



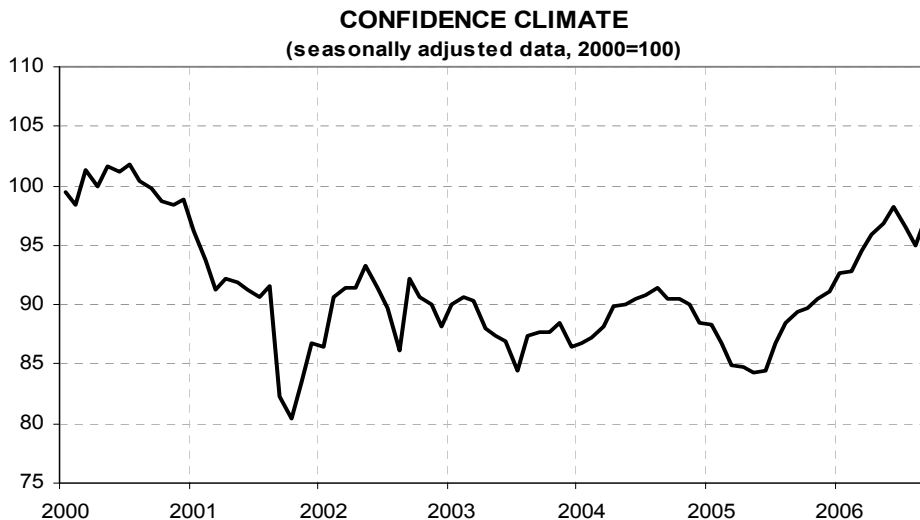
Date: September 27, 2006  
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## IN SEPTEMBER MANUFACTURING FIRMS' CONFIDENCE IS BACK ON AN UPWARD PATH

- The seasonally adjusted confidence index (2000=100) rose to 97.3 from 94.9 in August, close to the level posted last June on the back of a clear improvement in production expectations and a decline in inventories
- Short-term expectations on orders and the overall Italian economic situation also improved, while those on selling price developments declined. On the other hand, the evaluation of current demand and the prospects for employment and company liquidity remained virtually unchanged
- The improvement in confidence, which was common to all sectors, was stronger for consumer goods. At the regional level, the index bettered in the North West (from 95.2 to 98.4), the North East (from 93.5 to 95.9) and the Centre (from 98.1 to 99.9), and went down, instead, in the *Mezzogiorno* (from 97.9 to 96.6)

## IN THE 3Q 2006 EXPORT TURNOVER INCREASED AND THE RATIO BETWEEN EXPORT AND DOMESTIC PRICES BOUNCED TO THE HIGHEST LEVEL IN THE LAST TEN YEARS

- Nevertheless, prospects for the following three months witnessed some worries, along with a rise in obstacles to export activity due to factors connected to costs, goods quality and financing capabilities
- With regard to the geographical breakdown of export destinations, the share of the European Union countries slightly declined to the advantage of the United States and the rest of the world
- Finally, firms pointed to a fall in competitive pressures from France and the United Kingdom. The proportion of those identifying as competitors non-EU European countries increased instead. Finally, competitive pressures exerted by China, the United States, the European countries, other than France, Germany and the United Kingdom, remained stable



**Data on October shall be released on October 25, 2006**

*The next ISAE surveys are scheduled as follows:*

**September 28:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: August-September); ISAE Monthly Business Services Survey (reference period: September 2006) and ISAE Monthly Survey on Construction (reference period: August)

**October 5:** ISAE International Comparison of Consumer and Business Surveys (reference period: September)

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](http://www.isae.it))

