



Date: September 24, 2008

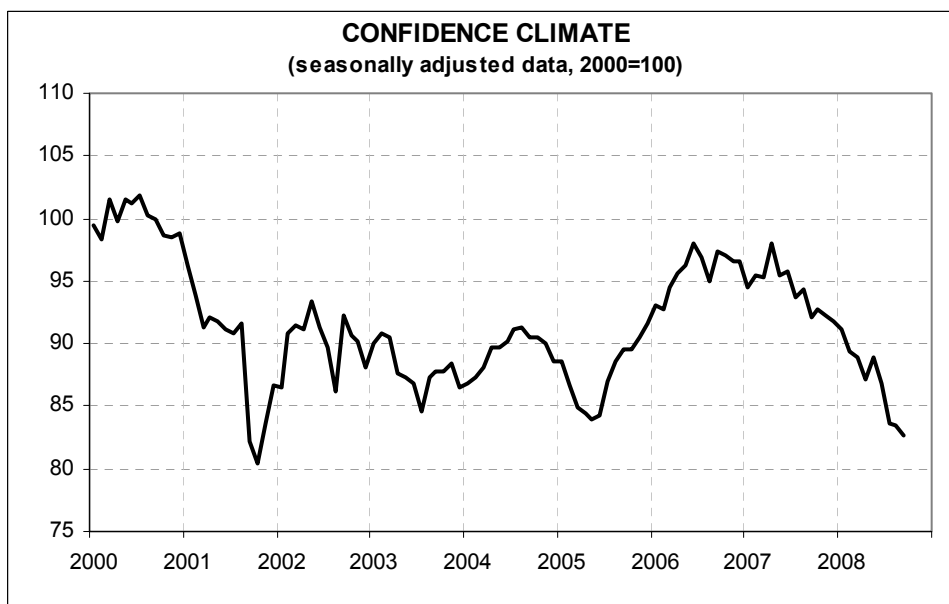
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### MANUFACTURING FIRMS' CONFIDENCE CONTINUES TO DECLINE IN SEPTEMBER

- The seasonally adjusted confidence index (2000=100) decreased from 83.5 in August to 82.7, the lowest value since October 2001
- Entrepreneurs were decidedly less optimistic about the current trend in orders and production. However, for the first time since last May, short-term expectations for the same variables sent some signs of recovery
- Confidence declined across all main productive sectors, but at different rates. The index diminished nearly three points for investment goods (from 84.1 to 81.3) and more moderately for consumer and intermediate goods (from 87.8 to 87.2 and from 80.6 to 79.4, respectively)
- Lastly, major differences emerged at the regional level: confidence recovered moderately in the Centre (from 85.7 to 86.3), but declined in the North (from 83.1 to 82.2 in the North West and from 82.7 to 82 in the North East) and mainly in the *Mezzogiorno* (from 87.4 to 86.1)

### OPINIONS AND FORECASTS ON EXPORT TURNOVER WORSEN IN THE 3Q 2008

- The share of respondents indicating the presence of factors limiting export activity swelled, mainly because of cost constraints
- Competitive pressures from Germany, France, other European countries and China heightened. Pressures from the United States stabilized instead
- Among main export markets, the role of the United Kingdom and other European countries diminished, to the benefit of exports headed for France and Germany
- Lastly, the export to domestic price ratio lowered



