



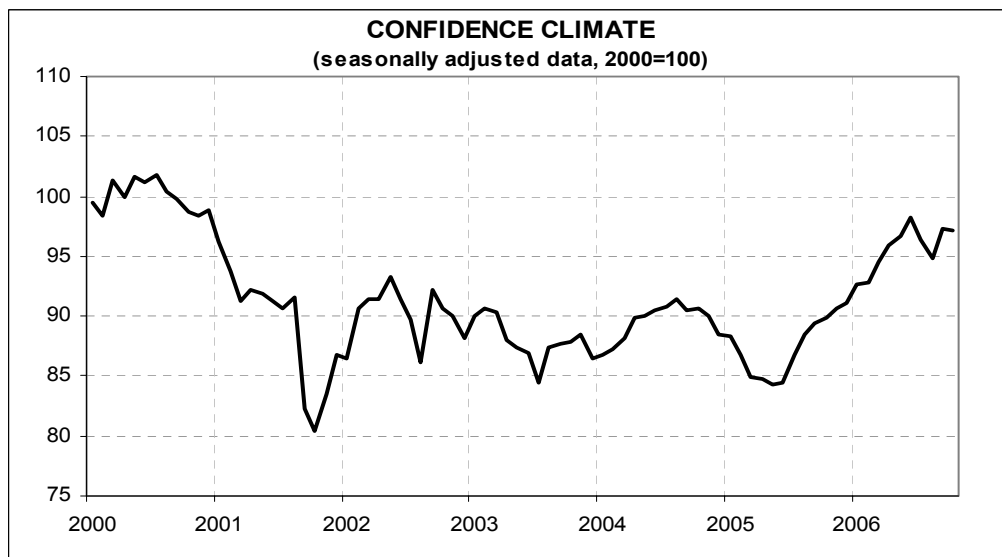
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TEL.: 06/444821

IN OCTOBER MANUFACTURING FIRMS' CONFIDENCE REMAINS VIRTUALLY STABLE

- The seasonally adjusted confidence index (2000=100) stood at 97.1 (compared to 97.3 in September), remaining about one point above its third quarter average level
- The opinions on current orders slightly improved, but production expectations worsened somewhat and inventories started to rise once more
- Short-term prospects for the overall economic trend abruptly deteriorated, in a situation also characterized by a further rise in expectations for industrial selling prices
- Stability for the overall index was nevertheless the result of diverging trends at industry and regional levels: for investment goods, producers' confidence bounced from 95.3 to 98.8, nearing the record posted in the spring and summer of 2000; instead, the index considerably worsened in the consumer goods sector (to 97.9 from 100.1 in September), and was virtually unchanged in the intermediate goods one (at 95.4, compared to 95.6)
- At the regional level, the indicator increased in the North East (from 96 to 96.7) and the Centre (from 99.7 to 99.9), and declined, instead, in the North West (from 98.3 to 97.8) and the *Mezzogiorno* (from 96.9 to 96.1)

INDUSTRY PLANT UTILIZATION STAYS AT ITS HIGHEST LEVEL SINCE THE START OF 2001

- However, work hours slightly declined and the length of production assured by current order books stabilized
- Firms continued to report a substantial flow of new orders, forecasting, though, for the following months a less robust performance for the volume of exports
- Furthermore, both the share of firms that considered the level of current operating capacity to be "more than sufficient" (i.e. excessive) and the proportion of those perceiving "significant obstacles" to production declined
- Finally, firms clearly improved the evaluation of their "competitive position" on both the domestic and EU markets, and, above all, on non-EU markets



Data on November shall be released on November 23

The next ISAE surveys are scheduled as follows:

October 30: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: October); ISAE Monthly Business Services Survey (reference period: October) and ISAE Monthly Survey on Construction (reference period: September)