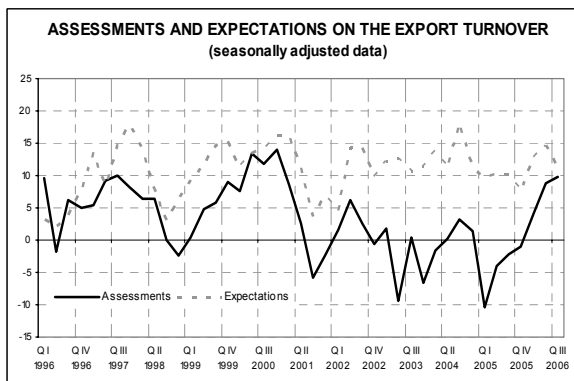
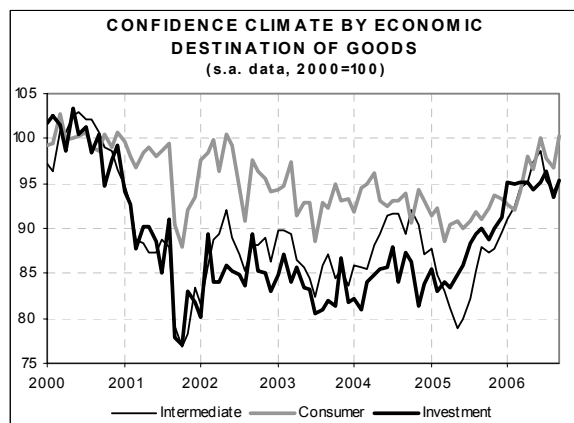
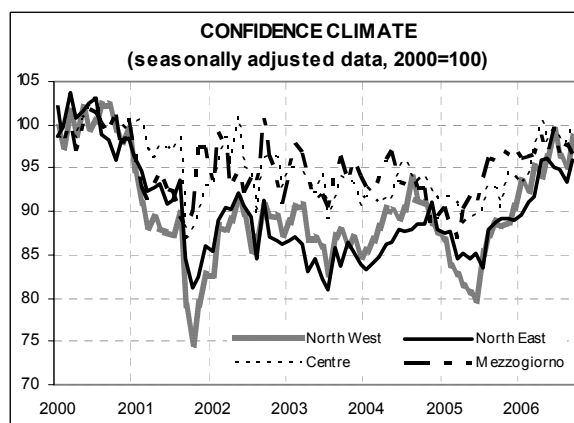
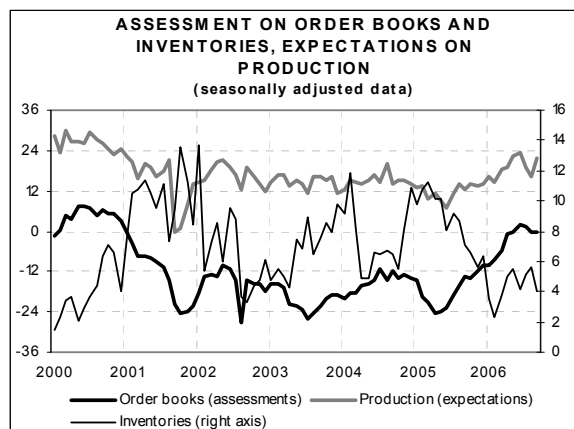
## General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between September 2 and September 20, pointed to an improvement in the seasonally adjusted confidence index of manufacturing and mining firms. The indicator rose in September to 97.3 from 94.9 in August: production expectations clearly bettered, the assessment on current orders stabilized and inventories began to decline once more. Respondents were more optimistic also about prospects for orders and the overall Italian economy, but they did not expect significant changes in the current ratio of liquidity to operational requirements.

The improvement in confidence, which characterized all sectors, was stronger for consumer goods, for which the index bounced from 96.7 to 100.2, returning to the high level posted last May. The indicator increased from 93.6 to 95.3 for intermediate goods and from 94.2 to 95.4 for investment goods.

At the regional level, the index bettered in the North West (from 95.2 to 98.4), the North East (from 93.5 to 95.9) and the Centre (from 98.1 to 99.9), and decreased in the *Mezzogiorno* (from 97.6 to 96.6). The improvement was homogeneous across regions for production expectations, while the opinions on the level of orders and inventories of finished products sent contrasting signals.

