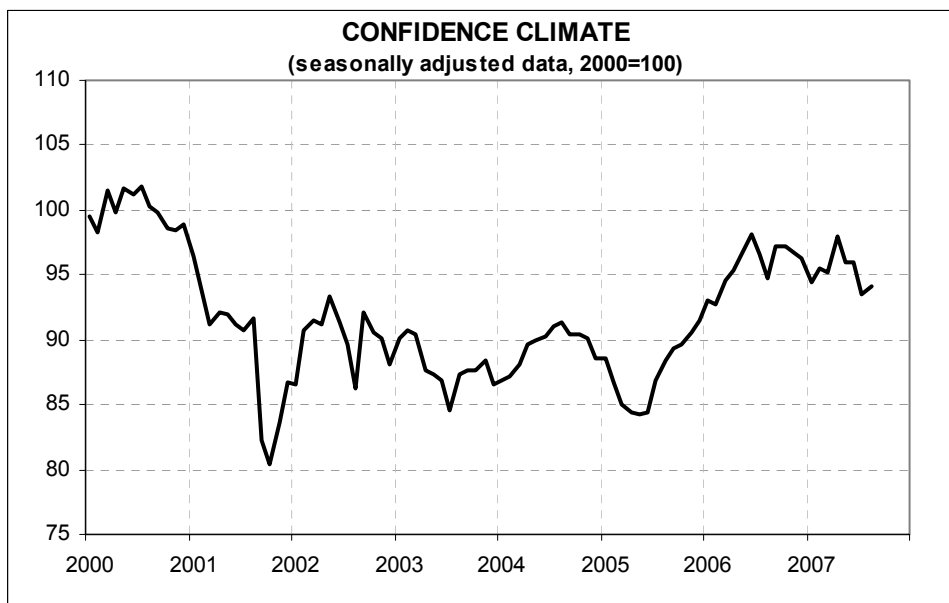




MANUFACTURING FIRMS' CONFIDENCE RECOVERS IN AUGUST

- The seasonally adjusted confidence index (2000=100) reached 94.2 from 93.5 in the previous month, remaining nevertheless below the its second quarter average
- Assessments on the current level of orders and demand turned up, and the opinions on inventories and short-term prospects for production stabilized
- Confidence improved in all main sectors: the index rose from 97 to 98.3 for investment goods, from 94 to 94.9 for consumer goods and from 89.9 to 92 for intermediate goods
- The recovery in confidence recorded at the national level was the result of diverging trends across the country: the indicator improved in the North West (from 90.8 to 94.6) and the Centre (from 94.4 to 94.8), remained virtually stable in the North East (edging up from 93.7 to 93.8) and deteriorated in the *Mezzogiorno* (from 98.6 to 97)
- The breakdown of data by firm size indicated that in the June-August period confidence worsened mainly for small and medium-sized enterprises, while it declined more moderately for larger ones (with more than 500 employees)



Data on September shall be released on September 26, 2007

The next ISAE surveys are scheduled as follows:

September 5: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: August), ISAE Monthly Business Services Survey (reference period: August) and ISAE Monthly Survey on Construction (reference period: July)

September 6: ISAE International Comparison of Consumer and Business Surveys (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)