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

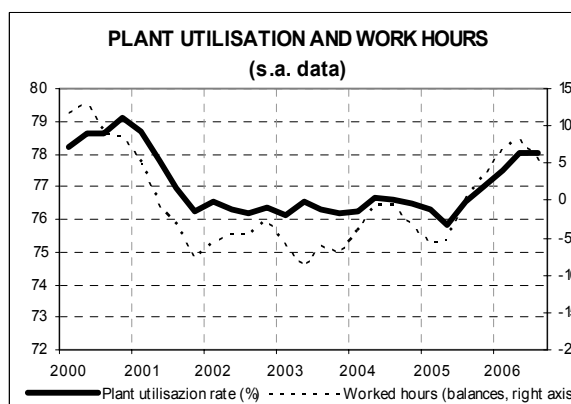
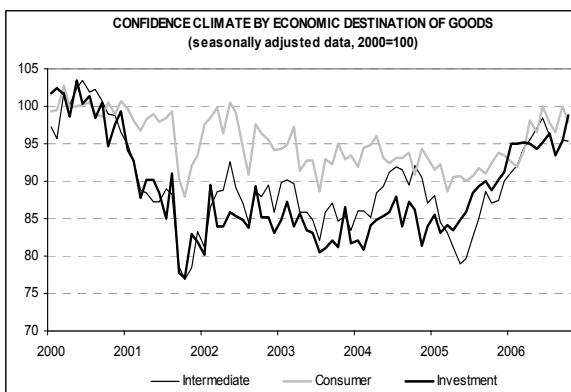
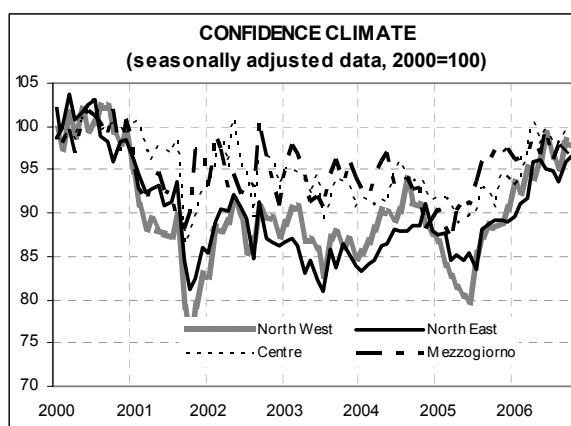
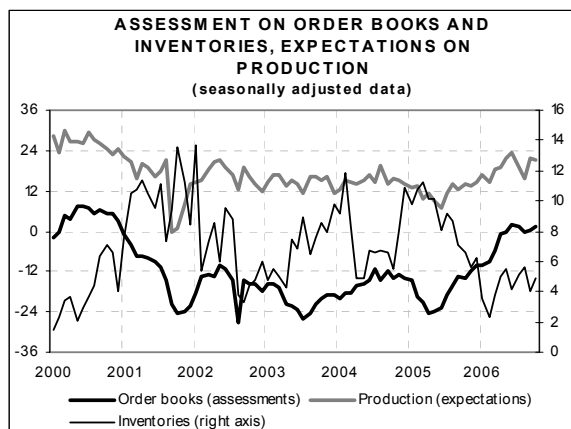
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between October 2 and October 20, pointed to stability in the seasonally adjusted confidence index of manufacturing and mining firms. In October, the indicator remained virtually unchanged at 97.1, compared to 97.3 in September: the assessment on current orders edged up, whereas production expectations declined, and inventories began to build up once more. However, firms started again to be more pessimistic about short-term prospects for the Italian economy, in a situation also characterized by expectations of an increase in industrial selling prices.

Virtual stability for the overall index was, nevertheless, the result of diverging trends at industry and regional levels. For investment goods, producers' confidence reached 98.8 (from 95.3), moving close again to the record posted in spring and summer of the year 2000. The index declined instead from 100.1 to 97.9 in the consumer goods sector, and remained stable in the intermediate goods one (at 95.4, compared to 95.6 in September). At the regional level, the index rose in the North East (from 96 to 96.7) and the Centre (from 99.7 to 99.9), and decreased, instead, in the North West (from 98.3 to 97.8) and the *Mezzogiorno* (from 96.9 to 96.1).