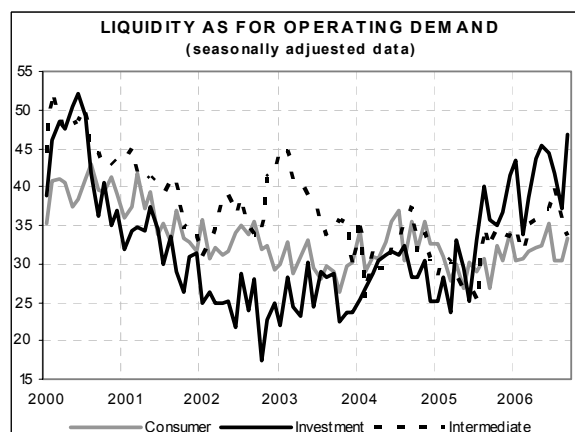
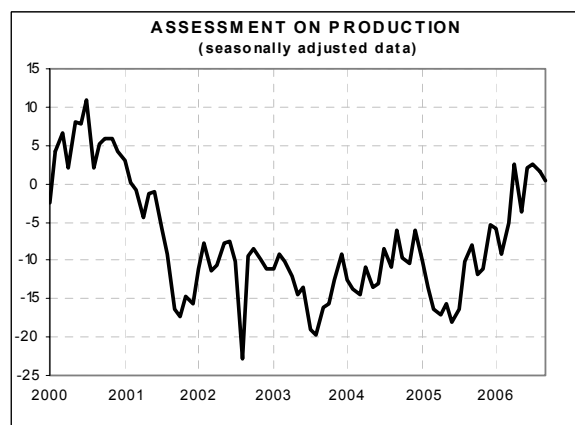
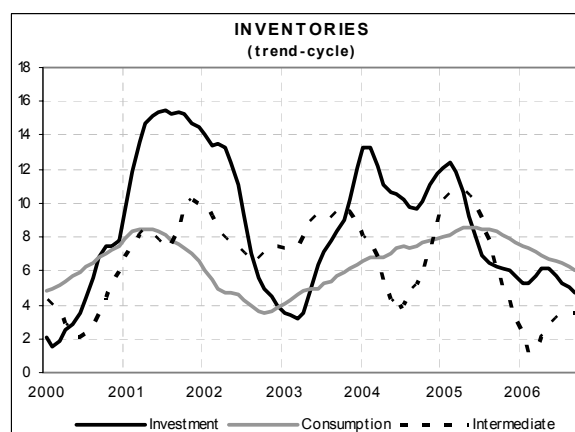
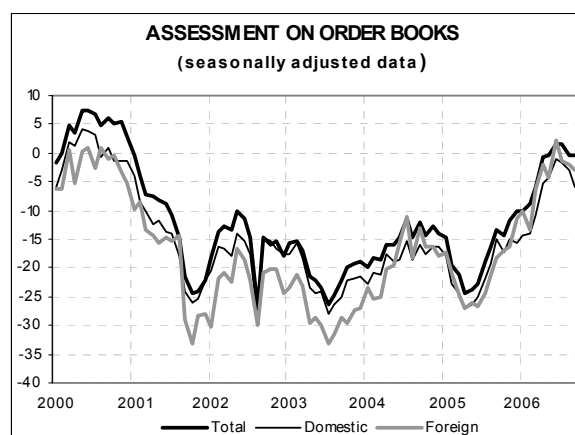
The traditional ISAE quarterly survey on exporting firms indicated an improvement in the opinions on export turnover. Nevertheless, surveyed firms made less favourable forecasts for the following three months. The rise in turnover came along with a sharp bounce in the ratio between export and domestic prices, for which the balance hit the highest level in the last ten years. With regard to the geographical breakdown of export destinations, the share of exports going to Germany and to the non-EU countries increased, while the percentage of those heading for the European countries, other than France, Germany, the United Kingdom and the Benelux, declined.



