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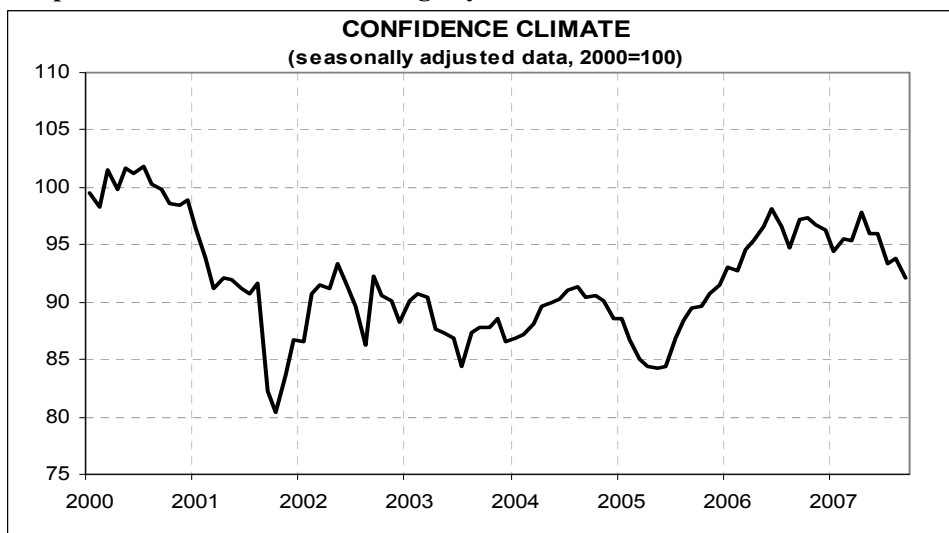
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MANUFACTURING FIRMS' CONFIDENCE DECLINES IN SEPTEMBER

- The seasonally adjusted confidence index (2000=100) lowered to 92.2 from 93.8 in the previous month, returning to the level posted at the end of 2005
- The decline was mainly attributable to the sharp deterioration in the opinions on the state of demand and orders (essentially on domestic markets). Stability characterized instead both assessments on inventories and prospects for production in the following three months
- The fall was common to all productive sectors: the index decreased from 98.2 to 96.3 for investment goods (the lowest value since November 2006), from 94.8 to 92.6 for consumer goods (the lowest since February 2006) and from 91.7 to 89.4 for intermediate goods (in this case, the minimum since November 2005)
- Confidence worsened all over the country, though at different rates: the indicator decreased markedly in the North East and the Centre (from 93.8 to 89.8 and from 94.8 to 92.2, respectively) and more moderately in the North West and the *Mezzogiorno* (from 94.3 to 93.7 and from 96.6 to 96)

IN THE 3Q 2007, FIRMS POINT TO A SHARP INCREASE IN EXPORT TURNOVER, BUT TO A WORSENING IN ITS SHORT-TERM PROSPECTS

- As for export turnover, assessments on the trend in the last three months improved noticeably, but short-term forecasts deteriorated. The export to domestic price ratio also increased again slightly
- Among the factors limiting export activity cost constraints declined, but financing difficulties increased
- With regard to export destinations, the proportion of exports going to France and Germany lowered, while those directed towards the other European Union countries and the United States rose
- Firms perceiving higher competitive pressures from Germany, France, the United Kingdom, the United States and China increased, while those complaining about competition from the other European countries diminished slightly



Data on October shall be released on October 24, 2007

The next ISAE surveys are scheduled as follows:

September 27: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: September), ISAE Monthly Business Services Survey (reference period: September) and ISAE Monthly Survey on Construction (reference period: August)