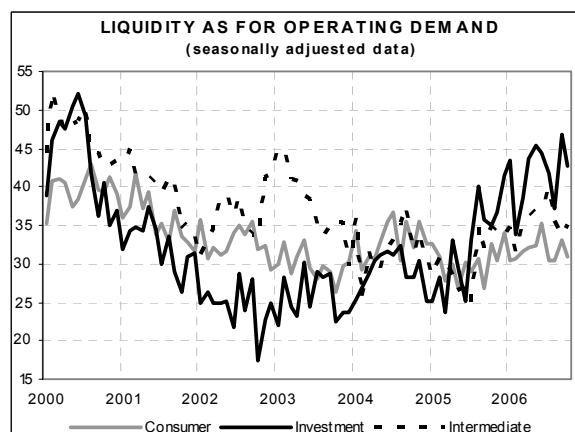
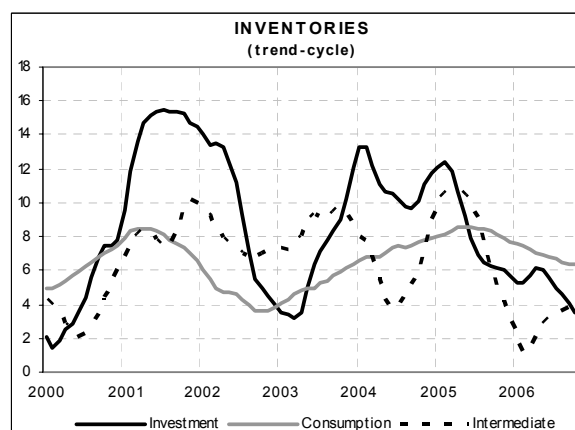
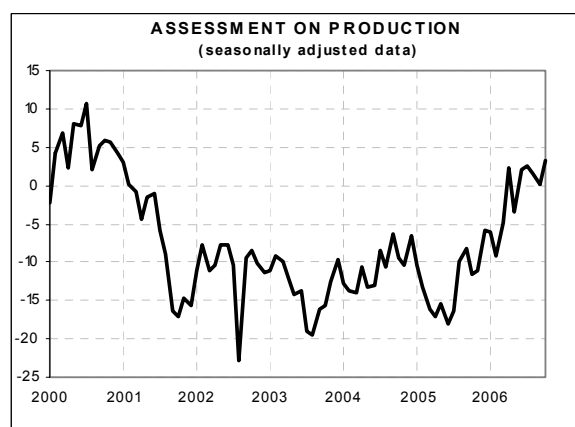
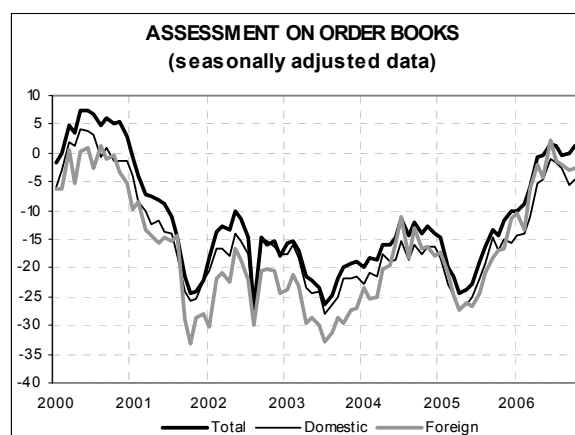
According to the traditional ISAE quarterly survey, plant utilization remained at its highest level since the first quarter of 2001. The share of those considering the level of current operating capacity to be more than sufficient also lowered. Work hours, instead, slightly declined, and the days of production assured by current order books stabilized. The flow of new orders remained high, even though forecasts for export volumes were scaled down. Lastly, obstacles to production declined and the firms' perception of their own competitive position improved both for EU markets and mainly for non- EU ones.



Situation in the reference period (October 2006)

The evaluation of current demand improved somewhat, and the overall balance turned positive again (moving to 1 from 0 in September). Nonetheless, the underlying balances for both domestic and foreign markets stayed the same (at -5 and -3, respectively). The level of production started to rise once more (to 3 from 0), but also inventories increased (to 5 from 4). Lastly, the ratio of available liquidity to operational requirements remained unchanged (the related balance stood at 36, compared to 37 in September).

However, diverging trends emerged at the industry level: the opinions on orders actually bettered markedly in the investment goods sector, where the overall balance surged from 1 to 12, reaching the highest level since September 2000, due to a strong improvement in both domestic and foreign markets (the related balances rose from -4 to 2 and from -3 to 4, respectively). In this sector, the evaluation of the level of production improved as well (from 8 to 10, the best result since November 2000) and the level of inventories declined (from 3 to 2), notwithstanding a moderate deterioration in available liquidity (from 33 to 31). For consumer goods, instead, the balance for orders lowered from -3 to -4, because of the worsening in the assessment on domestic demand (from -7 to -9) and of stability, at negative levels (-10), for foreign demand. Producers of consumer goods also pointed to a new build up in stocks (from 5 to 7), a decline in liquidity (from 33 to 31) and virtual stability for the level of production (the balance remained negative at -3, compared to -4 in September). Finally, in the intermediate goods sector, orders turned negative again (to -1 from 0), as the result of a slight worsening in the domestic component (from -4 to -5) and a more marked deterioration in the foreign one (from 2 to -3). Yet, in this sector, the current production level and liquidity improved (from -2 to 4 and from 34 to 35, respectively), though inventories started to increase once more (from 4 to 5).



Outlook for the following three months

For the following months, firms were comparatively less optimistic both about expectations for the trend of main company variables and, especially, about the general prospects for the Italian economy. Instead, they did not change their forecasts for the employment trend.