### Situation in the reference period (September 2006)

In September, the evaluation of current demand remained stable and the overall balance stayed at 0 (as in the previous month). Nonetheless, firms indicated a sharp contraction in the domestic market (from -3 to -6), which was accompanied by a slight recovery in foreign markets (from -3 to -2). Moreover, the level of current production lowered from 2 to 0 while, according to surveyed firms, the ratio of liquidity to operational requirement increased (the balance went up from 34 to 37). Finally, inventories showed a modest de-stocking (from 6 to 4), going back to the level recorded last June.

Nevertheless, at the industry level the views were not homogeneous. For consumer goods, the assessment on total orders recovered (from -6 to -3), thanks to an improvement in domestic demand (from -8 to -7), which more than offset the slight decline in foreign demand (from -9 to -10). Also the ratio of available liquidity to operational requirement improved (from 30 to 33). The level of production declined (from -1 to -4), along with slight de-stocking of inventories. In the intermediate goods sector, stability for the assessment on overall orders was backed by a worsening for domestic orders (from -3 to -4) and a strong improvement in foreign ones (from -4 to 2). The opinions on production and company liquidity were also scaled down (from 2 to -2 and from 36 to 34, respectively). Finally, inventories posted a decline. Also for investment goods, the balance for the evaluation of the level of orders remained unchanged with respect to the previous month, but in this case evaluations of entrepreneurs for both domestic and foreign demand worsened (from 4 to -5 and from 3 to -3, respectively). The opinions on production stalled as well notwithstanding a sharp de-stocking of inventories (from 8 to 3). Lastly, the ratio of liquidity to operational requirements strongly grew (from 37 to 47), reaching the highest level since July 2000.



### Outlook for the following three months

In September, surveyed firms were more optimistic about the short-term trend for the main company variables (orders, production and prices) and about overall prospects for the Italian economy. Instead, they did not change their forecasts for developments in employment and company liquidity.

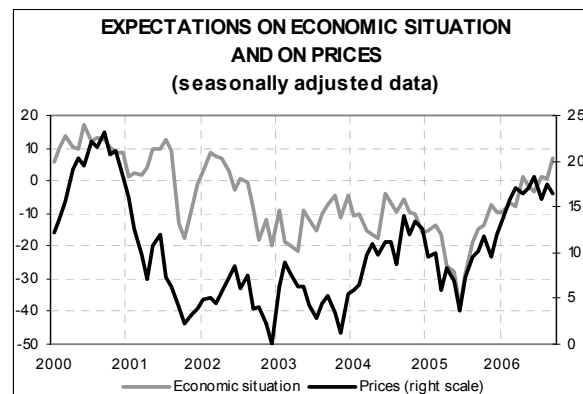
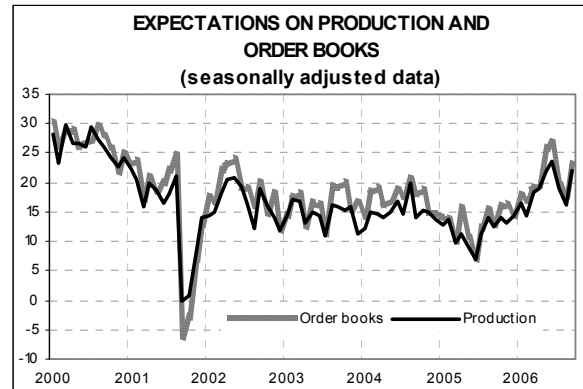
The balances related to expectations for production, orders and the Italian economy increased, with regard to August, respectively from 16 to 22, from 18 to 23 and from 1 to 7 (the highest level since April 2002). Expectations of a rise in selling prices also shrunk (the related balance declined to 16 from 18 in the previous month). Instead, prospects for employment and company liquidity levelled out, though remaining, in the latter case, at their highest level since May 2002.

