



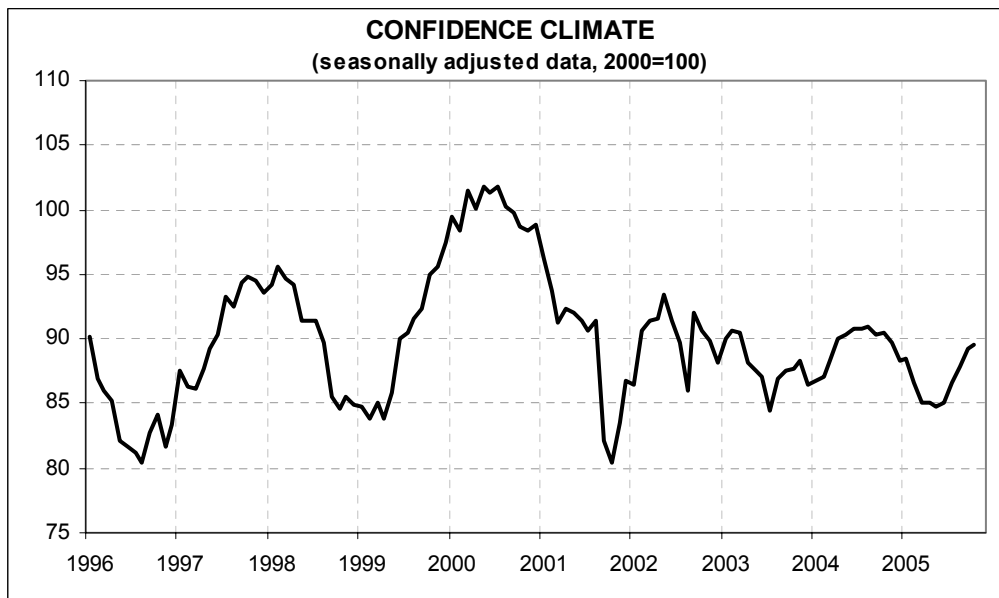
Date: **October 26, 2005**  
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## THE MANUFACTURING FIRMS' CONFIDENCE SLIGHTLY GROWS IN OCTOBER

- In October, the seasonally adjusted confidence index (base year 2000 = 100) rises from 89.3 to 89.5 thanks to a further rise in expectations on production. Conversely, the demand recovery stops and finished products inventories stabilise
- Confidence definitely improves in consumer goods, where the index rises from 91.6 to 92.2, while the indicator comes to a stop in investment goods, passing from 89.3 to 88.1, and particularly in intermediate goods, where it decreases from 88.4 to 86.7
- The confidence growth is common to most sectors: it is particularly marked in mechanics and transport and in sundry manufacturing sectors (wood and furniture, paper, publishing and press and other sectors)
- Among non-confidence-building variables, expectations on order-books and on the general economic situation improve, while industrial prices are expected to grow

## THE DEGREES OF INDUSTRIAL PLANT AND LABOUR FORCE UTILISATION RISE, WHILE OBSTACLES TO PRODUCTION GROW

- Opposing signals come from the usual quarterly questions. Indeed, the degree of industrial plant utilisation and the number of worked hours increase, even though the ensured production length diminishes and the share of firms considering their present production is hampered by financial and other reasons rises
- The competitive position is strongly improving, both on the domestic and on the foreign markets, while short-term expectation on exports decrease



Data referring to November shall be diffused on **November 25, 2005**.

Next ISAE surveys are scheduled as follows:

**October 31, 2005:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: September) and ISAE Monthly Business Service Survey (Reference month: October)