**Data on October shall be released on October 24, 2008**

*The next ISAE surveys are scheduled as follows:*

**September 25:** 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)

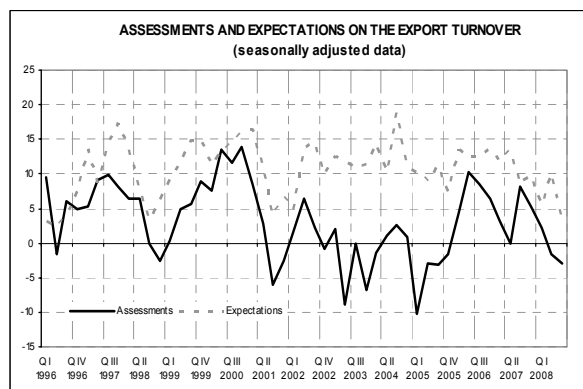
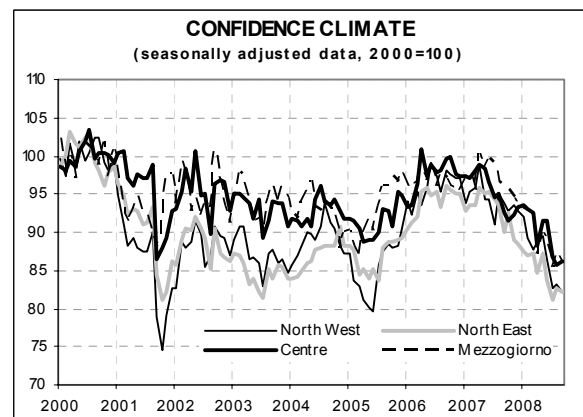
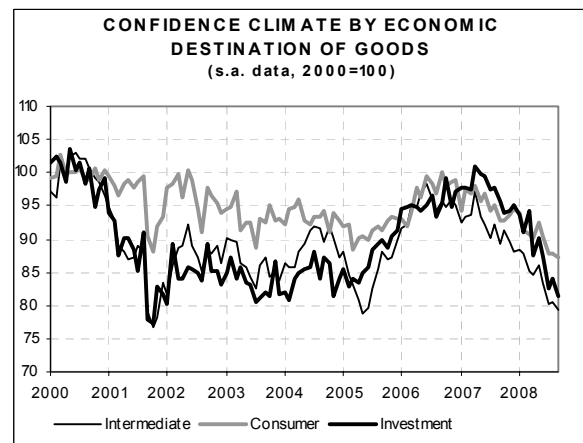
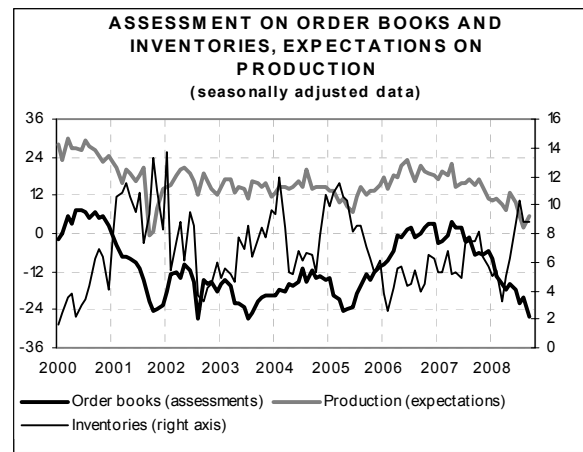
**October 7:** ISAE International Comparison of Consumer and Business Surveys (reference period: September)

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

According to the ISAE Survey, carried out on a panel of about 4000 firms between September 1 and September 18, confidence of manufacturing and mining firms diminished in September. The seasonally adjusted index (2000=100) decreased from 83.5 in the previous month to 82.7, the lowest level since October 2001. Entrepreneurs were more pessimistic about the current state of demand (both domestic and foreign) and production. Inventories stabilized, while expectations for production and orders showed some signs of recovery for the first time since last May. Deterioration distinguished all main productive sectors, though at different rates. The index lowered nearly three points for investment goods (from 84.1 to 81.3) and more moderately for consumer and intermediate goods (from 87.8 to 87.2 and from 80.6 to 79.4, respectively). Lastly, major differences emerged also at the regional level: confidence recovered somewhat in the Centre (from 85.7 to 86.3), but declined in the North (from 83.1 to 82.2 in the North West and from 82.7 to 82 in the North East) and mainly in the *Mezzogiorno* (from 87.4 to 86.1).

