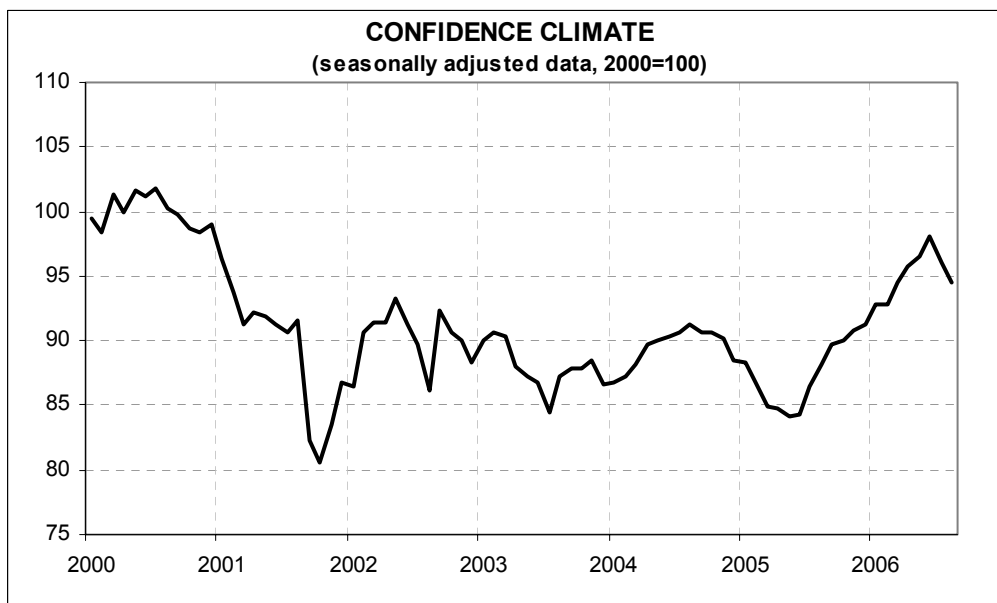




Date: August 31, 2006
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MANUFACTURING FIRMS' CONFIDENCE SCALES DOWN IN AUGUST

- After the setback suffered in July, the seasonally adjusted confidence index decreased in August to 94.4 (from 96.1), returning to the level recorded last March: the fall in confidence of the last two months was mainly due to the worsening in production expectations which reverted to the average level posted at the start of the year. The opinions on current order books deteriorated as well, and inventories slowly built up again
- The assessment on current output stayed the same, but short term expectations for demand and the overall situation of the Italian economy worsened. Anticipations of a rise in selling prices continued to increase
- The deterioration in confidence was common to all main sectors: it characterized both small enterprises and medium and large-sized ones. The regional breakdown of data, instead, disclosed patchy results
- At the industry level, the drop was particularly sharp for the investment goods sector for which the index slumped from 96.1 to 93.3, basically because of a fall in foreign orders, which were probably affected by the recent uncertainties regarding the economic recovery in Germany. Confidence worsened from 97.6 to 96.4 for consumer goods and from 95.2 to 94 for intermediate goods
- The breakdown of data by firm size showed that the fall in confidence was particularly significant for larger firms for which the indicator plunged from 97.8 to 95.5, whereas it declined from 95.7 to 94.6 for small and from 94.2 to 93.1 for medium-sized ones
- The decrease in confidence, instead, was not homogenous across regions: the indicator actually worsened in both the North West (from 96.1 to 94.8) and the North East (from 94.8 to 93.4), it remained virtually unchanged in the Centre (moving to 97.8 from 97.9 in July), while it improved sharply in the Mezzogiorno, reaching 98.6 compared to 96.5 in the previous month



Data on September shall be released on September 27, 2006

The next ISAE surveys are scheduled as follows:

September 5, 2006: ISAE Monthly Business Services Survey (reference period: August) and ISAE Monthly Survey on Construction (reference period: July)

September 6, 2006: ISAE International Comparison of Consumer and Business Surveys (reference period: August)

September 18, 2006: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: July)

