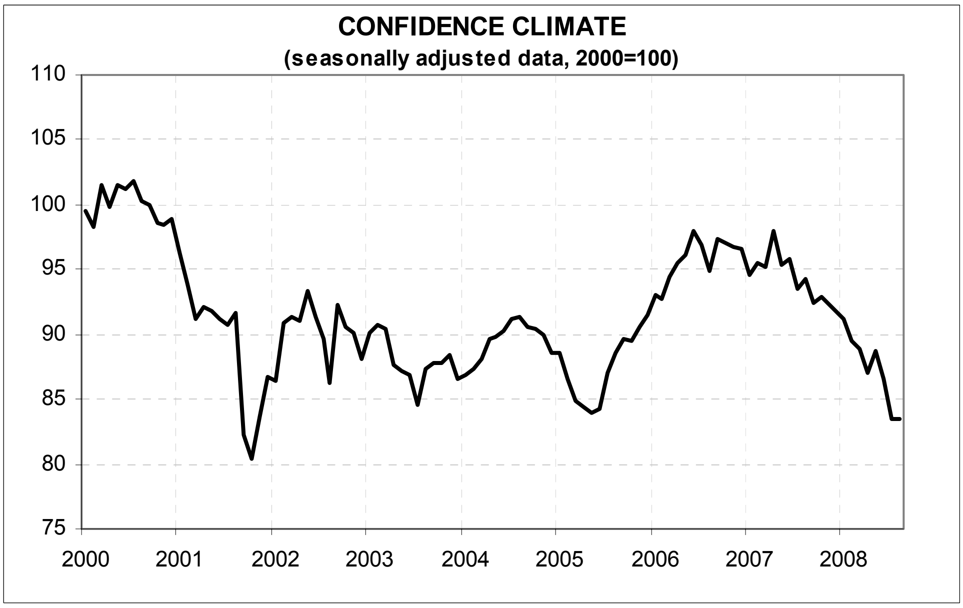
STITUTO DI STUDI E ANALISI ECONOMICA
Piazza dell'Indipendenza, 4 00185 Roma tel.: + 39-0644482.1 fax: + 39-0644482229

Date: **September 3, 2008**
TEL.: **06/444821**

MANUFACTURING FIRMS' CONFIDENCE STABILIZES IN AUGUST

- **The seasonally adjusted confidence index (2000=100) levelled out at 83.5, the lowest value since October 2001**
- **Italian entrepreneurs were slightly more optimistic than in the previous month about the current trend in demand (both domestic and foreign), but inventories of finished products remained at a high level, and production prospects continued to decline**
- **Opinions on the current trend in production improved, whereas short-term forecasts for demand worsened. Inflationary pressures eased and expectations for the country's economic situation remained stable**
- **Confidence held steady in the consumer goods sector (moving to 87.9 from 87.8 in July). It increased slightly for intermediate goods (from 80.2 to 80.9) and more markedly for investment goods (from 82.5 to 84.1)**
- **Confidence improved in the North (from 82.6 to 83.3 in the North West and from 81.1 to 82.8 in the North East) and the *Mezzogiorno* (from 85.7 to 87.7), but continued to decline in the Centre (from 86.8 to 85.7)**
- **According to the traditional ISAE quarterly Focus on manufacturing firms' data by firm size, the fall in confidence recorded between May and August (the overall index fell from 88.8 to 83.5 in three months' period) was particularly sharp for medium and large-sized firms. More in detail, the index lowered from 89.9 (in May) to 85 (in August) for small firms, from 86.3 to 77.5 for medium ones, and from 89.2 to 81.9 for large firms**
- **A special question, introduced in the ISAE survey last July, showed that about 8% of manufacturing firms raised the number of days of their summer plant closure compared to the previous year, a higher percentage than in 2007. Major increases mainly characterized producers of nondurable consumer goods, medium-sized firms, and those operating in the North and the Centre of the country**



Data on September shall be released on September 24, 2008
The next ISAE surveys are scheduled as follows:
September 4: *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 9: *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)