**November 2, 2005:** Comparative Business Surveys for Italy, Germany and France (Reference month: October)

**November 3, 2005:** ISAE Quarterly Business and Consumers Surveys: Territorial Aspects (Reference period: Q3 2005)

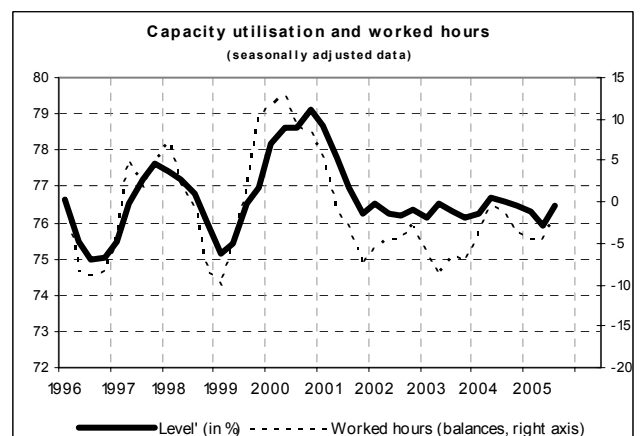
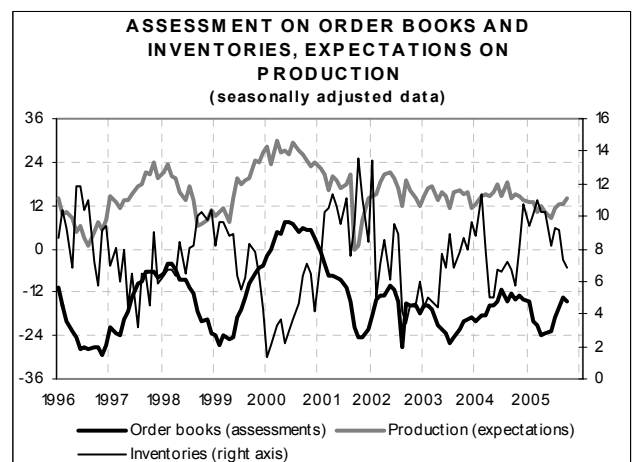
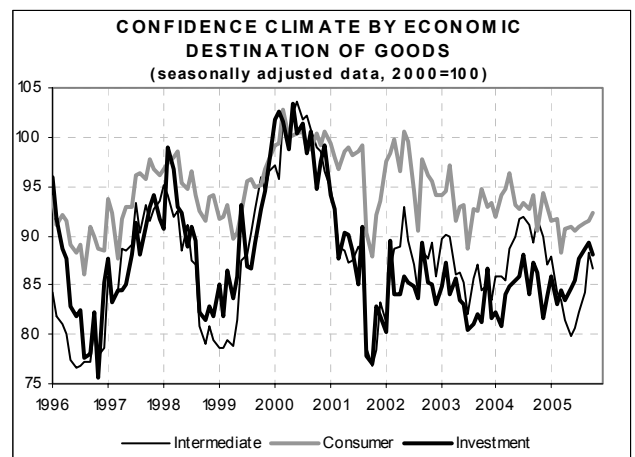
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site [www.isae.it](http://www.isae.it))

## General Results

According to the ISAE Monthly Survey carried out between October 1 and 19 on a panel of about 4,000 firms, the seasonally adjusted confidence index of manufacturing and extractive firms rises from 89.3 to 89.5. The small rise is due to recovering expectations on production and is underpinned by consumer goods. Among non-confidence-building variables, assessments on the current production variation improve, as do expectations on order-books and on the general economic situation.

The confidence trend varies in the different sectors: the index rises from 91.6 to 92.2 in consumer goods, while it decreases in investment and in intermediate goods, passing from 89.3 and 88.4 to 88.1 and 86.7 respectively..