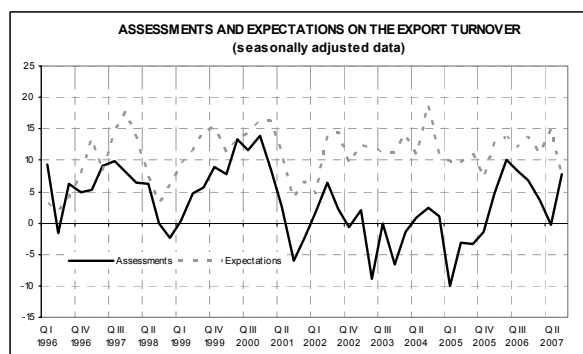
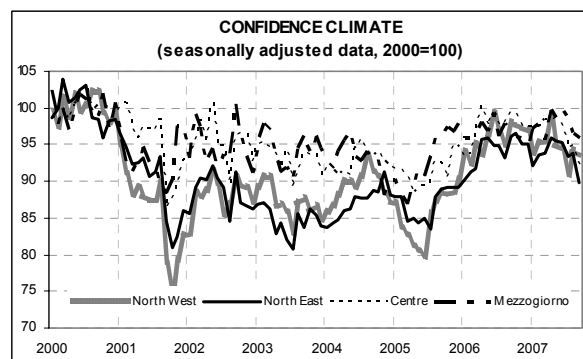
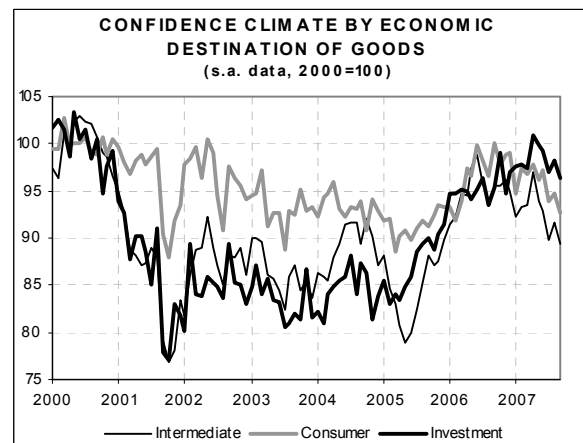
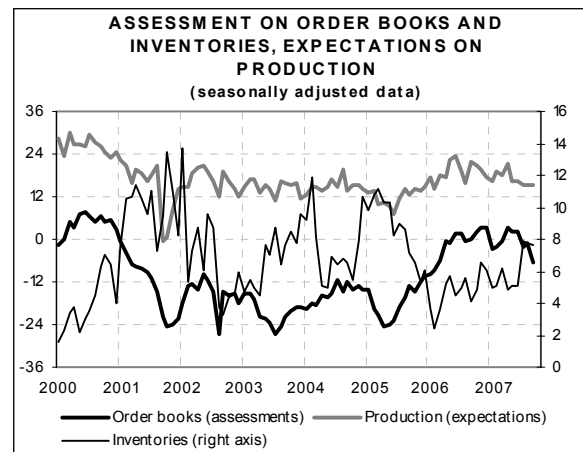
October 4: ISAE International Comparison of Consumer and Business Surveys (reference period: September)

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)

General results

The ISAE Survey, carried out on a panel of about 4000 firms between September 3 and September 17, pointed to a worsening in the seasonally adjusted confidence index of manufacturing and mining firms. In September, the indicator lowered to 92.2 from 93.8 in the previous month, reverting to the level posted at the end of 2005. The decline was mainly attributable to the sharp deterioration in the opinions on the state of demand and orders (essentially on domestic markets). Stability characterized instead assessments on the change in inventories and prospects for production in the following three months. The fall was common to all productive sectors: the index decreased from 98.2 to 96.3 for investment goods (the lowest value since November 2006), from 94.8 to 92.6 for consumer goods (the lowest since February 2006) and from 91.7 to 89.4 for intermediate goods (in this case the minimum since November 2005). Confidence worsened all over the country, though at different rates: the indicator decreased markedly in the North East and the Centre (from 93.8 to 89.8 and from 94.8 to 92.2, respectively) and more moderately in the North West and the *Mezzogiorno* (from 94.3 to 93.7 and from 96.6 to 96).