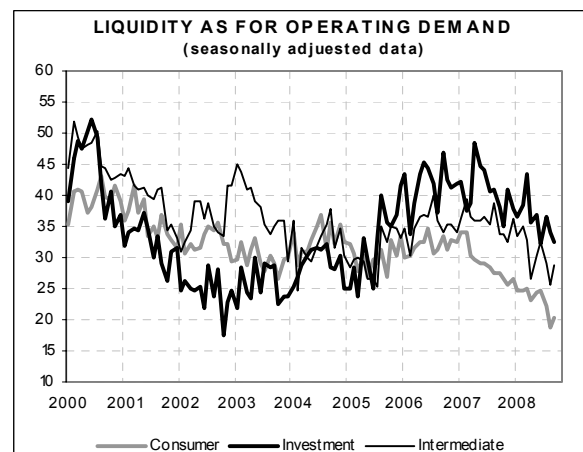
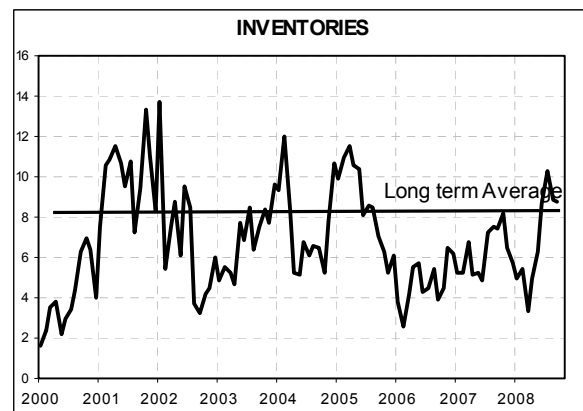
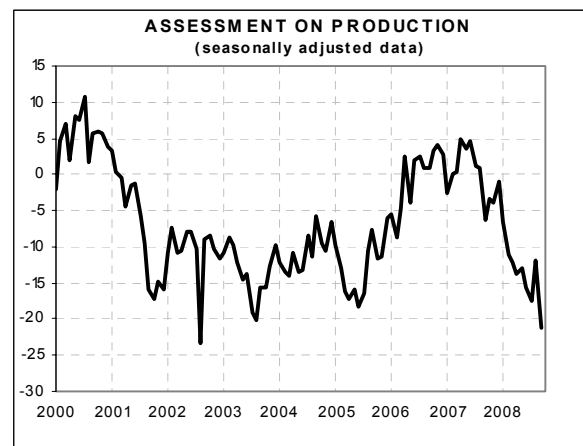
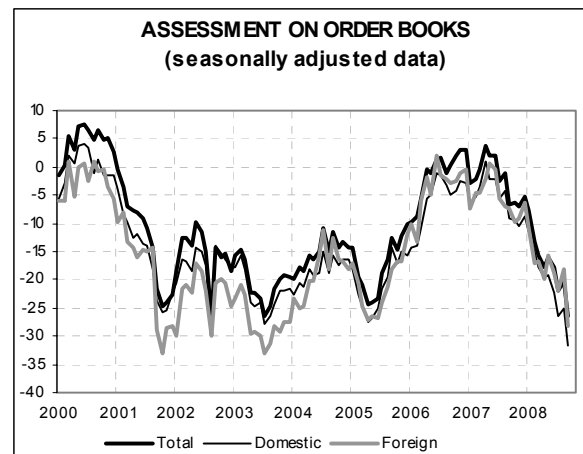
According to the traditional ISAE quarterly survey on exporting firms, in the third quarter of 2008 opinions and forecasts on export turnover worsened. The share of respondents indicating the presence of factors limiting export activity swelled, mainly because of cost constraints. Moreover, competitive pressures from Germany, France, other European countries and China increased. Pressures from the United States stabilized instead. Among main export markets, the share of exports going to the United Kingdom and other European countries diminished, to the benefit of exports headed for France and Germany. Lastly, the export to domestic price ratio lowered.