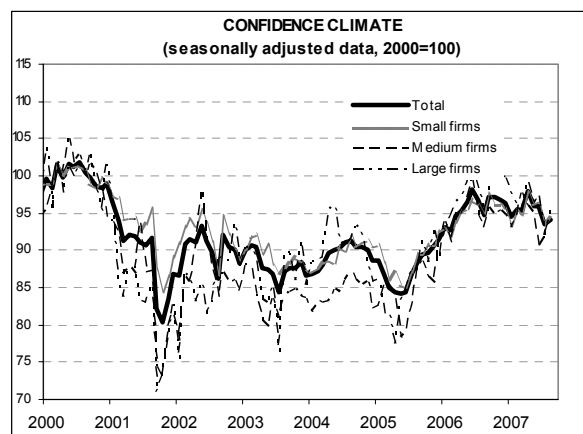
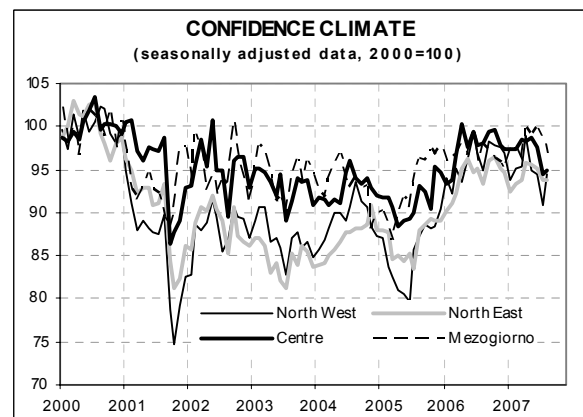
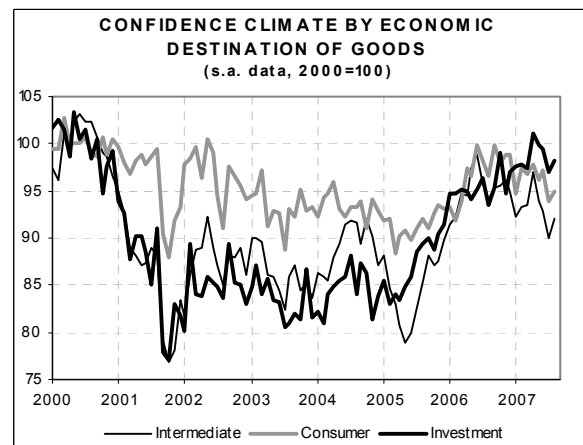
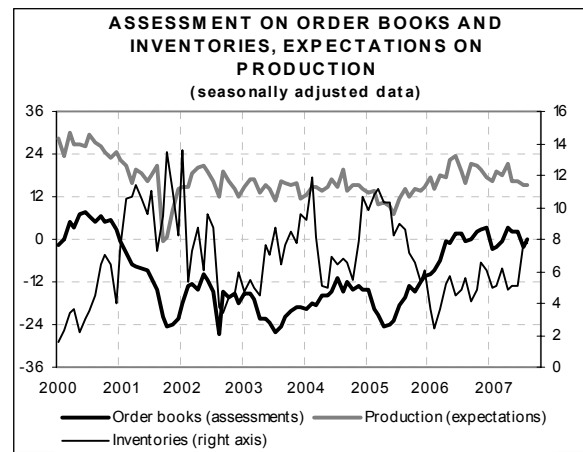
General results

The ISAE Survey, carried out on a panel of about 4000 firms between August 1 and August 10 and, subsequently, between August 20 and August 27, pointed to an improvement in the seasonally adjusted confidence index of manufacturing and mining firms. In August, the indicator rose to 94.2 from 93.5 in the previous month, remaining nevertheless below its second quarter average. Assessments on the current level of orders and demand recovered, and the opinions on inventories and short-term prospects for production stabilized.

The rise in confidence was widely spread across main sectors: the index increased from 97 to 98.3 for investment goods, from 94 to 94.9 for consumer goods and from 89.9 to 92 for intermediate goods.

At the regional level, the recovery in the confidence indicator recorded at the national level was the result of an improvement in the North West (from 90.8 to 94.6), and the Centre (from 94.4 to 94.8), virtual stability in the North East (from 93.7 to 93.8) and a deterioration in the *Mezzogiorno* (from 98.6 to 97).