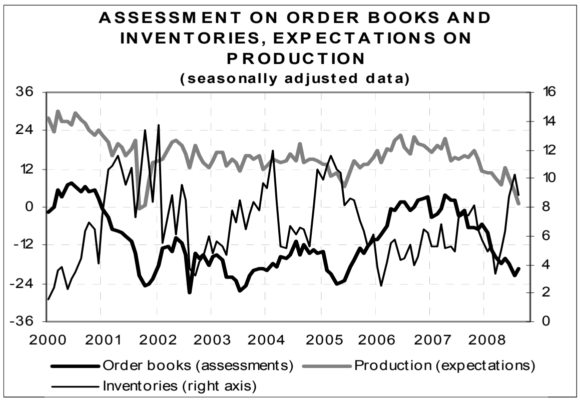
General results

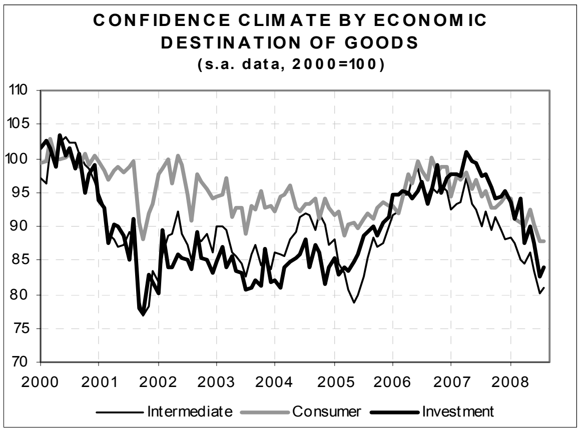
According to the ISAE Survey, carried out on a panel of about 4000 firms between August 2 and August 28, confidence of manufacturing and mining firms remained stable in August. The seasonally adjusted index (2000=100) came in at 83.5, the lowest level since October 2001. Italian entrepreneurs were slightly more optimistic with respect to the previous month about the current trend in demand (both domestic and foreign), but inventories of finished products remained at a high level, and production prospects continued to decline. Moreover, opinions on the current trend in production improved, but short-term forecasts for demand worsened. Expected inflationary pressures eased, and prospects for the country's economic situation remained stable.

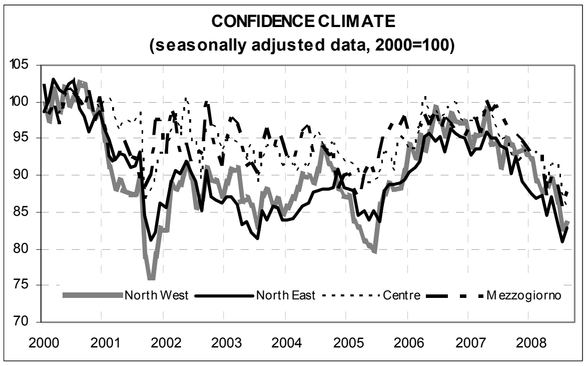
In August, confidence held steady in the consumer goods sector (moving to 87.9 from 87.8 in July), increased slightly for intermediate goods (from 80.2 to 80.9), and more markedly for investment goods (from 82.5 to 84.1). Confidence improved in the North (from 82.6 to 83.3 in the North West and from 81.1 to 82.8 in the North East) and the *Mezzogiorno* (from 85.7 to 87.7), but continued to decline in the Centre (from 86.8 to 85.7).

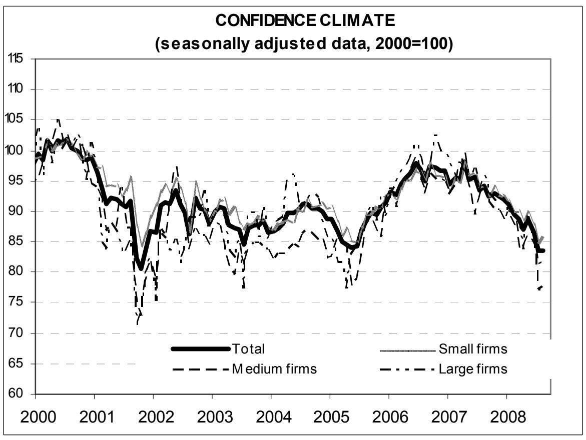
According to the traditional ISAE quarterly Focus on manufacturing firms' data by firm size, the fall in confidence recorded between May and August (the overall index fell from 88.8 to 83.5 in the three months' period) was particularly sharp for medium and large firms. The index lowered from 89.9 (in May) to 85 (in August) for small firms, from 86.3 to 77.5 for medium ones, and from 89.2 to 81.9 for large firms.

