



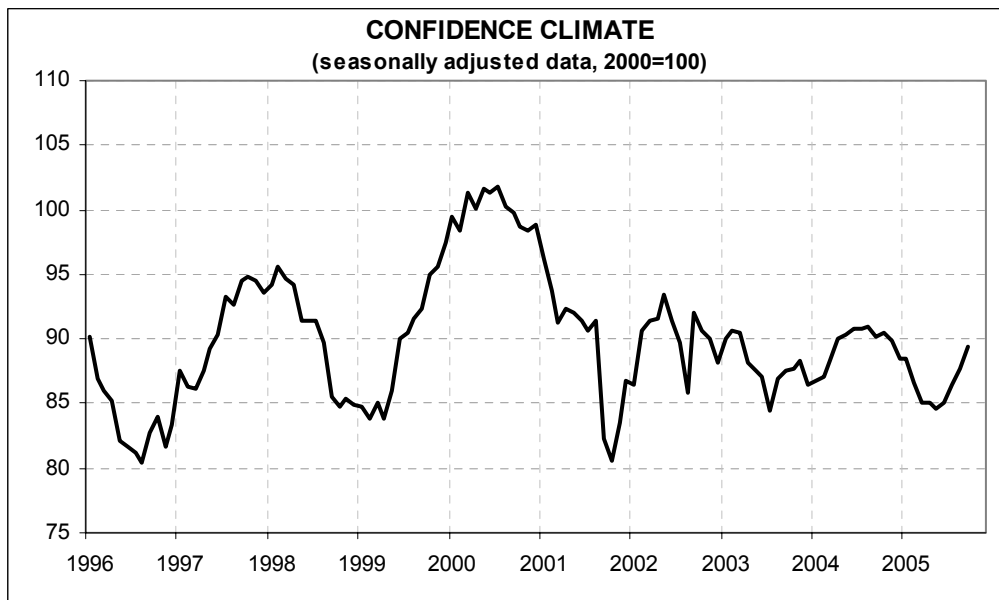
Date: September 28, 2005  
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## THE MANUFACTURING FIRMS' CONFIDENCE GROWS IN SEPTEMBER FOR THE FOURTH MONTH IN A ROW

- In September, the seasonally adjusted confidence index (base year 2000 = 100) rises from 87.8 to 89.5, thanks to the improved order-book assessments, particularly on the domestic market. Inventories also diminish and short-term production expectations stabilise
- An improvement is also observed in opinions on the production level and short-term forecasts on the general economic situation. Expectations on selling prices stabilise, while those on the demand and labour market trend worsen
- The confidence growth is common to more than 60% of the sectors surveyed by ISAE: in September it is particularly intense in intermediate goods, where the index rises from 84.3 to 88.3. The growth is smaller in consumer (from 91.2 to 91.4) and in investment (from 89.2 to 89.7) goods

## EXPORT TURNOVER RECOVERS IN Q3, WHILE EXPORT OBSTACLES DECREASE. EXPECTATIONS FOR Q4 ARE STABLE

- The export turnover slightly improves in Q3 and it is expected to remain stable in Q4 as well
- Export constraints diminish, probably because of the less penalising euro exchange rate
- Firms signal a rise in the competitive pressure from the major European countries and from the United States, and – for the first time since its first introduction in this official Survey - a small reduction in the Chinese competition
- Among the main Italian outlet markets, the roles of Germany and the United Kingdom grow while France and the United States loose ground



Data referring to October shall be diffused on **October 26, 2005**.

Next ISAE surveys are scheduled as follows:

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

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

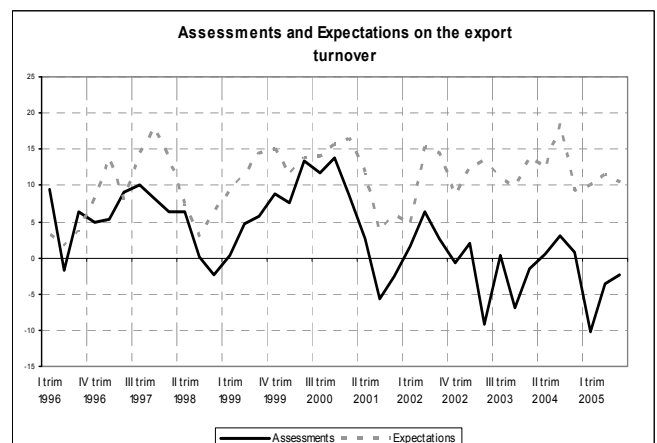
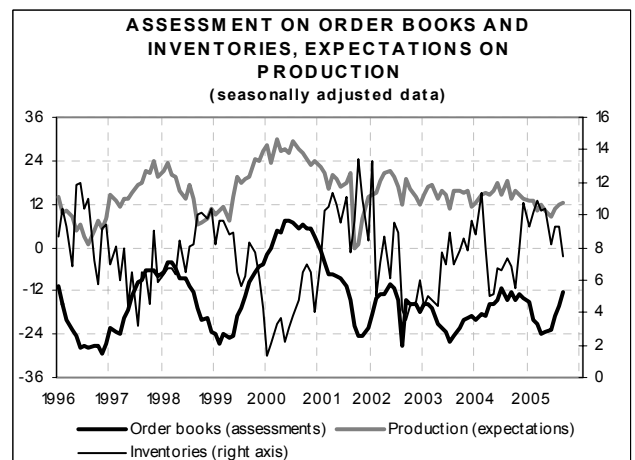
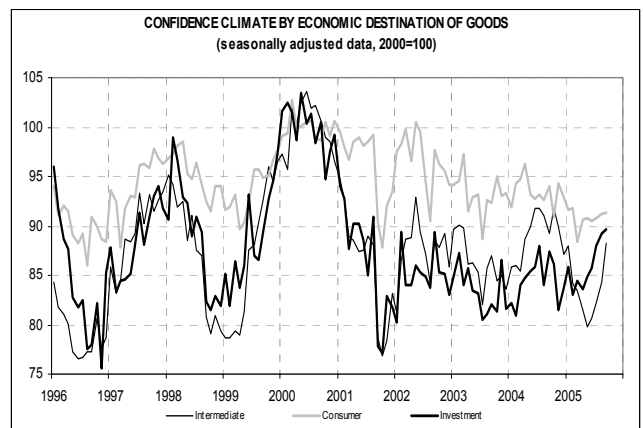
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site [www.isae.it](http://www.isae.it))

## General Results

According to the ISAE Monthly Survey carried out between September 1 and 20 on a panel of about 4,000 firms, the seasonally adjusted confidence index of manufacturing and extractive firms grows in September for the fourth month in a row, passing from 87.8 to 89.5, which is close to the peaks of November 2004. The growth is mainly due to the marked demand recovery, particularly on the domestic market. After two months' stability, inventories diminish and short-term production expectations stabilise. The confidence growth is common to more than 60% of the sectors surveyed by ISAE: in September it is particularly intense in intermediate goods, where the index rises from 84.3 to 88.3. The growth is smaller in consumer (from 91.2 to 91.4) and in investment (from 89.2 to 89.7) goods.

Among other non confidence-building variables, an improvement is observed in opinions on the production level and short-term forecasts on the general economic situation. Expectations on selling prices stabilise, while those on the demand and labour market trend worsen.