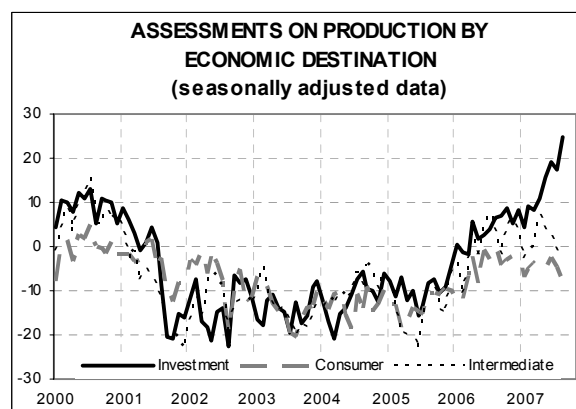
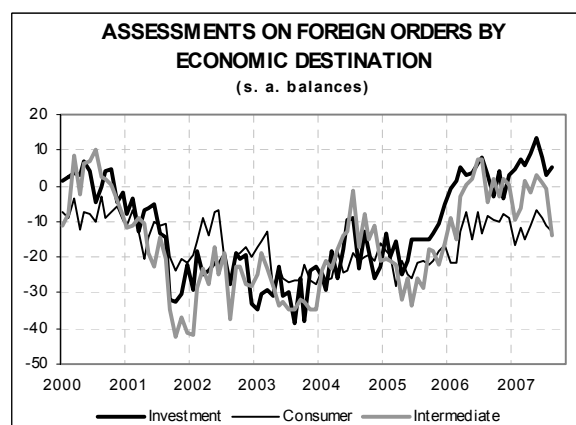
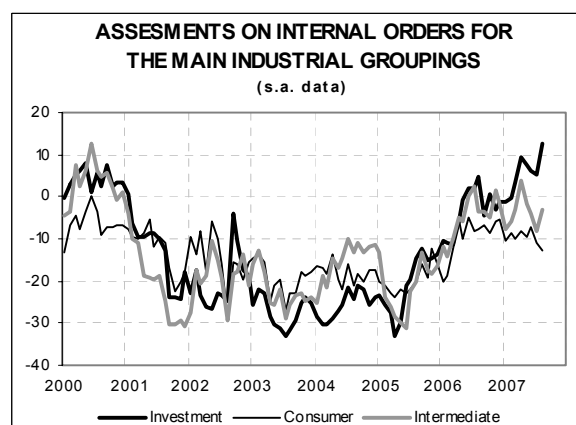
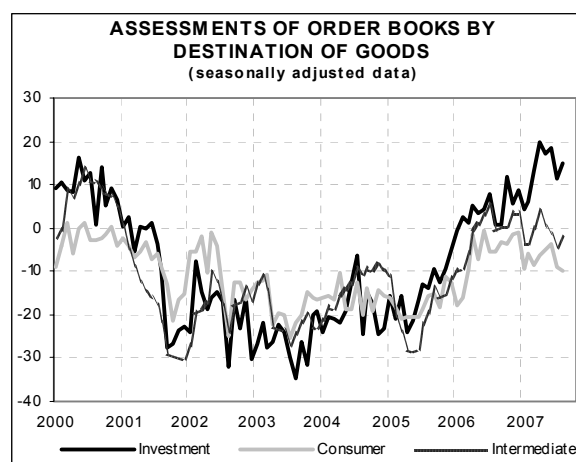
Finally, according to the breakdown of data by firm size, between June and August confidence deteriorated mainly for small and medium-sized firms, staging instead a more moderate decline for larger ones (with more than 500 employees).



Situation in the reference period (August 2007)

In August, firms' evaluation of the trend in main company variables showed signs of improvement, following the sharp deterioration posted in the previous month: the balance for the opinions on orders increased from -2 to 0, driven by the recovery in domestic demand (from -6 to -3; while the foreign component continued to decline, moving from -6 to -7) and the increase in the ratio of company liquidity to operational requirements (from 34 to 35). The opinions on production and inventories stabilized instead at 1 and 8, respectively.

Opinions were particularly favourable in the investment goods sector: the evaluation of the current level of orders rose from 12 to 15, driven by the surge in domestic demand (from 5 to 12) and by the further strengthening of foreign demand towards a satisfactory level (from 3 to 5). The improvement in demand also came along with a sharp upgrading of the level of production (the balance rose from 17 to 25) and further stockpiling of inventories (the related balance increased from 9 to 10). Finally, company liquidity remained unchanged (at 41). In the consumer goods sector, the opinions on orders stayed weak (the balance moved from -9 to -10), mirroring a moderate decline equally in domestic and foreign markets (for both variables, the balance declined from -11 to -13). Furthermore, companies slashed the level of production (the balance declined from -5 to -8), and consequently trimmed inventories (from 8 to 7). Moreover, company liquidity declined as well (from 29 to 27). Lastly, in the intermediate goods sector, the balance for the opinions on orders recovered from -5 to -2, thanks to the improvement in the domestic market (from -8 to -3), which more than compensated the sharp worsening in foreign markets (from -1 to -14). In this sector, the balance for the opinions on the level of production also fell (from -1 to -2), inventories slipped (from 7 to 5) and company liquidity improved (from 35 to 38).