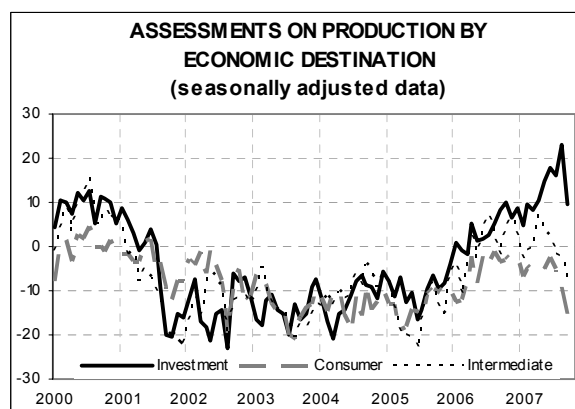
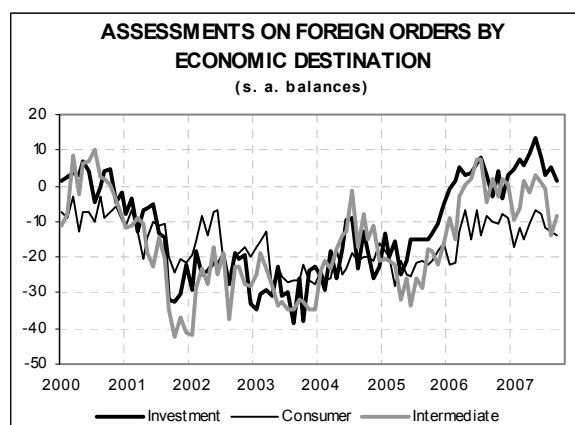
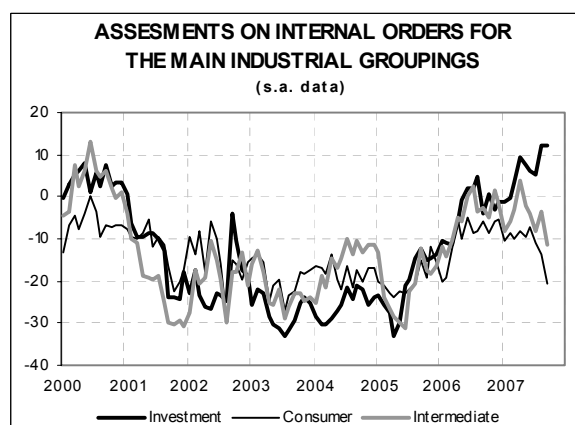
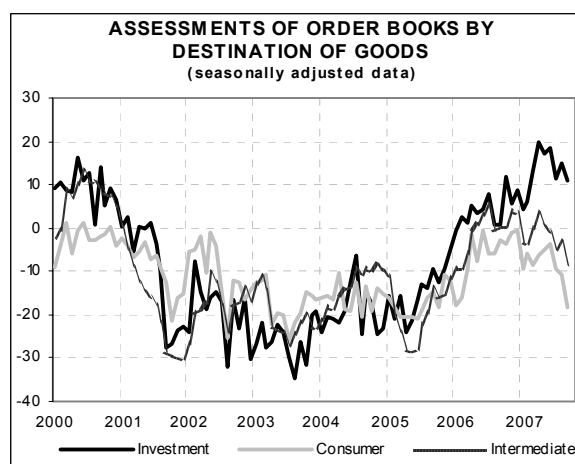
According to the traditional ISAE quarterly survey among exporting firms, export turnover rose noticeably in the third quarter, but firms forecast a lower growth in the following three months. Moreover, the export to domestic price ratio increased again slightly. Entrepreneurs signalled a fall in factors limiting their export activity, which were mainly related to costs. Firms perceiving higher competitive pressures from Germany, France, the United Kingdom, the United States and China rose, while those complaining about competition from the other European countries diminished slightly. With regard to the main export destinations, the proportion of exports going to France and Germany decreased, principally to the advantage of those directed towards the other European countries and the United States.



Situation in the reference period (September 2007)

In September, firms' evaluation of the trend in main company variables worsened: the balance for the opinions on orders dropped from -1 to -7 (the lowest level since February 2006), mainly because of the sharp deterioration in the opinions on domestic demand (from -4 to -9, the lowest value since March 2006), whereas the foreign component remained stable at -7. Also assessments on the current level of production markedly declined (from 1 to -7), and the opinions on company liquidity edged down (the balance lowered from 35 to 33). Lastly, for a third month running, the balance for inventories remained stable (at 8).