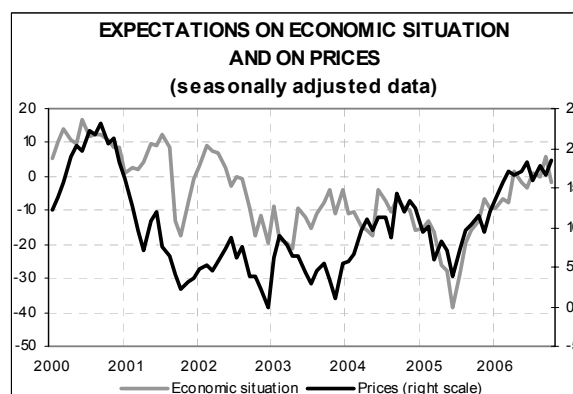
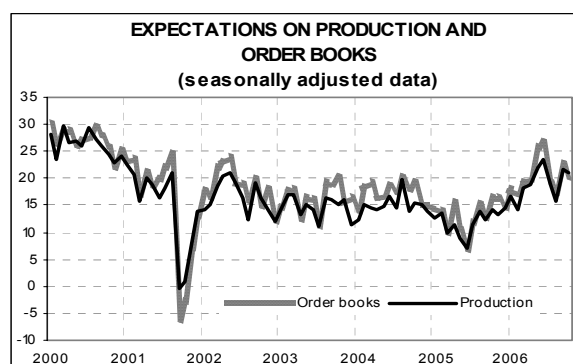
The balances referring to expectations for production, orders and liquidity respectively moved from 22 to 21, from 22 to 20 and from 5 to 2 compared to September. Furthermore, the share of respondents anticipating a rise in industrial selling prices in the following three months increased (the balance rose from 17 to 19) and general expectations for the Italian economy markedly deteriorated (the balance lowered to -2 from -6, going back in negative territory for the first time since last June). Employment forecasts (seasonally adjusted by ISAE starting from this month) remained, instead, unchanged: the related balance stood at 4, as in September.

For consumer goods, production and order expectations declined to 19 and 22 respectively (from 24 for both variables). Predictions for the Italian economy, employment and liquidity worsened, in the order, from 6 to -6, from 1 to -1 and from 8 to 0. In this sector, the balance referring to the forecasts for selling price inflation declined instead slightly (from 11 to 10). For investment goods, firms' expectations on orders improved instead (from 21 to 23), and those on production stayed the same at a high level (22). Also in this case, entrepreneurs anticipated a less strong rise in selling prices (the balance rose to 16 from 14), but were more pessimistic about general economic prospects (the balance lowered from 12 to 4, nearing, also in this case, the low level posted in June). Expectations for company liquidity declined slightly (from 3 to 1), and employment prospects remained virtually stable (the balance moved to 10 from 11). Lastly, for intermediate goods, expectations for orders worsened (to 18 from 22) as well as those for the general economic situation (from -2 to -14, in this case the lowest level in the last twelve months).

Furthermore, selling price expectations increased strongly (from 20 to 27). However, firms remained optimistic about production prospects (the balance stood at 20, as in the previous month) and continued to anticipate a slight increase in employment (the balance moved to 3, marginally higher than in September) and in company liquidity (the balance stayed at 1, as in September).