### Situation in the reference period (September 2008)

In September, manufacturing firms were decidedly more pessimistic, compared to the previous month, about the current trend in orders and production. In particular, the balance for overall demand declined from -20 to -26, diminishing from -25 to -32 in the domestic market and from -18 to -28 in foreign markets. In line with the negative trend in demand, the production level declined from -12 to -21, hitting the low value recorded in August 2002. Inventories, instead, remained stable above their long-term average, while company liquidity showed moderate signs of recovery (the balance increased from 25 to 27).

Pessimism which distinguished assessments on the current situation was rather evenly spread across all main productive sectors. In the investment goods sector, the opinions on orders diminished from -14 to -18. The decline characterized both domestic and, mainly, foreign demand (the balance lowered from -23 to -28 and from -10 to -21, respectively). Also the level of production slumped (from -5 to -12) and inventories started to build up once more (the balance rose from 11 to 15). In this sector, company liquidity diminished as well (from 34 to 32). In the consumer goods sector, the balance for total orders lowered from -22 to -28, decreasing evenly in both domestic and foreign markets (from -25 to -30 and from -22 to -29). Also in this sector, the level of production markedly deteriorated (lowering from -15 to -23), notwithstanding a slight de-stocking of inventories (from 5 to 4). Company liquidity remained instead basically stable (the balance moved from 19 to 20). Lastly, for intermediate goods, the opinions on orders diminished from -24 to -31 (they lowered from -26 to -33 in the domestic market and from -24 to -32 in foreign ones). Moreover, firms gave clearly more negative assessments on the current trend in the level of production (the balance moved from -13 to -25), while inventories continued to increase (from 8 to 10). However, the balance for company liquidity rose (from 26 to 29).



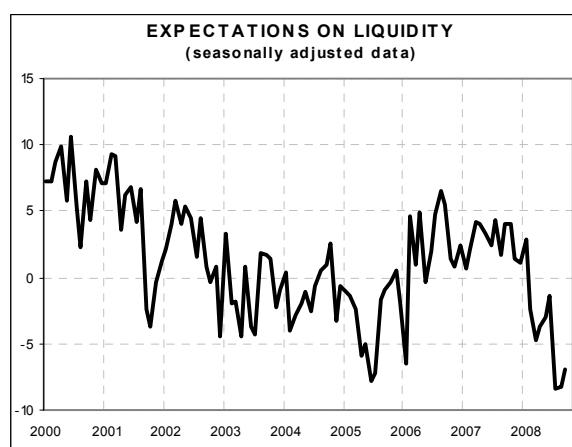
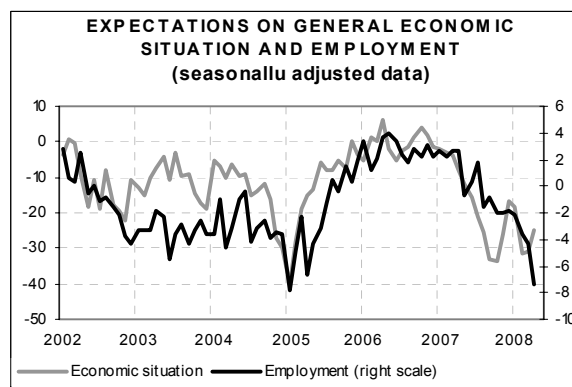
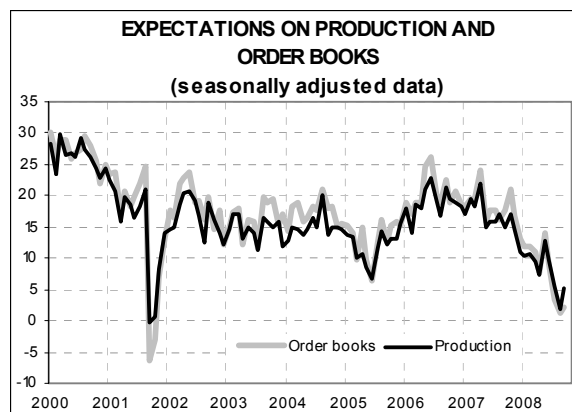
### Outlook for the following three months

In September, prospects for main company variables and for Italy's general economic conditions sent less negative indications compared to the previous month. The balance related to expectations for orders showed some moderate signs of recovery, moving from 1 to 2, the balance for production increased instead from 2 to 5, entirely retracing the fall posted in August. Expectations for company liquidity and those for the country's general situation showed some signs of recovery (moving from -8 to -7 and from -31 to -25, respectively). Moreover, expected inflationary pressures for selling prices eased (from 15 to 12). In an opposing trend, employment expectations declined (the balance lowered from -4 to -7).