Forecasts were in general favourable for consumer and investment goods and more cautious, instead, for intermediate goods. In the consumer goods sector, firms' expectations for production and orders actually improved to 24 and 25 respectively (from 16 and 25), those for the Italian economic trend went up to 6 (from 0). In this sector, firms were also more optimistic about employment forecasts (the raw balance rose from -1 to 0). Prospects for company liquidity and selling prices remained, instead, virtually unchanged with regard to the previous survey (at 9 and 11, respectively). In the investment goods sector, an improvement was posted by expectations for orders (from 20 to 21), production (from 21 to 22), the general economic situation (from 6 to 12) and employment (the raw balance improved from 7 to 10). More negative expectations prevailed, instead, for selling prices and company liquidity (the balances moved, in the order, from 17 to 14 and from 4 to 3). Lastly, the intermediate goods sector sent more negative signals: an improvement in expectations on orders and production (from 16 to 23 and from 14 to 20) was actually accompanied by a worsening in prospects for the overall economic situation (from 1 to -2), liquidity (from 4 to 2) and employment (in this case the raw balance lowered from 3 to 2). Finally,

expectations regarding selling prices increased (from 14 to 20).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
June	98,3	2	4	24
July	96,5	1	5	19
August	94,9	0	6	16
September	97,3	0	4	22



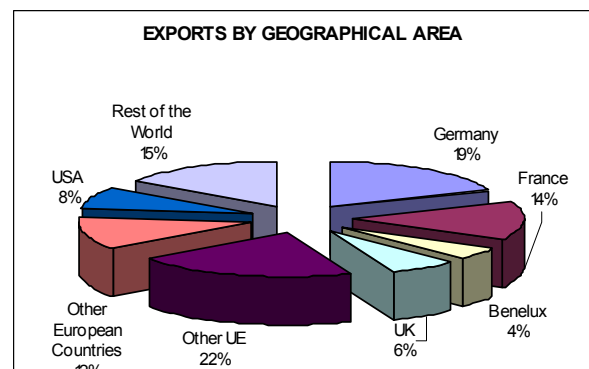
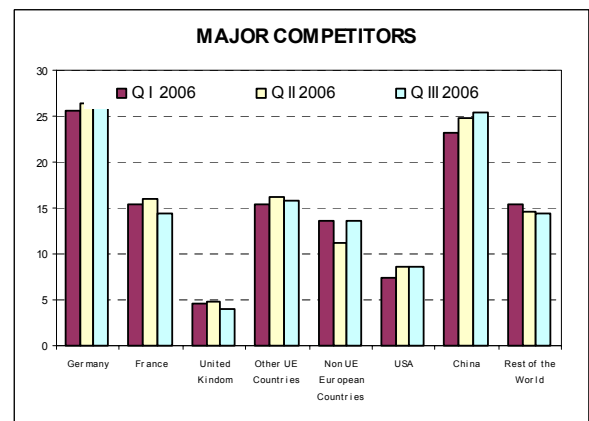
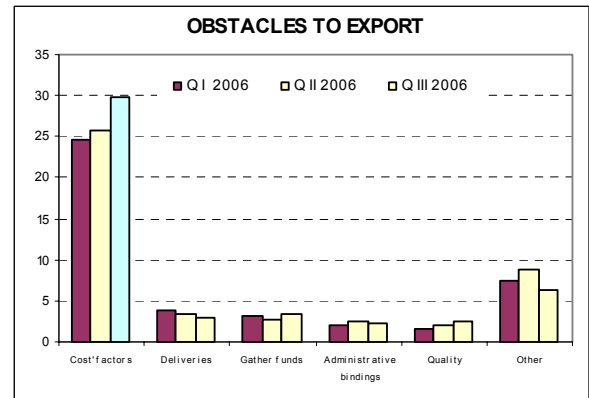
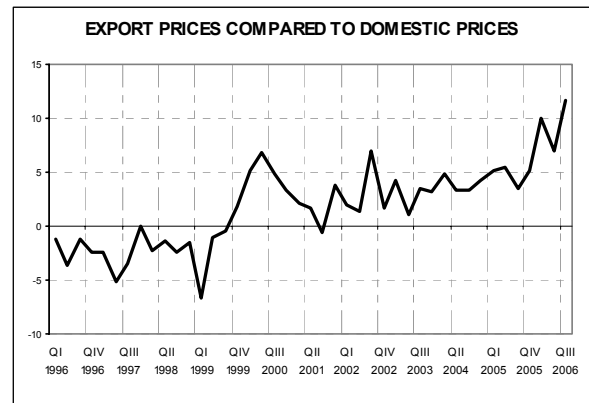
## The ISAE quarterly survey on exporting firms

