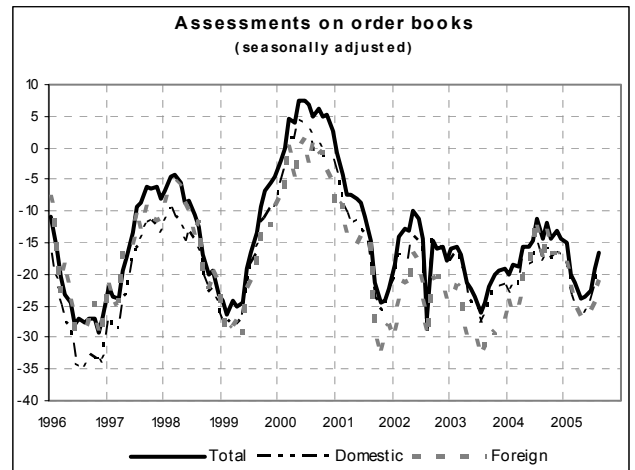
Manufacturing firms' confidence shows signals of recovery in Germany too: the IFO index – seasonally adjusted by ISAE – rises in August from 91 to 93, thus getting close to the early-2005 figures.



Situation in the reference month (August 2005)

In August, most assessments on the main firm variables are rosier than in the previous month: The order-book balance recovers from -19 to -16 (going from -23 to -19 on domestic markets and from -24 to -21 on foreign markets). The balance on the current production level grows from -16 to -10: also the number of firms signalling a rise in their liquidity for current operational needs increases from 34 to 28 (in terms of balance). Conversely, inventories remain stable at 9 and assessments on the current production variation slightly diminish from 4 to 3 (in terms of balance).

Assessments are particularly favourable in intermediate goods: indeed, the improvement concentrates on assessments on the production level and variation (the balances passing from -17 and -2 to -9 and 4 respectively) and in stock reduction (from 12 to 8). Conversely, the order-book trend is stable and the demand equals -21, as the domestic and foreign demands show opposing trend (the domestic demand balance rising from -23 to -20, while the foreign demand one decreases from -26 to -28). Finally, an improvement is observed in assessments on the available liquidity for operational needs (the balance passing from 26 to 34). A similar behaviour is registered in investment goods, where demand remains stable and the balance passes from -13 to -14 (the domestic demand balance going from -20 to -14, the foreign demand remaining at -15), while production evaluations grow in terms of level (from -14 to -7) and current variation (from 4 to 10). Finally, inventories increase (from 5 to 6) and liquidity for operational needs rises from 33 to 40. In consumer goods, the order-book balance grows from -19 to -17, with a similar recovery in both the domestic and the foreign demand (from -22 to -21). The production level and variation improve in this area too (from -15 and 3 to -11 and 4 respectively). Inventories remain unchanged (the balance equalling 8), while a slight rise is observed in the liquidity for operational needs (from 28 to 30).



Forecasts for next quarter

In August, ISAE respondents are more optimistic than in July on their main firm variables and, in particular, on the general economic trend. In financial terms, forecasts on the available liquidity and on the cost of money are growing.

The balances of order-book and production expectations rise from 11 to 14 and 12 respectively; the raw employment balance recovers from -7 to -2, while a selling price rise is further expected (the balance growing from 7 to 10). Expectations on firm liquidity and on the cost of money are rising from 14 and -7 to 16 and -3 respectively). General expectations on the Italian economic situation improve for the second month in a row and the balance passes from -29 to -20, thus recovering from the strong contraction of late-Spring.

Forecasts are rather homogeneous in investment and in intermediate goods: indeed, in investment goods, the balance of expectations on order books rises from 7 to 14, the one on production goes from 14 to 20, the one referring to prices increases from 11 to 13 and the one on the general economic situation grows from -18 to -9. For the first time since March, firms expect an employment growth (the raw balance rising from -9 to 3), alongside with a liquidity improvement (from -10 to -6). In intermediate goods, expectations improve less with reference to order books (from 8 to 11), production (from 4 to 7) and the general economic situation (from -30 to -24). In this sector too, the balance of employment expectations is improving (from -7 to -2), as is the one on liquidity (from -6 to -2). In consumer goods, expectations on order books slightly rise from 17 to 18, while those on production grow from -32 to -18. Unlike what happens in other sectors, expectations on production worsen (from 14 to 12) and those on employment remain stable (at -5 in terms of raw balance). Besides, firms expect a liquidity improvement (the balance rising from -1 to 1).

The IFO Survey on German firms (August 2005)¹

According to the IFO data – elaborated and seasonally adjusted by ISAE - the August confidence climate of German manufacturing firms is growing from 91 to 93, thus coming back to the early-2005 data. Favourable signals come from production expectations, as the seasonally adjusted balance rises from 2 to 6, which is one of the hikes since September 2004. Assessments on the current order-book volume are stable (-23), in spite of the small reduction in the foreign component. Inventories remain on the June level (the balance equalling 12). Turning to prices, selling prices are expected to diminish and their balance goes from -1 to -2.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
May 2005	84.6	-24	10	10
June 2005	85.0	-23	8	8
July 2005	86.4	-19	9	11
August 2005	87.5	-16	9	12

¹ The French Institute INSEE does not issue Surveys on France in August, hence ISAE is not publishing its usual comment on French and German data.