Developments were not homogenous across sectors: the trend deteriorated for investment goods, but staged signs of recovery for consumer and, above all, intermediate goods. More in detail, in the investment goods sector expectations for demand, production and employment worsened (the related balances moved from -1 to -6, from 8 to 6, and from 1 to -4, respectively). Liquidity prospects remained unchanged (at -3), expected inflationary pressures eased (from 18 to 16), and the general economic forecasts for the Italian economy became less unfavourable (the balance rose from -29 to -26). For consumer goods, instead, expectations for orders and liquidity remained practically unchanged (the balance moved from 7 to 6 and stayed at -3, respectively) and those for production improved (from 4 to 8, back to the level recorded in July). Respondents made moderately favourable forecasts also for prices (the balance moved from 10 to 9) and the economy in general (from -29 to -27), while production expectations lowered (from -8 to -9). Lastly, for intermediate goods, orders and production forecasts clearly recovered (in both cases the balance increased from -2 to 3), and inflation expectations declined (from 15 to 10). Prospects for the country's general situation improved slightly (from -30 to -28) and, lastly, liquidity expectations worsened (from -9 to -10).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
June 2008	86.8	-18	9	9
July 2008	83.7	-22	10	5
Aug 2008	83.5	-20	9	2
Sept 2008	82.7	-26	9	5

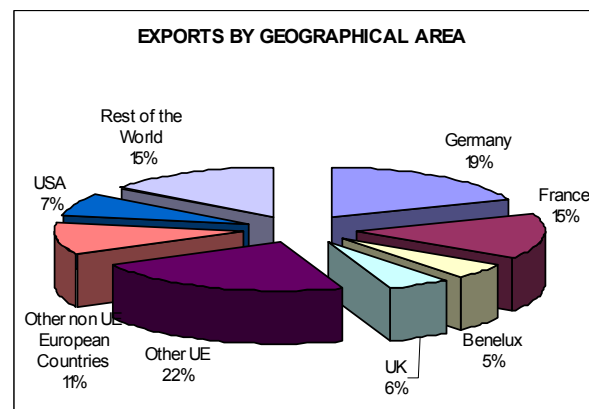
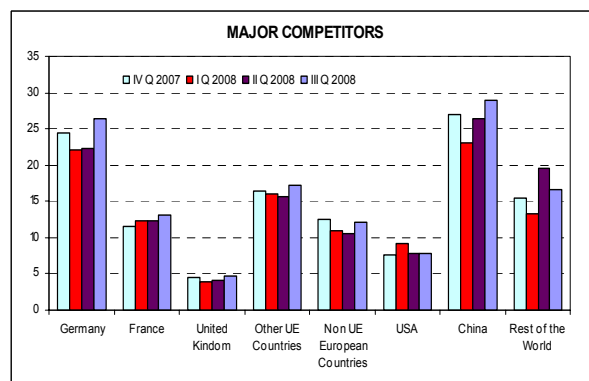
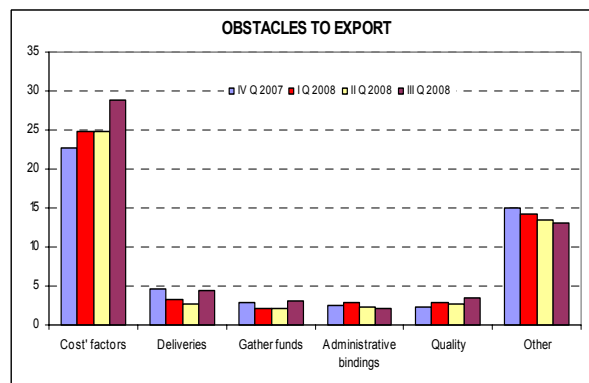
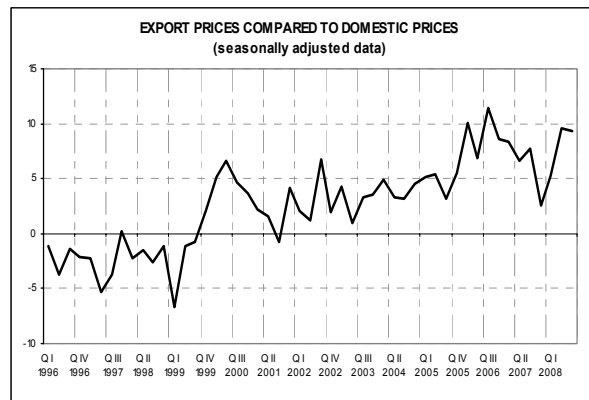