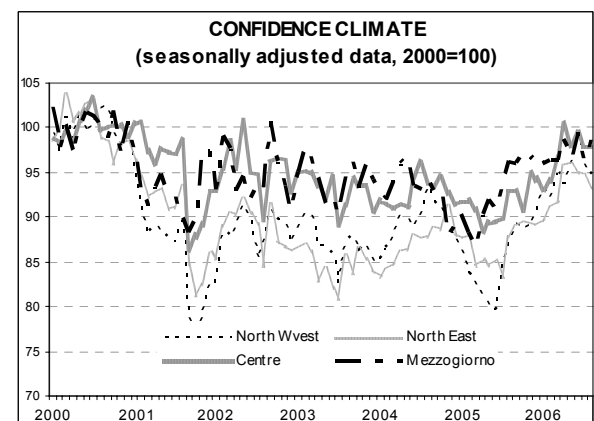
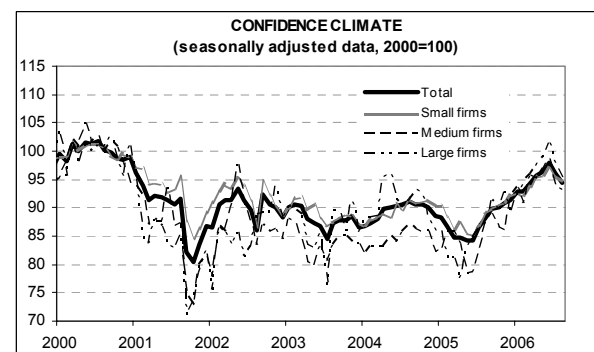
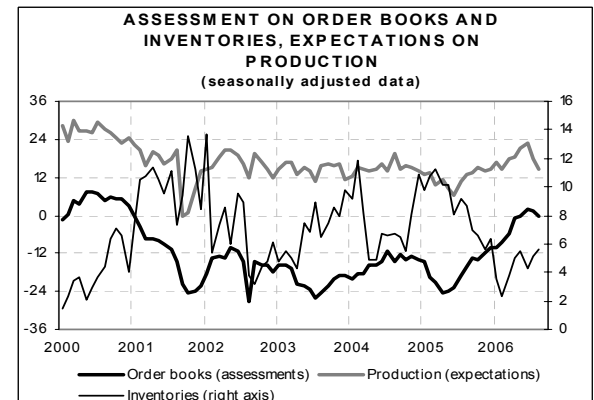
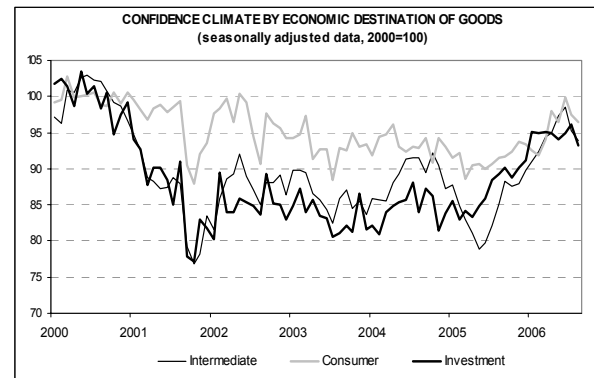
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between August 1 and August 25, pointed to a decline in August, for the second month running, in the seasonally adjusted confidence index of manufacturing and mining firms. The index moved to 94.4 from 96.1 in July: the assessment on current orders declined, inventories continued to build up and short term production expectations worsened. Respondents were also more pessimistic about prospects for orders and the overall Italian economy, as well as for the current situation of company liquidity.

The deterioration in confidence characterized all main sectors and was particularly sharp for investment goods, for which the index plunged by almost three points, moving from 96.1 to 93.3. In the consumer and intermediate goods sectors the indicator declined from 97.6 to 96.4 and from 95.2 to 94, respectively. Also with regard to the breakdown of data by firm size, the worsening in confidence was evenly spread: the indicator declined from 95.7 to 94.6 for small firms, from 94.2 to 93.1 for medium-sized ones, and weakened from 97.8 to 95.5 for large industries.

The deterioration in confidence, instead, was not homogeneous across regions: confidence actually worsened in both the North West (from 96.1 to 94.8) and the North East (from 94.8 to 93.4), while it remained virtually unchanged in the Centre (moving to 97.8 from 97.9 in July). It clearly improved instead in the *Mezzogiorno*, where the index rose to 98.6 from 96.5 in the previous month. In the North West, the decrease in confidence was principally attributable to a fall back in order books, while in the North West it discounted, above all, a decline in production expectations. In the Centre, instead, production prospects bettered, but the improvement was balanced by renewed inventory build up. Finally, in the *Mezzogiorno* the improvement in confidence was mainly due to sharp de-stocking of inventories.