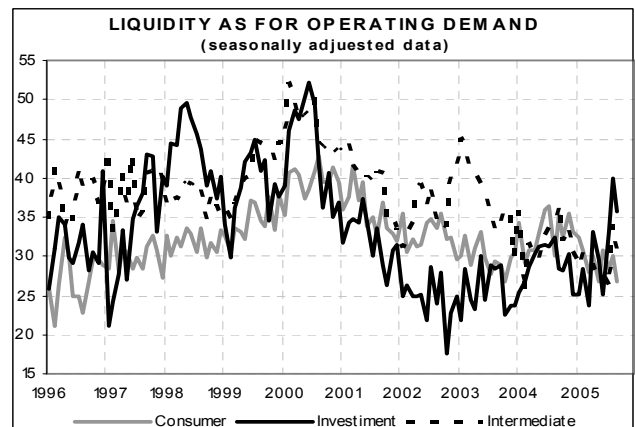
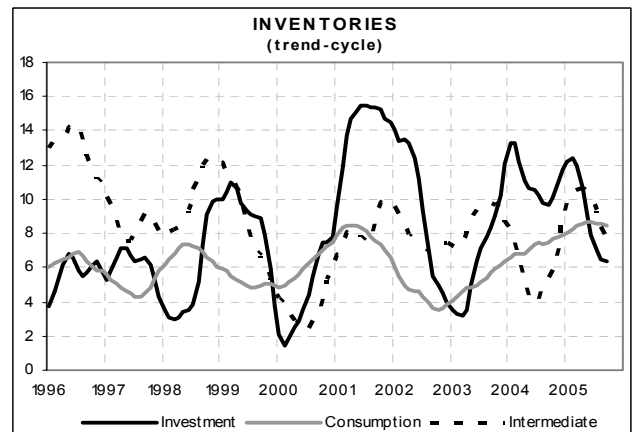
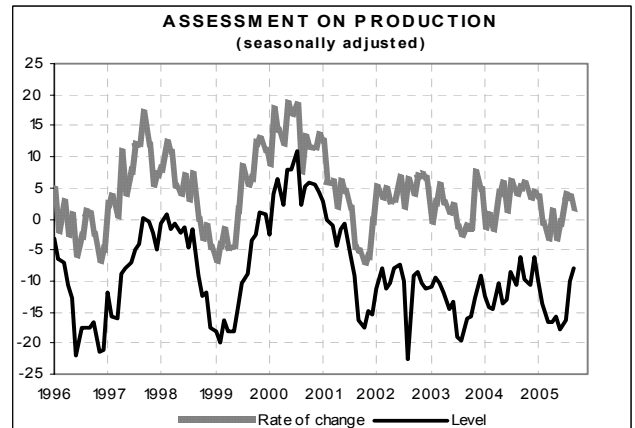
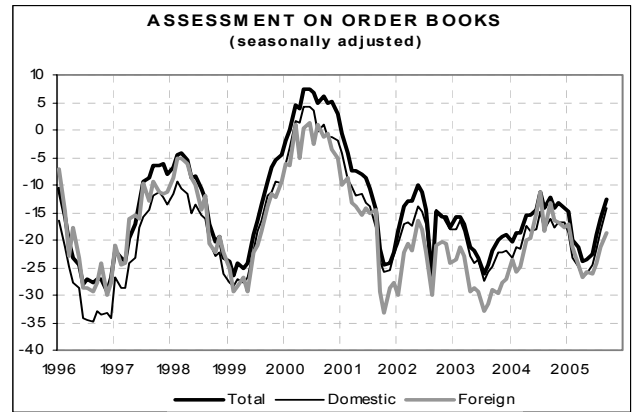
Substantially stable indications come from the usual quarterly Survey on exporting firms. Indeed, the export turnover slightly improves in Q3, in keeping with the favourable expectations emerged in the previous Survey. Firms do not expect further rises in the forthcoming quarter. Compared to Q2, export constraints diminish, probably thanks to the less penalising euro exchange rate. Firms signal a rise in the competitive pressure from the major European countries and from the United States, and – for the first time since its first introduction in this official Survey - a small reduction in competition from China. Among the main Italian outlet markets, the roles of Germany and the United Kingdom grow again while France and the United States loose ground.



### Situation in the reference month (September 2005)

The September assessments on the main firm variables improve: indeed, the balance on order books recovers from -16 to -12, thanks in particular to a rosier domestic demand trend (the balances increase from -19 to -14 in domestic demand and from -21 to -19 in foreign demand). Also opinions on the current production level improve (the balance growing from -10 to -8), as do those on inventories (from 9 to 7), while a contraction is observed in the current production level (from 3 to 2) and in the liquidity for operational needs (from 34 to 31).