## The ISAE quarterly survey on exporting firms

In the third quarter of 2008, the traditional ISAE quarterly survey on exporting firms (for which exports accounted on average for about 39.2% of total sales, about half a percentage point above the previous survey) showed that respondents gave more negative assessments on current export turnover and projected a sharp fall in the following three months. The seasonally adjusted balance of the former variable actually moved from -2 (in the previous quarter) to -3, while the one for short-term expectations declined from 10 to 3, the lowest reading since the third quarter of 1998. Furthermore, the ratio between export and domestic prices diminished (the seasonally adjusted balance went down from 10 to 9). With regard to export constraints, the share of respondents reporting the existence of considerable obstacles surged (from 39% to 44%). In particular, the proportion of firms signalling constraints related to costs, financing and red tape increased (in the order, from 25% to 29%, from 2% to 3% and from 2.7% to 3.4%). As for the perception of competitive pressures, those coming from Germany, France, China and other European countries heightened, while pressures exerted by the United States remained unchanged. Finally, with regard to main countries of destination, the share of exports going to the United Kingdom and other European countries diminished, to the benefit of those headed for the France and Germany.

## Regional breakdown of ISAE survey results

The deterioration in confidence recorded at the national level reflected somewhat different trends across areas. The index declined in the North (from 83.1 to 82.2 in the North West and from 82.7 to 82 in the North East) and the *Mezzogiorno* (from 87.4 to 86.1) and recovered instead in the Centre (from 85.7 to 86.3). Opinions on orders worsened all over the country, while production expectations and opinions on inventories sent contrasting signals. Lastly, regarding exports, expectations for turnover deteriorated overall,



whereas the opinions on current turnover and export prices gave diverging indications.

North West

Following the recovery posted in the previous month, in September the confidence climate started to worsen again, mainly due to the fall in the opinions on demand (both domestic and foreign). Instead, higher optimism distinguished production prospects. Finally, opinions and expectations on turnover clearly worsened and export prices increased with respect to domestic ones.

North East

In this area, confidence started to deteriorate once more, remaining however above the low level reached last July. The fall essentially stemmed from the decline in the evaluation of demand (mainly domestic) and from negative opinions on inventories of finished products. Production prospects were instead more optimistic. With regard to export activity, the opinions on turnover improved, but forecasts deteriorated and the export to domestic price ratio increased.

Centre

Confidence recovered slightly thanks to the improvement in the evaluation of inventories, which came along with virtual stability for orders and production expectations. As for export turnover, assessments bettered, but expectations worsened. The balance for the export to domestic price ratio remained instead basically unchanged.

Mezzogiorno

In this area, confidence plunged, due to a sharp decline in the opinions on demand. Inventories and production prospects held steady instead. Lastly, both assessments and forecasts on export turnover markedly declined and export prices increased with respect to domestic ones.