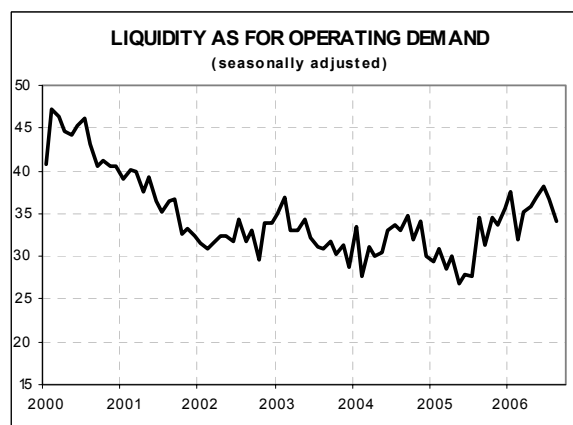
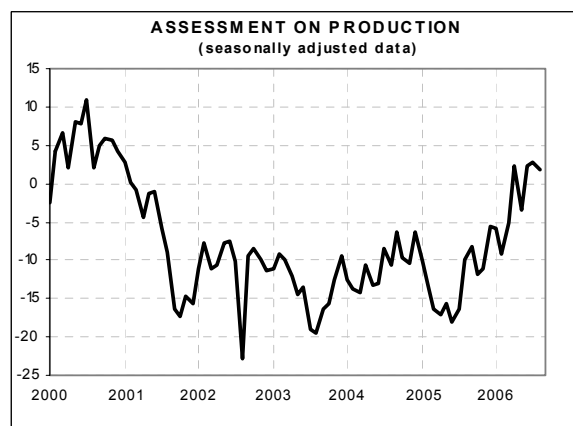
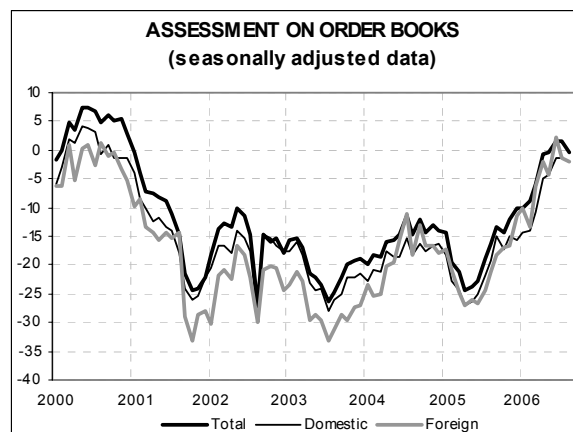
Situation in the reference period (August 2006)

In August, the assessment on orders edged down over the previous month, moving likewise on domestic and foreign markets. Particularly, the overall balance turned down slightly (from 1 to -1), coming in at -2 in both domestic and foreign markets. Also the level of production notched down (the balance declined from 3 to 2), though remaining close to the cyclic high levels reached in July. The evaluation of the ratio of available liquidity to operational requirements was scaled down. Restocking of inventories extended the gradual upward trend posted in the last months, and the related balance returned to 6, its highest level since last December.

Nevertheless, developments were not homogeneous at the industry level: the evaluation of orders worsened abruptly for investment and intermediate goods (from 8 to 1 and from 5 to 0, respectively), while it remained stable for consumer goods (in negative territory, at -6). In the investment goods sector, the fall was principally driven by foreign demand (the balance lowered from 8 to 3), which more than offset the improvement in domestic demand (from 3 to 7). This sector might be negatively affected by the increasing signs of lacklustre recovery in Germany, which is among the main export markets for investment goods firms. For intermediate goods, the worsening in the assessment on orders characterized both domestic (the balance moved from 2 to -3) and foreign markets (from 7 to -4), while for consumer goods the opinions on the domestic market remained stable (at -8) and those on foreign markets improved (from -13 to -9).

Furthermore, in the investment goods sector surveyed firms gave a more positive evaluation of the level of production (from 4 to 8), which nevertheless at this stage seemed mainly oriented toward building up inventories (the related balance increased from 2 to 8). For consumer goods, as well, production levels were recovering (from -3 to -1), in the presence, in this case, of moderate de-stocking of inventories (from 8 to 6). In the intermediate goods sector, both production and inventories declined (from 8 to 3 and from 5 to 3).

Finally, the ratio of liquidity to operational requirements clearly shrank for both investment goods (the balance declined from 42 to 37) and intermediate goods (from 40 to 36), remaining instead stable (at 30) in the consumer goods sector.



Outlook for the following three months

In August, firms surveyed by ISAE were more pessimistic with respect to the previous month about short term developments for orders, production and the overall Italian economy. They also discounted a stronger rise in selling prices. Respondents made instead slightly more favourable forecasts for developments in employment and company liquidity.