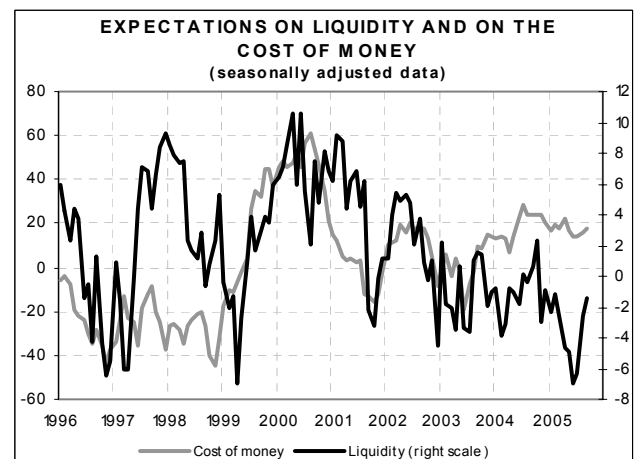
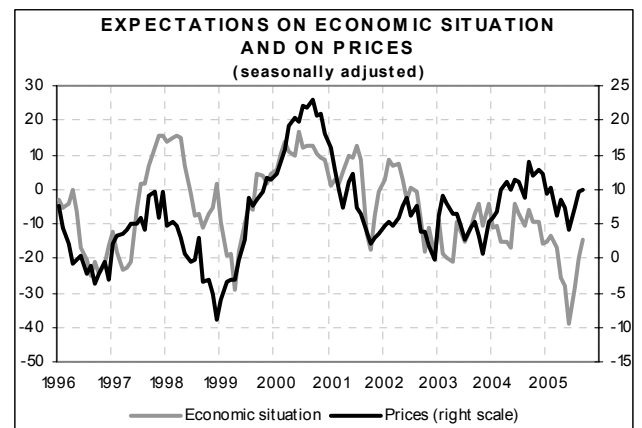
The improvement is marked in intermediate goods, where the balance recovers by eight percentage points, passing from -20 to -12 (namely, from -20 to -13 on the domestic markets and from -28 to -17 on the foreign markets). Inventories decrease in this sector (the balance diminishing from 8 to 5), while more uncertain signals come from production (the balance of the current production level is stable at -9, while the one of the production variation worsens from 4 to -1). Assessments are improving also in investment goods, where the order-book level rises from -14 to -9 in terms of balance, thanks to a rosier domestic demand trend (the balance passing from -14 to -12). Inventories stabilise in this sector too, while opinions on the production level variation suddenly fall from 10 to 0. The order-book recovery is smaller in consumer goods (from -17 to -15), owing to a contraction in the foreign component (from -21 to -23), which – in this case too – partially offsets the good domestic demand trend (the balance rising from -21 to -16). Inventories slightly grow (the balance rising from 8 to 9), while evaluations on the production levels and variation are substantially stable.



## Forecasts for next quarter

In September, the balances of production, selling prices and the cost of money remain stable, while those referring to demand (from 14 to 12) and employment (from -2 to -7 in raw terms) worsen. Conversely, expectations on the general economic situation keep on improving (from -20 to -15), as do those on the firm liquidity (the balance passing from -3 to -1).

Forecasts are rather dishomogeneous among the various sectors. In investment goods, the overall trend is negative as, after the good August performance, expectations on order books diminish (from 14 to 11), followed by those on production (from 19 to 17), on the general economic situation (from -6 to -19) and on employment (from 3 to -7 in raw terms). Entrepreneurs expect a rise in the cost of money, alongside with a smaller selling price rise and a recovery in firm liquidity. In consumer goods, expectations on production, order books, prices, employment, the cost of money and firm liquidity are stable, while those on the country's overall situation grow. Finally, in intermediate goods, expectations on production and on the general economic situation improve, while those on employment definitely worsen within a framework where selling prices are expected to rise.



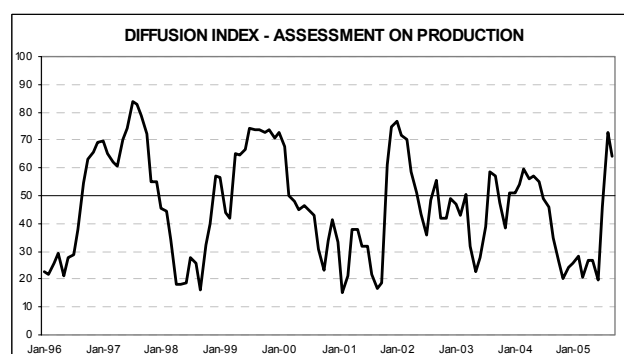
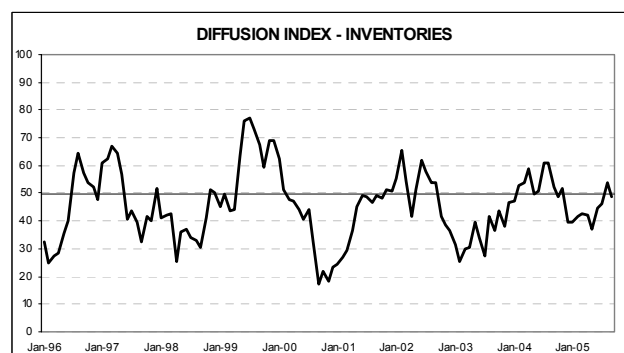
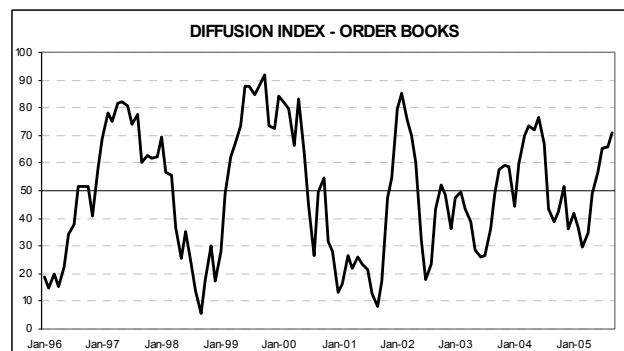
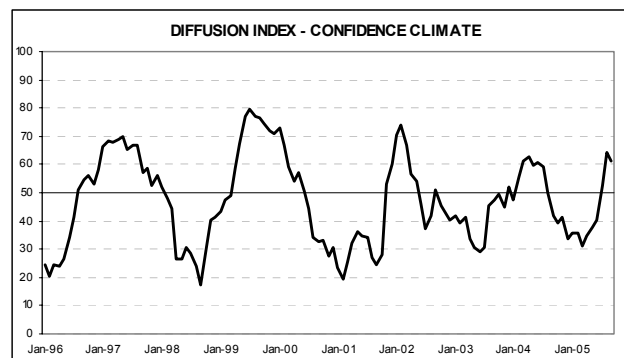
### Manufacturing firms' confidence climate and balances of indicator-building series