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

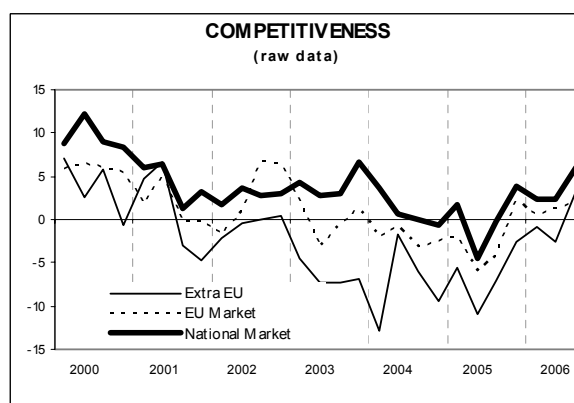
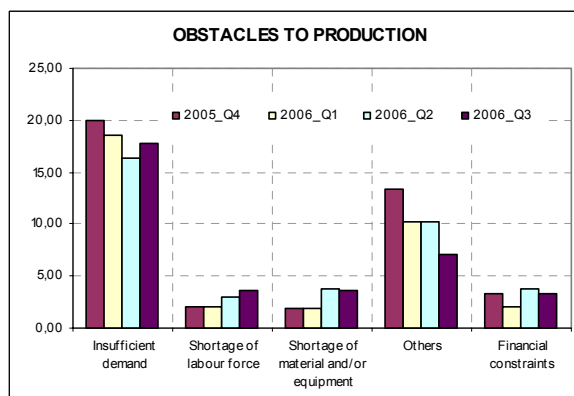
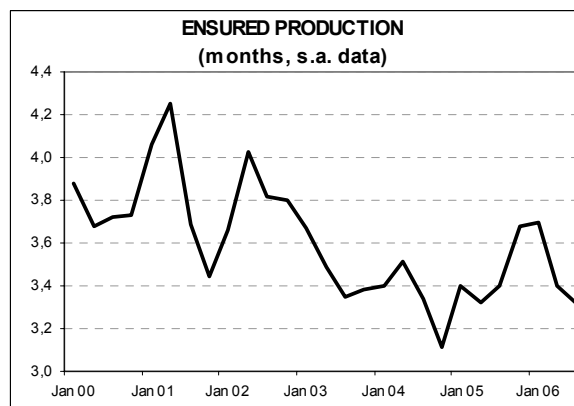
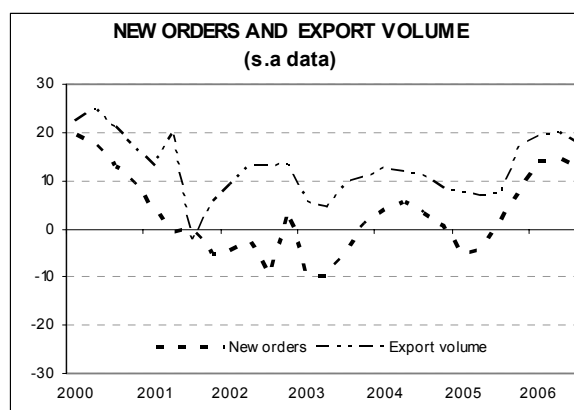
	Confidence climate	Order-book level	Inventories	Expectations on production
Ago. 2006	94,9	0	6	16
Sept. 2006	97,3	0	4	22
Oct. 2006	97,1	1	5	21



Main quarterly survey results (third quarter 2006)

As indicated by the traditional ISAE quarterly survey, in the third quarter of 2006 the rate of industry plant utilization stabilized at 78, its highest level since the first quarter of 2001. In this respect, prospects were also favourable: the balance for capacity utilization developments declined (this variable is generally negatively correlated with the dynamics of the economic cycle). Accordingly, the opinions on the flow of new orders levelled out at a high value (moving to 13 from 14), though expectations on the volume of exports declined somewhat (the balance lowered from 20 to 17). The share of respondents lamenting the existence of obstacles to production shrunk as well: the decline may be traced in particular to the item “other factors”. Among other obstacles, the relevance of insufficient demand increased slightly, as well as the one of labour shortage, a possible signal of the existence of some pressures in the labour market. However, a decline characterized the number of work hours (the balance lowered from 8 to 5) and the length of production assured by current order books (to 3.3 months, compared to 3.4 months in the previous quarter). Firms also reported virtual stability for inventories of raw materials and semi-finished products (the balance stood at -8, like in the second quarter).

As for competitiveness, the position of Italian firms improved both on the domestic (from 2 to 6 for the raw balance) and on the European Union markets (from 1 to 2) and, above all, on the non-European Union ones (from -3 to 3).



Regional breakdown of ISAE survey results

In October, the slight decrease in confidence recorded at the national level mirrored diverging trends across regions: the seasonally adjusted index improved in the North East (from 96.0 to 96.7) and the Centre (from 99.7 to 99.9), while it worsened in the North West (from 98.3 to 97.8) and the *Mezzogiorno* (from 96.9 to 96.1). The improvement in the assessment on orders was widespread, whereas the opinions on inventories of finished products and the expectations for production sent contrasting signals.

North West

The indicator declined toward the average level posted in the period May-September. The slight improvement in the opinions on orders (which characterized only the domestic market) and the decline in inventories were more than offset by the negative indications coming from production expectations.

North East

Confidence reached one of the best results since 2001. The recovery was basically related to the rise in orders, which came along with an improvement in production expectations (toward the highest level since April 2002). Inventories sent, instead, negative signals.

Centre

Confidence neared May's record level, owing to the clear improvement in orders (characterizing only foreign markets), which more than compensated the slight deterioration in production expectations (the latter variable remained close to the average of the last few months).

Mezzogiorno

Confidence fell towards the level posted last July: according to surveyed firms, orders were clearly rising (both in domestic and foreign markets), but greater pessimism characterized expectations for the level of production. Finally, the share of entrepreneurs considering inventories above normal levels continued to outnumber the proportion of those viewing them below, and the related balance rose with respect to the previous month.