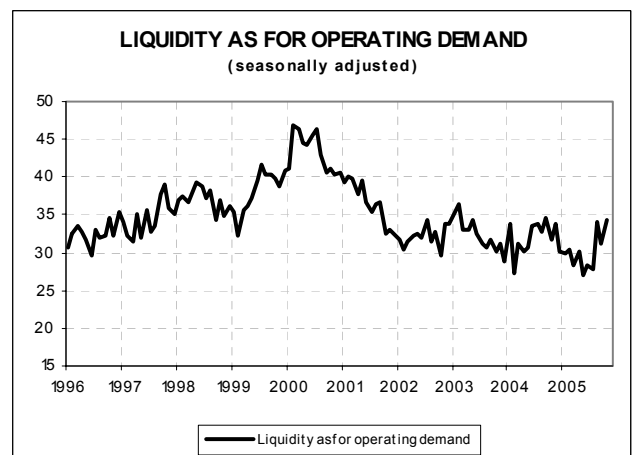
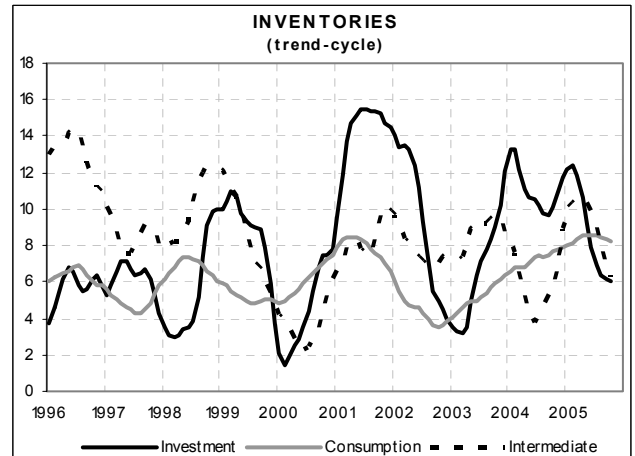
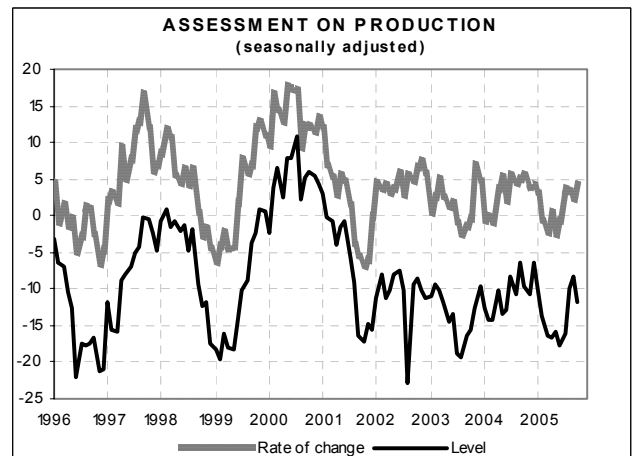
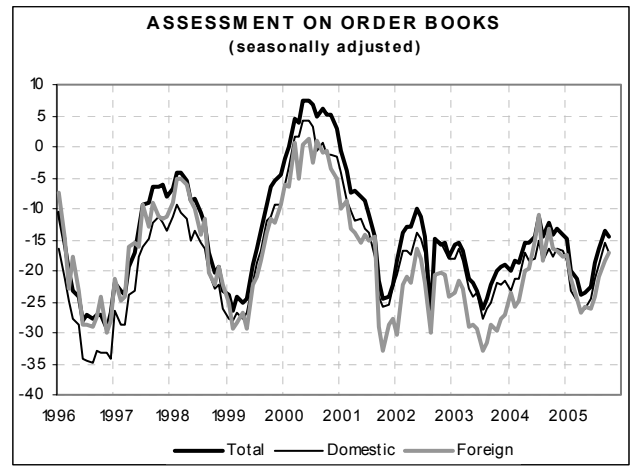
Opposing signals come from the usual quarterly questions. Indeed, the number of worked hours, the degree of industrial plant utilisation, new order books and the competitive positions improve, both at the national and at the international level (meaning within and outside the EU). Conversely, expectations on exports, on the ensured production length and on inventories diminish, while the share of firms considering their present production capacity level “more than sufficient” grows.



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

The order-book recovery stops in October and the balance decreases from -13 to -15, which is however, slightly above the average figures of Q3; indeed, the contraction concerns domestic demand (from -15 to -17), while the foreign one slightly improves (from -18 to -17). Also opinions on the current variation rise (from 2 to 4), while assessments on the production level worsen (from -8 to -12). Inventories remain unchanged (at 7 in terms of balance), while the available liquidity for operational needs increases (the balance rising from 31 to 34).

The order-book level deteriorates in consumer goods (from -15 to -19), while the current production variation improves (from 3 to 6) and the production levels remain stable (at -11). Also inventories decrease (from 9 to 8), while liquidity for operational needs seems to grow (the balance passing from 27 to 32). A similar trend is observed in investment and in intermediate goods, as demand is slowing down in both sectors (from -9 to -12 in investment goods, from -12 to -17 in intermediate goods) mainly because of the domestic component. The production levels fall from -6 to -10 in investment goods and from -9 to -15 in intermediate goods, while the production variation grows from 0 to 13 in the former sector and from -1 to 1 in the latter one. In both sectors, inventories remain stable at 6 and 5 respectively. Finally, liquidity for operational needs is diminishing in investment goods (from 36 to 35), while it grows (from 32 to 35) in intermediate goods (in terms of balance).