|            | Confidence climate | Order-book level | Finished goods inventories | Expectations on production |
|------------|--------------------|------------------|----------------------------|----------------------------|
| June 2005  | 85.1               | -23              | 8                          | 9                          |
| July 2005  | 86.5               | -19              | 9                          | 11                         |
| Aug. 2005  | 87.8               | -16              | 9                          | 12                         |
| Sept. 2005 | 89.5               | -12              | 7                          | 12                         |

## The diffusion indexes in the various sectors

A valuable and synthetic picture of confidence in the manufacturing sector may be provided – apart from the balances and confidence indicator traditionally surveyed by ISAE - by the diffusion indexes. They measure the share of sectors undergoing a favourable cycle, namely the percentage of sectors registering a positive trend in a given variable. In particular, the diffusion indexes referring to the three confidence-building components were computed, together with the one stemming from the weighted average of those sectors (confidence diffusion index). The surveyed sectors are 53 Groups drawn by ISAE from the Groups of the ATECO classification<sup>1</sup>. The diffusion indexes are weighted through the weights of each Group within the manufacturing sector.

The confidence recovery observed since June, has been gradually spreading to a growing share of industrial sectors. In June, about 40% of the surveyed sectors were undergoing a recovery: that percentage grew up to 52% in July and then jumped to 60% in August and September. The recovery is prompted in particular by assessments on the order-book trend, which were favourable in September in more than 70% of sectors. Over the past few months, the diffusion of expectations for a production recovery was remarkable: only 19% of sectors were expressing positive expectations in June, but that share skyrocketed up to 73% in August and then stabilised to 64% in September. Finally, the indicator referring to inventories oscillated around 50% in the latest quarter, thus signalling that around half of the sectors surveyed by ISAE were witnessing an inventories contraction.



<sup>1</sup> For a description of the classification adopted by ISAE, see Malgarini-Margani-Martelli, "Re-engineering the ISAE Manufacturing Survey", *ISAE Documenti di Lavoro*, n. 47, January 2005.

## The main results of the Survey on exports

In keeping with the expectations of the past Survey, the export turnover continues to improve in Q3 2005. Indeed, the seasonally adjusted balance rises from -4 to -2: for the next quarter, entrepreneurs expect a slight slowdown in their export turnover (the balance passing from 12 to 11). The share of those reporting significant export constraints decreases from 46 to 45%, thanks in particular to a fall in cost-related factors probably linked to the exchange rate trend. According to ISAE respondents, China remains the major competitor, though the percentage of those signalling China falls from 31 to 28%, while the role of Germany (mentioned as major competitor by 27% of the sample as against 25%) and that of the United Kingdom (from 18% to 20% of the sample) grow again. Looking at exports by geographical area, exports towards Germany and the United Kingdom increase, as do exports towards the remaining EU countries. Conversely, according to ISAE respondents, the percentage of exports towards non-EU European countries, the United States and the rest of the world diminishes. Finally, the ratio between export prices and producer prices slightly decreases compared to the previous quarter.