According to the ISAE quarterly survey on exporting firms (for which exports accounted in the third quarter for about 38.5% of total sales, a higher percentage than in the previous quarter), the balance for export turnover improved in the third quarter from 9 to 10. Meanwhile, the ratio between domestic and export prices surged from 7 to 12, reaching the highest level in the last ten years, in particular since the sharp devaluation recorded by the lira at the start of 1995.

Nevertheless, some uncertainties characterized the prospects for the following months: the balance for turnover lowered from 15 to 11, and the share of firms perceiving the existence of factors limiting export activity increased from 36% to 37.5% of the sample. The increase stemmed mainly from factors connected to costs, goods quality and financing capabilities.

Companies also witnessed lower competition from France (identified as important competitor by 14% of the respondents, as against 16% in the previous survey) and from the United Kingdom (from 5% to 4%). The share of those considering non-EU European countries as competitors increased (from 11% to 14%). Finally, competitive pressures coming from China, the United States and the European countries, other than France, Germany and the United Kingdom, remained unchanged.

The geographical breakdown of export destinations pointed to a slight increase in the third quarter in the proportion of exports headed for Germany and the non-EU countries, while the share of the European countries, excluding France, Germany, the United Kingdom and the Benelux, declined.



## Regional breakdown of ISAE survey results

The trend in confidence was not homogeneous across regions: the seasonally adjusted index markedly improved in the Centre and the North, though at different rates in the various areas (from 95.2 to 98.4 in the North West, from 93.5 to 95.9 in the North East, and from 98.1 to 99.9 in the Centre), but worsened in the *Mezzogiorno* (from 97.9 to 96.6). Production expectations improved all over, while the opinions on orders and inventories of finished products sent contrasting signals.

### North West

Following the decreases recorded in July and August, the indicator rose more than three points, returning to the average level posted last June. The improvement was due to the sharp pick up in production expectations, as well as to the increase in the evaluation of orders (which characterized only foreign markets). Inventories of finished products sent, instead, negative signals.

### North East

After two consecutive months of worsening, also in this region confidence started to improve once more, going back to the average level recorded last April. The recovery mainly stemmed from a clear rise in production expectations and a fall in inventories of finished products. Negative signals characterized, instead, the evaluation of the level of orders (on both domestic and foreign markets).

### Centre

Confidence improved in the Centre, totally offsetting the fall experienced in July-August. The improvement was essentially due to a sharp improvement in production expectations, in the presence of stability for the opinions on both orders and inventories of finished products.

### Mezzogiorno

Entrepreneurs' confidence in the *Mezzogiorno* was falling, contrasting with the trend in the rest of the country: the index lost more than one point, though remaining at the average level recorded in the last months. The deterioration was the result of divergent

opinions: the balance for the assessment on the level of orders declined (both in domestic and foreign markets), while production expectations were optimistic. Finally, the opinions on inventories of finished products remained stable.