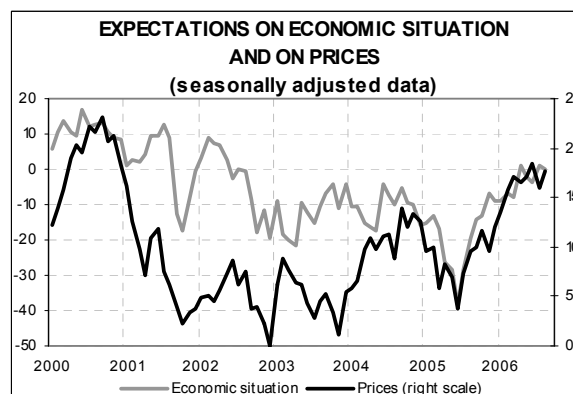
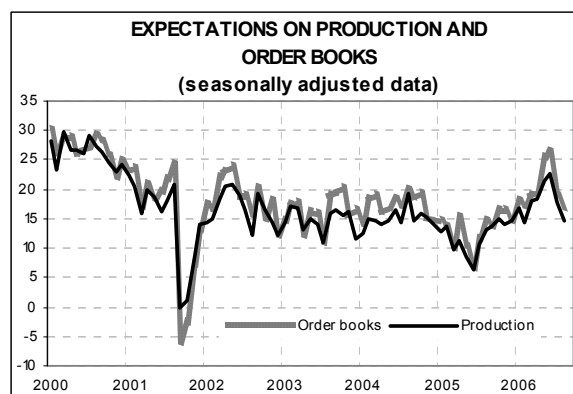
The balance for production and order expectations lessened from 18 to 15 and from 19 to 17, respectively, declining, in both cases, to their lowest level since last February. The balance for the overall Italian economic situation edged down from 1 to 0, remaining nevertheless at a rather high level. Furthermore, expectations on selling prices started to rise once more (from 16 to 18). The balance of expectations for labour market developments instead improved somewhat (from -1 to 3), though it was probably affected by seasonal factors since the series, which exists only since June 2002, did not allow seasonal adjustments so far. Furthermore expectations on company liquidity improved moderately as well (from 5 to 6).

Nevertheless, also in this case, data were not homogenous at the industry level: producers of investment goods, who gave a negative assessment on main company variables, were on the contrary the most optimistic about short term prospects, anticipating for the following twelve months a new rise in order books (from 14 to 20 on balance) and in the level of production (from 17 to 20). Furthermore, they expressed positive expectations on the overall economy (the balance remained unchanged at 6) and forecast lower pressures for selling prices (the balance declined from 15 to 14). In this environment, expectations for liquidity worsened slightly instead (from 6 to 5), while those for employment improved (from -2 to 7). On the contrary, producers of consumer goods were particularly pessimistic: they posted a worsening in the prospects for demand (the balance lowered from 23 to 18), as well as for production (from 21 to 16), employment (from 1 to -1) and the overall Italian economy (from 2 to 0). Furthermore, expectations of a

rise in selling prices increased (from 9 to 11). In contrast, in this sector the balance for prospects for company liquidity improved (from 5 to 8). Finally, in the intermediate goods sector expectations were basically stable: the balance for orders declined from 17 to 16, that for production from 14 to 13, while the one for prices rose from 21 to 25. A moderate improvement was recorded instead for company liquidity (from 3 to 4), employment (from -1 to 3) and the general trend for the Italian economy (from -1 to 1).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
May	96,6	-1	5	21
June	98,0	2	4	23
July	96,1	1	5	18
August	94,4	-1	6	15



Regional breakdown of ISAE survey results

The deterioration in confidence at the national level was the result of divergent trends across regions: in the North the seasonally adjusted index worsened at different rates in the various areas (from 96.1 to 94.8 in the North West and from 94.8 to 93.4 in the North East), it remained virtually unchanged in the Centre (moving from 97.9 to 97.8), while it bettered in the *Mezzogiorno* (from 96.5 to 98.6). The breakdown of the confidence indicator according to its underlying components showed an improvement in production expectations in the Centre and the South, while contrasting signals characterized the assessment on orders and inventories of finished products.

North West

The indicator declined for the second month running, lowering more than one point and returning to its March level. The deterioration was essentially due to a sharp fall in the balance for the evaluation of orders (which characterized both domestic and foreign markets). The evaluation of inventories of finished products sent positive signals: the balance was falling for the third month in a row, proving that de-stocking of inventories was underway.