Opinions on demand turned particularly negative in the consumer goods sector (the balance declined from -11 to -18), mostly due to the sharp drop in the domestic component (the related balance lowered from -13 to -21, the minimum over the last two years) which came along with virtual stability for foreign demand (the balance moved from -13 to -14). In this sector, also the opinions on the level of production suddenly plunged (from -13 to -21), while those on inventories and company liquidity stabilized (at 7 and 27, respectively). In the investment goods sector, the fall in demand was more moderate (from 15 to 11) and was entirely due to the foreign component (from 5 to 2), compared to stability at a high level for domestic orders (the related balance stayed at 12). However, also in this sector the opinions on production plummeted (from 23 to 9), those on company liquidity lowered (from 41 to 38), and inventories increase slightly (from 10 to 11). Lastly, in the intermediate goods sector, the decisive fall in demand (the balance dropped from -3 to -9) was attributable to the sole domestic component (the balance decreased from -3 to -11). The foreign component recovered instead (from -14 to -8). In this sector as well, the level of production declined (from -2 to -9), inventories moderately increased and company liquidity lowered (from 38 to 34).



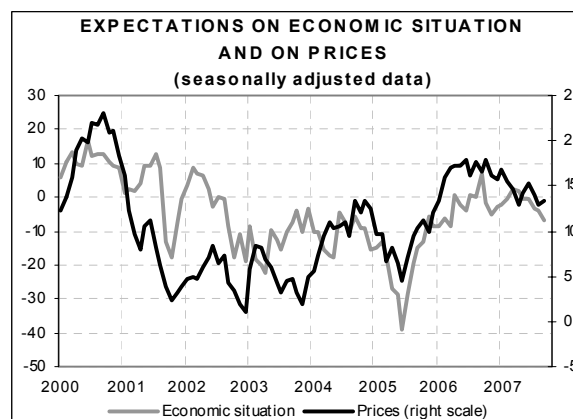
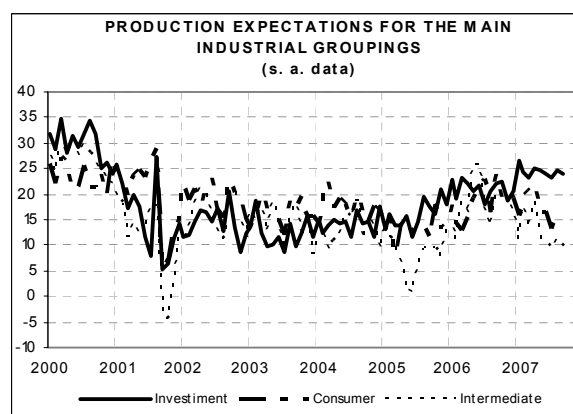
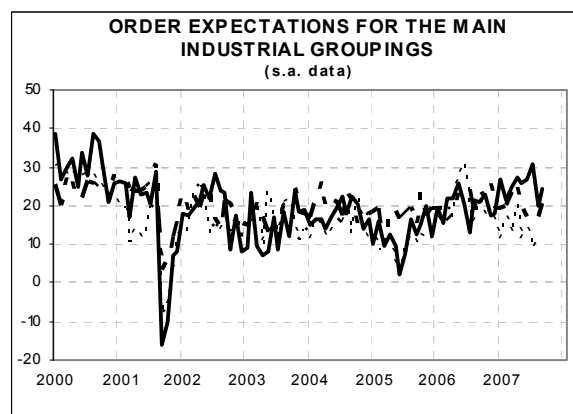
Outlook for the following three months

Forecasts for the trend in main company variables painted a less negative picture of the current situation and of short-term prospects, though expectations about the Italian general economic trend were clearly slashed. More in detail, prospects for production, employment and selling prices remained stable (at 15, 3 and 13, respectively), but those for demand and company liquidity improved (from 15 to 18 and from 1 to 4). However the balance related to predictions for the overall Italian economy decreased from -4 to -7.

At the industry level, expectations of producers of consumer goods improved with regard to both demand (from 17 to 20) and production (from 16 to 17), as well as company liquidity (from 1 to 6). However, signs of inflationary pressures increased (from 13 to 15) and expectations for the country's general economic situation and, to a lesser extent, for employment declined again (from -3 to -7 and from 3 to 2, respectively). For investment goods, prospects for demand further improved (the balance rose from 20 to 25), while those for production and prices remained basically stable at a high level (moving from 25 to 24 and from 13 to 12, respectively). Employment forecasts bettered further (from 10 to 12). They were probably also affected by expectations of new improvements in company liquidity (from 1 to 4). However, in this sector as well prospects for the country's general economic situation deteriorated (the balance fell abruptly from 4 to -8). The situation remained practically unchanged in the intermediate goods sector: the balance for demand expectations stayed at its previous month level (at 12) and the one for production came in at 10 (compared to 11 in August). The balances for prices and company liquidity remained at 12 and 1, and the one for employment moved to -2 (from -1). However, expectations for short-term prospects for the Italian economy suddenly worsened also in this case (lowering from -5 to -14).