A special question, introduced in the ISAE survey last July, showed that about 8% of manufacturing firms raised the number of days of their summer plant closure compared to the previous year, a higher percentage than in 2007. Major increases mainly characterized producers of nondurable consumer goods, medium-sized firms, and those operating in the North and the Centre of the country.





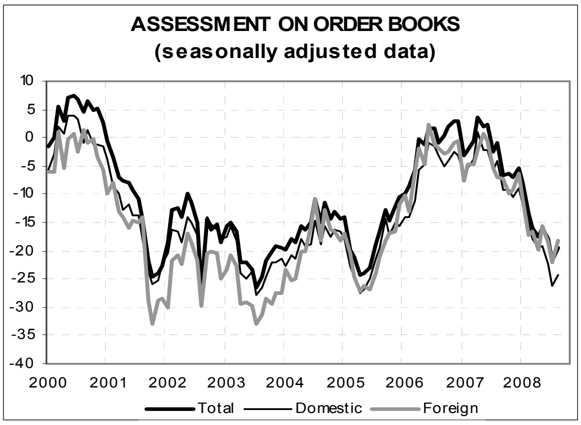


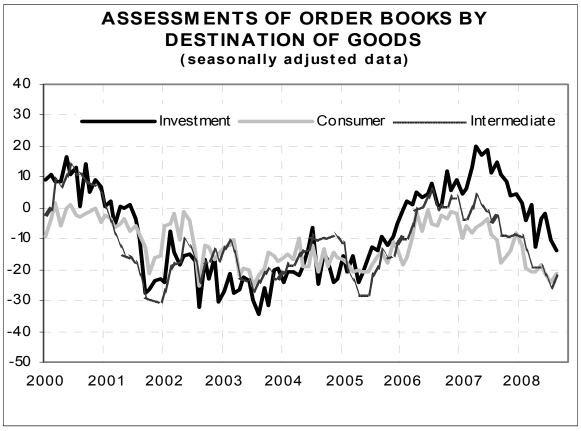


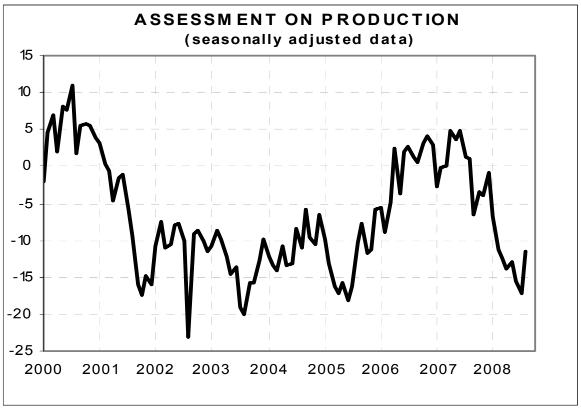
Situation in the reference period (August 2008)

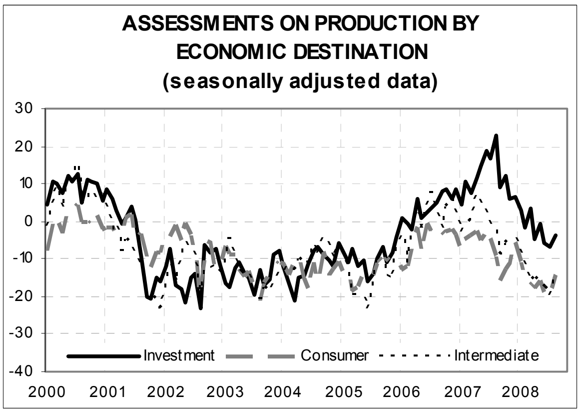
Italian manufacturing firms' evaluation of the trend in demand, production and inventories improved slightly in August, following the sharp deterioration recorded in the previous month. The balance for the opinions on orders recuperated, moving from -22 to -20, but remaining however at a poor level. Recovery characterized both the domestic and the foreign components of demand (which rose from -26 to -24 and from -22 to -18, respectively). Also the balance for the current level of production increased (from -17 to -12), and inventories edged down slightly (from 10 to 9). However, company liquidity declined (from 28 to 25).