## Forecasts for next quarter

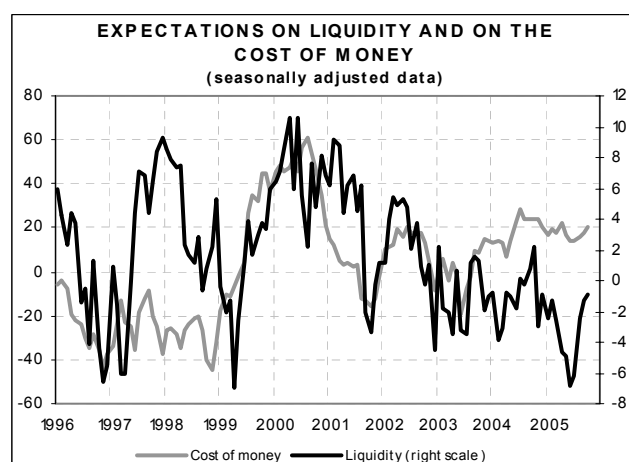
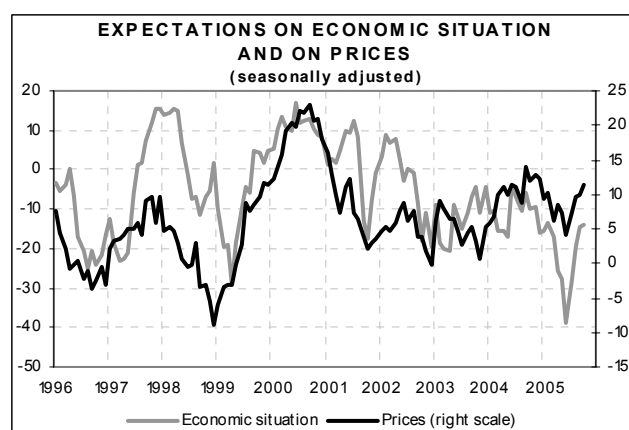
In October, ISAE respondents are more optimistic on their main firm variables and on the general economic situation. From a financial viewpoint, their forecasts on the cost of money are growing while those on liquidity remain stable.

The balances of order-book and production expectations rise from 13 to 16 and from 13 to 14 respectively. Furthermore, firms expect a slight employment rise in the next few months (the raw balance passing from -7 to -6) and a selling price growth (the balance increasing from 10 to 12, which is a peak in 2005) maybe due to the energy price rises. Expectations on firm liquidity are stable at -1, while those on the cost of money rise from 17 to 21. Forecasts on the country's general economic situation show a further improvement (which is the fourth in a row) and pass from -15 to -14, which is the best score since February.

Forecasts are rather homogeneous among the various sectors. In investment goods, the balance of order-book expectations rises from 12 to 14, the one on production falls from 15 to 14, the one on prices grows from 9 to 13 and the balance of the overall economic prospects decreases from -19 to -21. Furthermore, firms operating in this sector expect a rise in employment (the raw balance passing from -7 to 1) and in the cost of money (from 17 to 25). Expectations in consumer goods considerably improve in order books (from 17 to 24) and in production (from 13 to 18), while selling prices grow from 9 to 13. Conversely, expectations on the general economic situation worsen (from -13 to -17) and the cost of money is expected to rise in this sector too (from 12 to 17), while the employment trend remains stable at -4. In intermediate goods, expectations on order books are stable at 11, while those on production equal 9. Quite the reverse, expectations on the general economic situation improve (from -22 to -19). Indeed, intermediate goods operators forecast a worsening in their employment situation (from -10 to -11) and a rise in the cost of money (from 18 to 21).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
July 2005	86.7	-19	9	11
Aug. 2005	87.8	-16	9	12
Sept. 2005	89.3	-13	7	13
Oct. 2005	89.5	-15	7	14