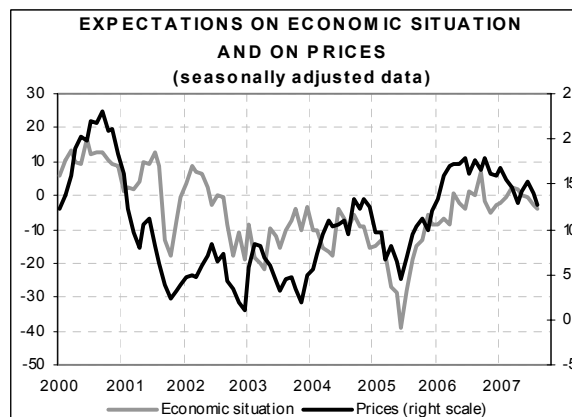
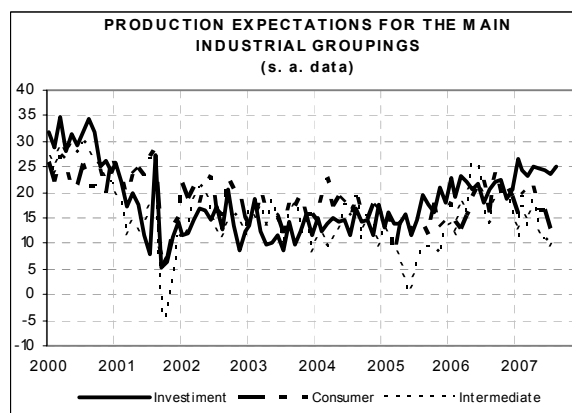
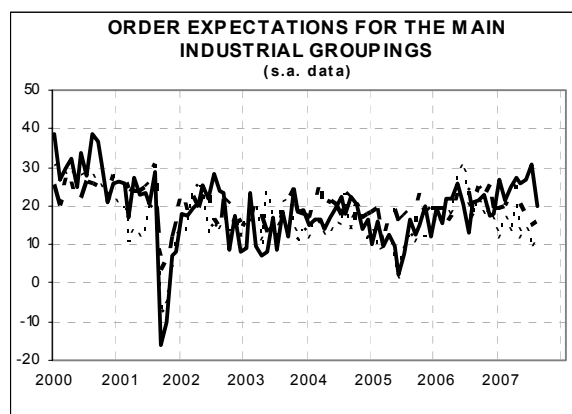
Outlook for the following three months

In August, forecasts for the trend in main company variables and the Italian economy moderately deteriorated or, at best, remained stable. The balance related to expectations for orders lowered from 17 to 15, and the balances for production and employment stabilized at 15 and 3, respectively. Firms also scaled down their predictions for the trend in industrial selling prices, company liquidity and the country's general economic situation (the related balances lowered, in the order, from 14 to 13, from 4 to 1 and from -3 to -4).

At the industry level, producers of investment goods gave partly contrasting indications: expectations for the trend in orders fell from 31 to 20 (the lowest level recorded in 2007), whereas those for production, employment and liquidity remained at high levels (the balances moved from 24 to 25, from 11 to 10 and from 5 to 4, respectively). Finally, firms signalled slightly stronger selling price pressures (the related balance rose from 10 to 13), and anticipated stable developments for the national economy (at 4). Producers of consumer goods became more optimistic compared to the previous month: expectations for orders, production, employment and the general economic situation bettered (in the order, from 15 to 16, from 13 to 16, from 1 to 3 and from -7 to -3). However, some pressures emerged for prices (the balance increased from 10 to 12) and company liquidity (for which the balance lowered from 4 to 1). Lastly, in the intermediate goods sector, expectations for orders and production started to improved once more (in both cases, the balance rose from 9 to 12), while those for company liquidity remained unchanged (at 1). On the other hand, the balances for employment and the Italian general economic situation deteriorated (from 0 to -1 and from -3 to -5, respectively). Lastly, also the balance for selling prices worsened (from 17 to 11, a value which indicates lower price pressures with respect to the previous month).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
May	95.9	2	5	16
June	96.0	2	5	17
July	93.5	-2	8	15
August	94.2	0	8	15



Regional breakdown of ISAE survey results

The recovery recorded in August at the national level by the confidence index was the result of an improvement in the North West (from 90.8 to 94.6) and the Centre (from 94.4 to 94.8), virtual stability in the North East (from 93.7 to 93.8) and a deterioration in the *Mezzogiorno* (from 98.6 to 97). The analysis of the underlying components of the confidence climate showed overall optimism about the assessments on the level of orders, whereas expectations for production and opinions on inventories of finished products sent contrasting signals.

North West

The improvement in confidence was mainly backed by a decisive increase in the balance for the trend in production and a rise in the one for demand (optimism characterized only domestic markets). Moreover, inventories diminished.