The moderate recovery which distinguished the opinions on the current situation was particularly widespread among producers of consumer and intermediate goods. In the consumer goods sector, the balance for the trend in demand increased from -24 to -21 (from -26 to -24 in the domestic market and from -26 to -22 in foreign ones). Also the level of production improved (from -20 to -15) and inventories diminished (from 7 to 5). However, company liquidity declined (from 7 to 5). For intermediate goods, the opinions on demand bettered from -26 to -22 (they increased from -29 to -24 in the domestic market, but remained stable at -24 abroad). The balances for production and inventories also increased (from -19 to -14 and from 12 to 8, respectively), but the one for company liquidity lowered (from 29 to 26). In the investment goods sector, instead, the opinions on demand further deteriorated (from -11 to -14), due to the unfavourable trend in the foreign component (from -5 to -10), whereas domestic demand recovered slightly (from -23 to -22). Company liquidity also diminished (from 36 to 34), but the evaluation of production and inventories improved (from -7 to -3 and from 15 to 11, respectively).









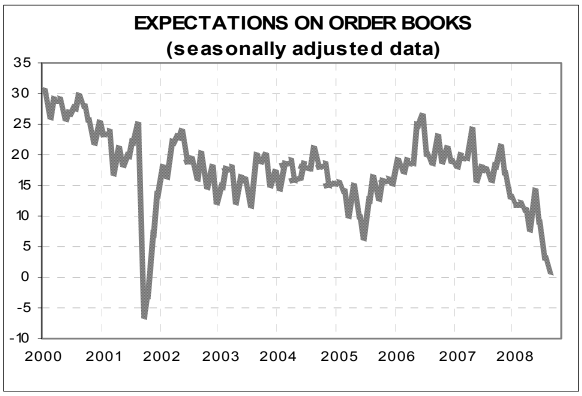
Outlook for the following three months

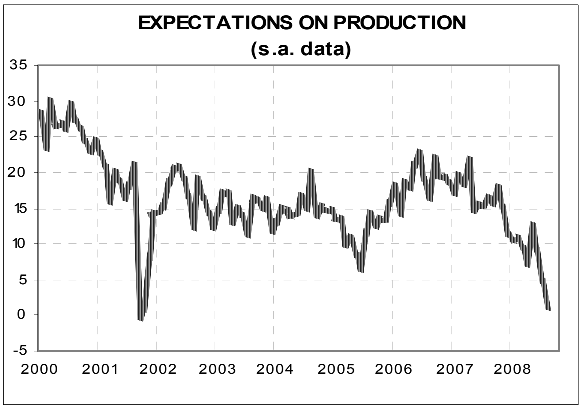
In August, short-term prospects for main company variables continued to worsen. The balance for order expectations lowered from 3 to 1, the one for production from 5 to 1, and the balance related to employment forecasts diminished from -3 to -5. Expectations for company liquidity held steady at -8, while those for the country's economic situation stood at -31 (compared to -32 in July). Lastly, expected inflationary pressures eased slightly (the balance lowered from 19 to 15).

In this case, producers of investment goods were less pessimistic than those of consumer and intermediate goods. In the investment goods sector, production expectations actually increased from 3 to 8, those for orders from -2 to -1, and those for the general economic situation from -34 to -29. Moreover, inflationary expectations declined (from 22 to 18), those for company liquidity remained stable (at -3), whereas forecasts for employment worsened (from 4 to 2). For consumer goods, the balance for orders and production came in at 7 and 4, respectively, lower than in July (9 and 7). Basic stability characterized the forecasts for selling price inflation (at 10, as in July) and the country's economic situation (which moved from -28 to -29), while those for liquidity and employment posted a recovery (from -5 to -3 and from -10 to -8). Lastly, in the intermediate goods sector, the balances related to expectations for orders, production and employment decreased, from 2 to -3, from 3 to -3 and from -3 to -5, respectively. The balance for liquidity remained, instead, virtually unchanged (moving from -10 to -9). Finally, inflationary pressures diminished (the balance fell from 21 to 16) and expectations for the country's economic situation remained stable at a low level (moving from -31 to -30).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
May 2008	88.8	-16	6	12
June 2008	86.5	-18	9	9
July 2008	83.5	-22	10	5
August 2008	83.5	-20	9	1