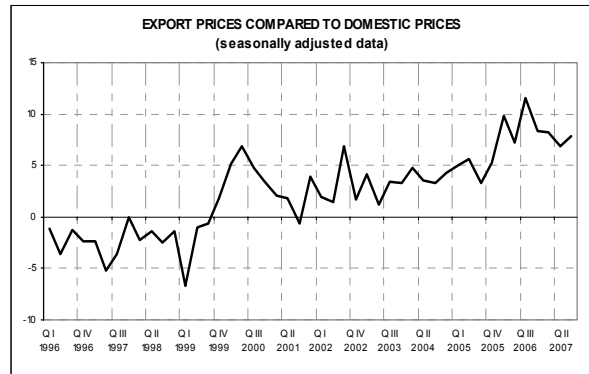
Manufacturing firms' confidence climate and balances of indicator-building series

	Confidence climate	Order-book level	Inventories	Expectations on production
June	96.0	2	5	17
July	93.4	-2	8	15
August	93.8	-1	8	15
September	92.2	-7	8	15



The ISAE quarterly survey on exporting firms

According to the traditional ISAE quarterly survey on exporting firms (for which exports accounted on average for about 38% of total sales), in the third quarter of 2007 respondents markedly improved their assessments on current export turnover, but worsened their prospects for the following three months, probably also because of the recent appreciation of the euro: the seasonally adjusted balance for the third quarter actually rose from 0 to 8, while that for short-term expectations declined from 15 to 7. Moreover, the ratio between export and domestic prices increased slightly (the balance edged up from 7 to 8). With regard to export constraints, the share of respondents reporting considerable obstacles declined slightly (from 37% to 36%). In particular, the proportion of firms signalling “cost constraints” posted a sharp fall (from 29% to 23%), but the percentage of those considering “financial constraints” to be significant increased slightly (from 4% to 5%). Furthermore, firms perceiving higher competitive pressures from Germany, France, the United Kingdom, the United States and China rose, while those complaining about competition from the other European countries diminished slightly. Lastly, with regard to main export destinations, the proportion of exports going to France and Germany decreased, mainly to the advantage of those directed towards the other European countries and the United States.



Regional breakdown of ISAE survey results

In September, confidence deteriorated all over the country, though at different rates. In the North East and the Centre, the worsening in the index was more marked (from 93.8 to 89.8 and from 94.8 to 92.2, respectively), while in the North West and the *Mezzogiorno* it seemed more moderate (from 94.3 to 93.7 and from 96.6 to 96). The fall was generally due to the pessimism which characterized the opinions on the level of orders (on both domestic and foreign markets), while production expectations and assessments on inventories sent contrasting signals. Finally, with regard to exports, firms in the Centre and the South recorded a decline, while those in the North West reported a rise. Expectations on turnover gave divergent indications.

North West

Following the sharp recovery of the previous month, in September the confidence climate started to worsen again. The opinions on (domestic) demand were decidedly negative, whereas production prospects were optimistic. Also inventories were scaled down for the second consecutive month. Furthermore, opinions and expectations for export turnover markedly improved.

North East

Entrepreneurs' confidence in the North East started to deteriorate once more, reverting to its November-December 2005 level. The fall was essentially related to a decline in the opinions on demand (domestic and mainly foreign demand) and to restocking of inventories. However, also production expectations worsened and opinions and prospects for turnover declined.

Centre

Confidence of firms in this area reverted to a downward trend, reaching the lowest level since July 2005. Also in this case, the fall stemmed from the deterioration in opinion on orders (both domestic and foreign), which came along with a build up in inventories. Production prospects sent, instead, positive indications. Finally, the opinions on export turnover

recorded a general worsening, while the balance for expectations improved instead.

Mezzogiorno

The deterioration in confidence was more moderate than in the rest of the country. It mirrored the negative trend recorded by both the opinions on demand (domestic and foreign) and production prospects, while inventories were considered to be diminishing. Lastly, with regard to exports, both the opinions and the prospects for turnover recorded a sharp decline.