North East

Confidence remained practically unchanged at its last March level. The improvement in the opinions on demand (mainly related to foreign markets) was offset by the worsening – for the third month running – in production expectations. Inventories of finished products, which were considered to be declining with respect to the previous month, sent positive indications

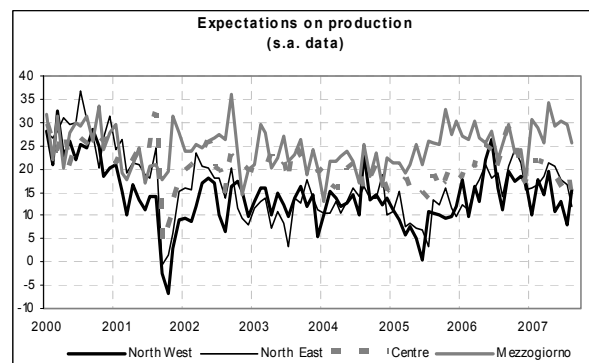
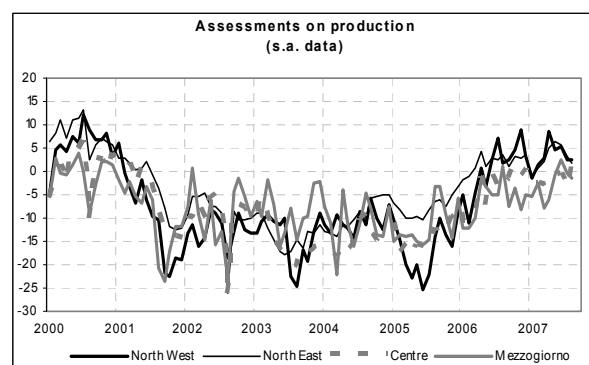
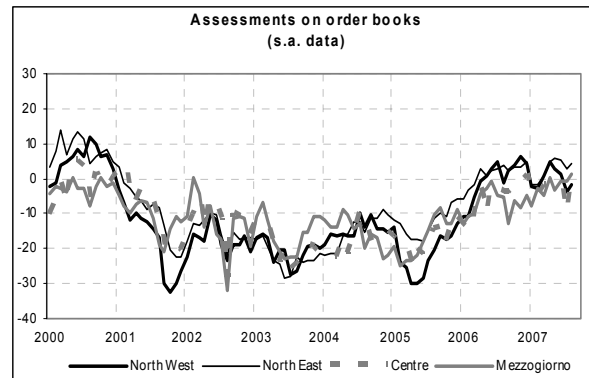
Centre

In August, confidence regained its upward trend, following the sharp decline recorded in the previous month. The recovery was backed by the rise in the balance for the assessments on orders (mainly in the domestic market, while those on foreign markets remained stable), along with stability for the opinions on inventories of finished products. Production expectations sent, instead, negative signals.

Mezzogiorno

The deterioration in entrepreneurs' confidence in the *Mezzogiorno*, already ongoing in the two previous months, derived entirely from the worsening in production expectations with respect to the high levels posted in the last months. The balance for the opinions on orders improved instead (both on domestic and

foreign markets) and inventories started to diminish once more.



Focus: Confidence trend by firm size

Notwithstanding a slight recovery in August, in the June-August period manufacturing firms' confidence showed signs of worsening. The related indicator came in lower than its previous quarter average. The breakdown of data by firm size showed that the fall was particularly sharp for small companies (with fewer than 100 employees) and more moderate for medium-sized and large firms (firms employing 100-250 people and firms with more than 250 employees, respectively).

In particular, for small firms the confidence indicator reached 96.5 in June, declined to 93.5 in July and recovered slightly in August, hitting 94.3. For medium-sized firms, instead, confidence plunged in June (nearing its lowest level since November 2005), but subsequently markedly recovered in both July and August when confidence reached 94.5, equalling the average level attained at the end of 2006. Lastly, for larger enterprises, the indicator turned up in June, fell sharply back in July (to 92.1, the lowest showing since December 2005) but recovered again in August (to 95.3).

With regard to the underlying components of the confidence climate, the negative trend posted in the June-August period was mainly prompted by the worsening in expectations on the level of production which came along with a restocking of inventories. In particular, for small firms both production expectations and the opinions on the level of orders deteriorated with respect to May, whereas inventories remained virtually stable. For medium-sized enterprises, instead, the main negative factor was the fall in the evaluation of production prospects. Finally, in August larger firms reported a marked restocking of inventories with respect to May, in the presence of favourable assessments on the level of production.

Confidence climate by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
May	95.9	96.2	94.7	96.2
June	96.0	96.5	90.3	97.5
July	93.5	93.5	91.8	92.1
August	94.2	94.3	94.5	95.3