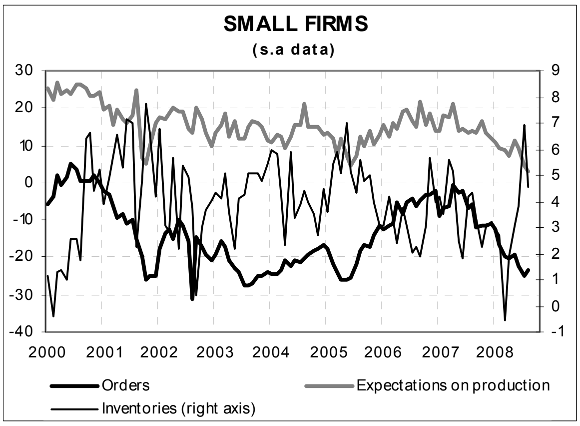
***Focus*: Confidence trend by firm size**

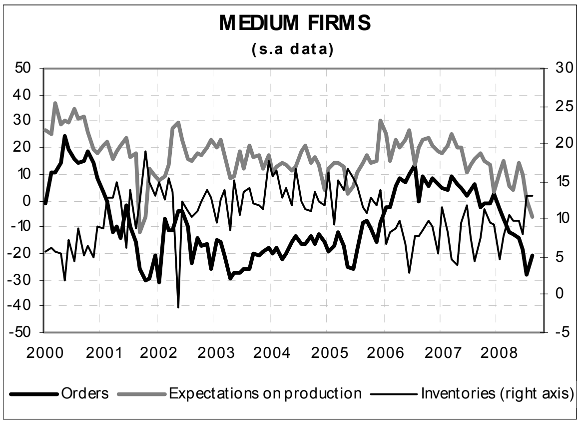
Manufacturing firms' confidence lowered markedly between May and July 2008, but recorded virtual stability in August. The splitting out of data by firm size showed that the sharpest deterioration occurred in medium and large-sized firms. But the indicator markedly declined also for smaller firms (with less than 100 employees). More in detail, for small firms, confidence diminished five points between May and July (from 89.8 to 84.8), going back up to 85.5 in August. For medium-sized firms (100-250 employees) the fall between May and July reached nearly 9 points (from 86.3 to 77.2), while August showed a modest recovery (to 77.5). Likewise, for large firms confidence declined from 89.2 to 81.4 between May and July, and rebounded to 81.9 in August.

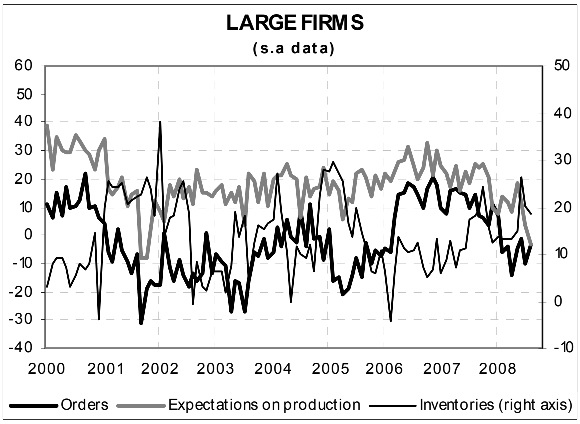
As for the variables included in the calculation of the confidence climate, the downturn posted between May and July in small and medium-sized firms was equally due to the fall in the opinions on orders and in production expectations, which came along with a moderate inventory build-up. For larger firms, mainly production expectations plunged (the balance dropped from 19 to 3). Lastly, the moderate recovery recorded in August for all size groups may be exclusively traced to the improvement in the opinions on orders and inventories, which was accompanied by a further deterioration in production expectations, particularly marked for medium and large firms.