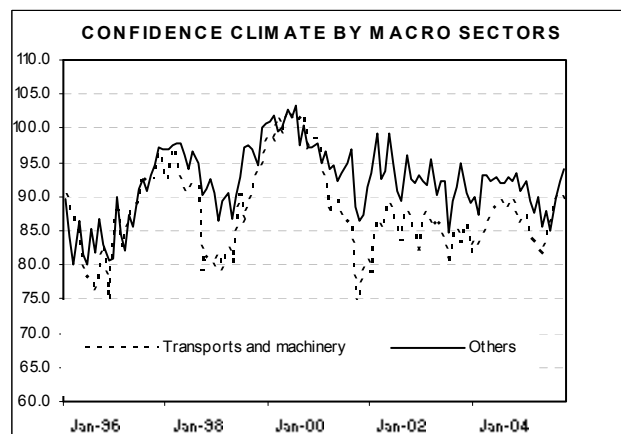
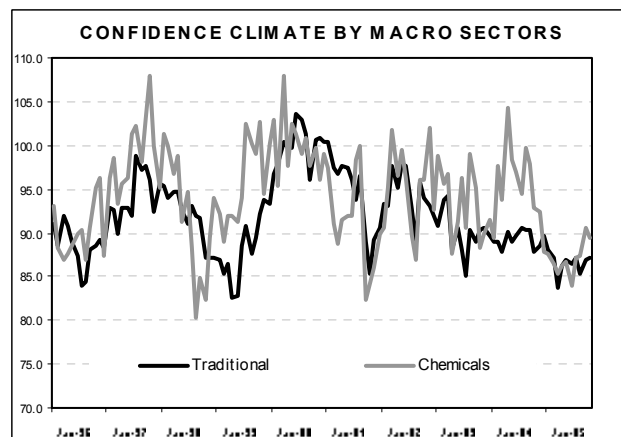
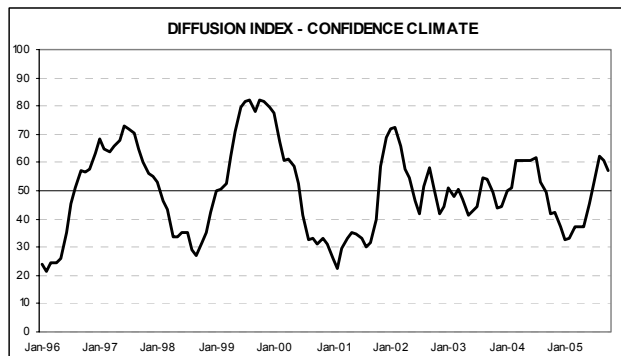


**Focus. The confidence recovery in the past quarter: a deepening by sector**

In May 2005, the manufacturing firms' confidence reached a trough, equalling 84.7; between June and October, the index rose up to 89.5 and then increased for five months in a row, thus getting close to figures of twelve months before. The recovery is common to most sectors: the diffusion index computed by ISAE on 56 ATECO Groups (see the September Monthly Note) rose from 37.5 in May to 57 in October, which is far beyond the threshold worth 50 dividing expansion from contraction phases in the manufacturing sector.

What follows is an analysis of the confidence trend of 4 macro-sectors: the first comprises the most "traditional" sectors of the industrial activity (foodstuff, drinks and tobaccos, textiles and clothing, leather and shoes); the second involves intermediate goods sectors (chemicals, rubber, plastics); the third comprises machinery and means of transportation and the fourth one includes sectors such as wood-paper, publishing-press and sundry manufacturing sectors (such as furniture).

The confidence recovery of the past few months was particularly marked in sectors producing machinery and means of transportation and the index jumped from 81.5 in May to 90.9 in September and then came to a stop in October (89.2). Also in sundry manufacturing sectors (comprising wood-paper, publishing and press), confidence grew from 85.7 (May) to 94 (October). Conversely, the confidence growth in the traditional sectors and in chemicals-rubber-plastics was smaller. In the former sector the indicator oscillated between 85.4 (August) and 87.2 (October, thus showing a weak recovery only in the last two months. In chemicals-rubber-plastics, confidence rose from 86.7 (May) to 90.6 (September) and then fell again to 89.5 (October), thus getting close to figures more similar to the average values of the first half of the year.



## The main quarterly Survey results

### (Q3 2005)

According to the traditional quarterly surveys referring to Q3 2005, ISAE respondents provide partially contradictory information on the present situation and on their future prospects of production and demand. Indeed, on the one side, new order books increase (from -4 to -1), as does the number of worked hours (from -5 to -2) and – to a smaller extent – the degree of plant utilisation (from 75.9 to 76). On the other side, the share of firms considering their present productive capacity level “more than sufficient” is increasing (from 27 to 30, in terms of balance), while the ensured production length is decreasing from 3.3 to 3 months. Production obstacles are relevant for 43.7% of respondents – more than in Q2 – which indicate financial constraints and other reasons as their main production-hampering obstacles. Turning to competitiveness, the (raw) balance referring to the competitive stand is improving with reference to both domestic competition (from -4 to 0) and to competition towards the EU (from -6 to -4) and towards non-EU countries (from -11 to -7). However, for the next quarter, respondents expect a further worsening in their export volume, the balance of which falls from 7 to 6.

Finally, the balance of inventories of raw materials and semi-finished products decreases from -7 to -8, probably because of the price trend.