North East

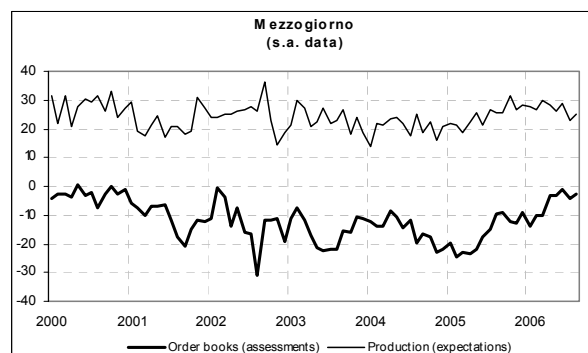
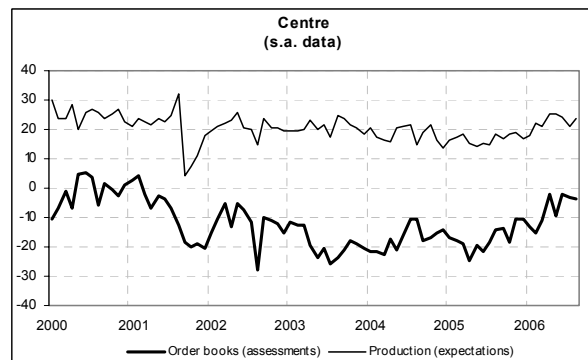
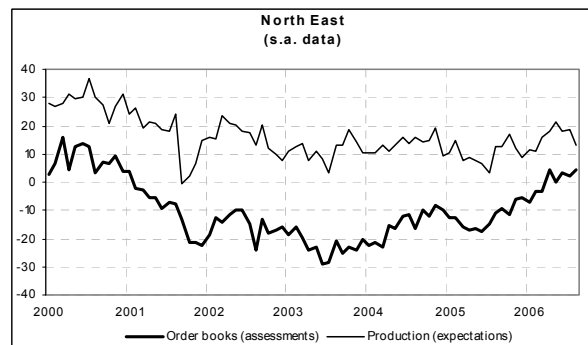
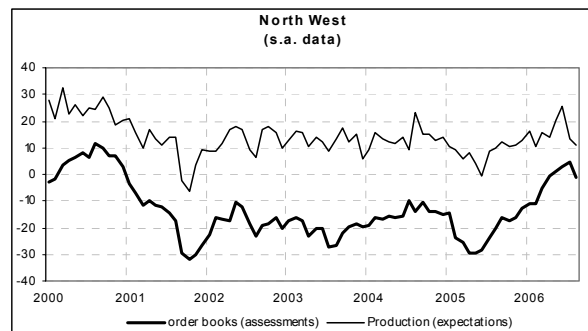
Confidence continued to decline for the third straight month, and the indicator returned to the average level posted at the start of the year. The fall in confidence was mainly related to a worsening in production expectations and to a build up in stocks of finished products. In this region, positive signals were sent by the assessment on the level of orders (both in domestic and foreign markets) for which the balance continued to remain positive for the fourth month in succession.

Centre

Confidence stayed virtually unchanged at its July level. The opinions on inventories of finished products improved and production expectations also bettered, balancing the negative assessment on the level of demand.

Mezzogiorno

Following the worsening recorded in the previous month, the index gained more than two points in August, returning to the level posted last April. The improvement was the sum of generally positive opinions: respondents bettered their evaluation of the level of orders and gave also a more optimistic evaluation of expectations for the level of production. Finally, the opinions on inventories of finished products showed that de-stocking was under way.



Focus: Confidence trend by firm size

After reaching a relatively high cyclic value in June, in the last months manufacturing firms' confidence showed signs of worsening, returning close to the level posted last March. The breakdown of data by firm size indicated that in the last two months the fall was particularly sharp for medium and large-sized firms (between 100 and 250 employees, and more than 250 employees, respectively), while smaller enterprises (fewer than 100 employees) posted a more moderate decline. Particularly, among small firms, confidence, which had reached 96.9 in June, its highest level since February 2001, declined in July to 95.7 and again in August to 94.6. For medium-sized firms, instead, following the peak hit in June (at 98.7, its highest score since October 2000), the index fell to 93.1 in August, returning to the level posted on average at the start of the year. Finally, for larger firms in August the fall in confidence (the indicator lowered to 95.5) was particularly sharp with respect to June, when the index reached 101.6, its best result since December 2000.

The underlying variables of the confidence climate showed that the negative trend was related to different factors according to firm size: particularly, for small firms production expectations markedly declined in August with respect to June, whereas assessment on current demand and inventories of finished products remained virtually stable. For medium-sized firms a major role was played by the fall in the assessment on current demand and on production prospects, along with a slight increase in inventories. Finally, larger firms scaled down, with respect to June, their prospects for production and also believed that orders were decreasing and inventories of finished products were growing.

Confidence climate by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
May	96,6	95.6	96.9	99.0
June	98,0	96.9	98.7	101.6
July	96,1	95.7	94.2	97.8
August	94,4	94.6	93.1	95.5