Confidence climante by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
May	88.8	89.8	86.3	89.2
June	86.5	87.9	84.5	84.8
July	83.5	84.8	77.2	81.4
August	83.5	85.5	77.5	81.9







Focus: August industrial plant closures

During periods of uncertainty, firms can use the summer break in order to adapt the level of production to current and expected demand, reducing the number of days of plant closure to meet unexpected flows of demand, or increasing it to compensate for an equally unforeseen fall. Thus, from this viewpoint, data regarding August plant closures can give useful information about the cyclical trend of the industrial sector. For this reason, in the last two years, ISAE has asked the panel of surveyed firms to specify whether the number of days of closure in August was higher, equal or lower than in the year earlier.

In 2008, 8.3% of the firms said they were closing for a longer period than in the previous year, whereas 5.7% reduced the number of days, and a majority of firms (84.6%) kept it unchanged. The share of firms which lengthened the period of closure was markedly higher than in the previous year (when it amounted to 5.5%). A breakdown by sector showed that the increase mainly characterized producers of nondurable consumer goods and of intermediate products. Moreover, medium and small-sized firms stated they extended the period. Also 7.4% of large firms reported an increase, recording a sharp rise compared to the previous year (when the share stood at 2.8%). Lastly, the splitting up of data by area showed that the rise in the number of days of closure distinguished mainly firms in the North and the Centre, and to a lesser extent in the *Mezzogiorno*.

Number of days of summer industrial plant closures

	Higher		Equal		Lower	
	2007	2008	2007	2008	2007	2008
Total Manufacturing	5,5	8,3	85,2	84,6	7,4	5,7
Economic Destination						
	2007	2008	2007	2008	2007	2008
Food	1,9	6,8	95,9	86,6	2,2	3,5
Non-Food	6,3	10,5	87,5	82,7	4,6	5,6
Durables	7,8	6,6	77,6	81,6	9,8	6,3
Intermediate	5,6	8,7	83,4	85,9	8,5	4,8
Investment	5,2	6,8	85,2	83,9	8,8	8,0
Firms size						
	2007	2008	2007	2008	2007	2008
Small	6,2	8,2	85,7	84,6	6,9	6,4
Medium	5,6	9,9	82,1	85,2	10,8	4,3
Large	2,8	7,4	85,5	83,5	7,4	4,3
Geographical areas						
	2007	2008	2007	2008	2007	2008
North West	6,8	8,2	81,3	85,1	9,2	5,6
North East	3,8	8,8	88,5	82,2	6,5	6,6
Centre	6,0	9,0	87,0	85,4	6,3	4,9
Mezzogiorno	4,1	5,0	90,1	88,2	3,6	5,2

Regional breakdown of ISAE survey results

Basic stability recorded by confidence at the national level reflected somewhat different trends across areas. The index recovered slightly in the North and the *Mezzogiorno,* and further deteriorated in the Centre. More in detail, the indicator rose from 82.6 to 83.3 in the North West, from 81.1 to 82.8 in the North East, and from 85.7 to 87.7 in the *Mezzogiorno*, whereas it diminished from 86.8 to 85.7 in the Centre. Everywhere, the opinions on demand showed modest signs of recovery. In the Centre, however, differently from the other areas, inventories continued to build up. In general, production expectations declined in all areas, apart from the *Mezzogiorno*, where they stabilized at a higher level than the average recorded in the rest of the country.

North West

The confidence indicator rose slightly, remaining however close to the lowest level of the last few years. The modest improvement was due to the recovery in demand (mainly domestic) and the de-stocking of inventories, which were however accompanied by a new decline in production expectations.

North East

Also in this area, confidence recovered slightly, remaining nonetheless at a historical low level. The improvement stemmed mainly from the de-stocking of inventories, while demand stayed virtually unchanged and production expectation declined further.

Centre

This is the only area where confidence continued to lower over the previous month. Also in this area, production expectations decreased and the opinions on orders stabilized, but inventories continued to build up.

Mezzogiorno

In this case, the confidence index improved the most, thanks to the recovery in demand (mainly foreign demand, which rose nearly five points, but also domestic demand) and the de-stocking of inventories. Moreover, differently from the other areas, production expectations remained stable at their previous month level.