



Date: October 24, 2007

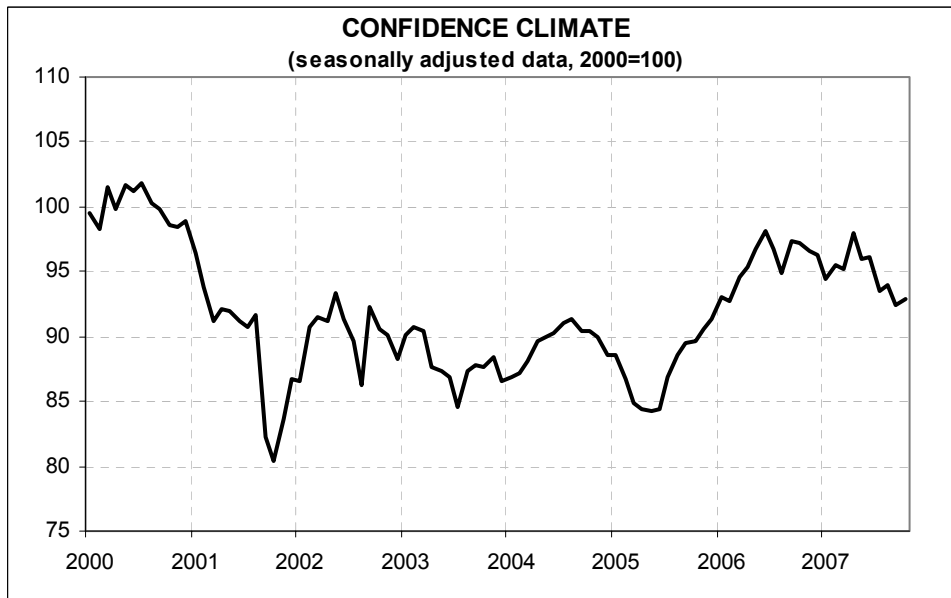
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MANUFACTURING FIRMS' CONFIDENCE RECOVERS IN OCTOBER

- The seasonally adjusted confidence index (2000=100) increased to 92.9 from 92.4 in the previous month, remaining however below its third quarter average
- Following three months of stability, production expectations resumed their upward trend and inventories remained unchanged. However, the international economic slowdown and the further appreciation of the euro negatively affected order books, mainly with regard to opinions on foreign orders in the final demand goods industry (consumer and investment goods)
- However, the trend at the aggregate level was the result of markedly diverse developments across both sectors and areas. For the second month running, confidence declined for investment goods (from 96.2 to 94.6) and remained virtually stable for consumer goods (at 92.5, compared to 92.6 in the previous month). It recovered instead in the intermediate goods sector (from 89.7 to 91.7)
- As for the regional breakdown, the index worsened in the North West and the Centre (from 93.9 to 93 and from 92.1 to 91.1, respectively), improved in the North East (from 90 to 93.2) and held steady in the *Mezzogiorno* (at 96)

IN THE 3Q 2007 PLANT UTILIZATION DECREASES

- The rate of capacity utilization came in at 77.4% (compared to 78.1% in the second quarter), the lowest level since the fourth quarter of 2004. The length of production assured by current order books and expectations for the trend in productive capacity remained stable
- The ongoing international economic slowdown and the trend in the exchange rate also caused a reduction in the flow of new orders and in the volume of exports, a fall in work hours, and an increase in constraints limiting production (mainly, demand shortage and "other factors")
- Firms' perception of their competitive position remained stable, in the presence of a deterioration in domestic and EU markets and of a slight improvement (though at negative levels) in non-EU ones



Data on November shall be released on November 27, 2007

The next ISAE surveys are scheduled as follows:

October 25: 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)

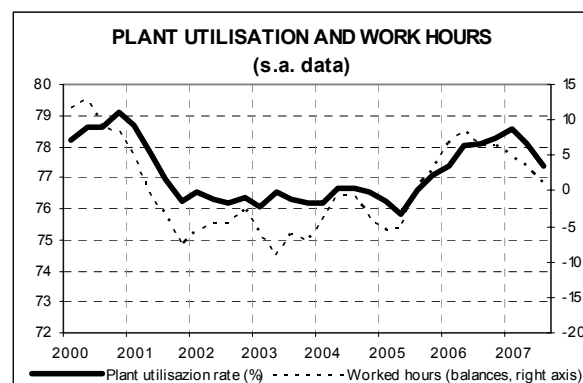
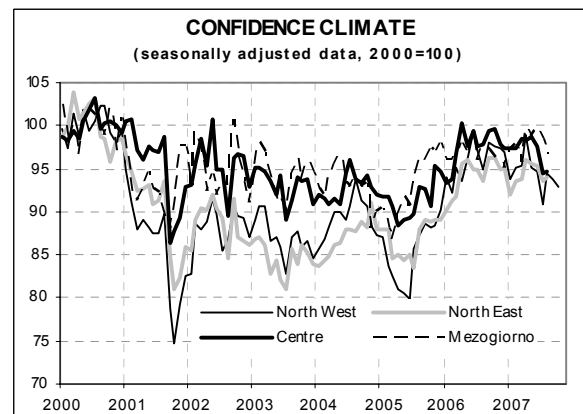
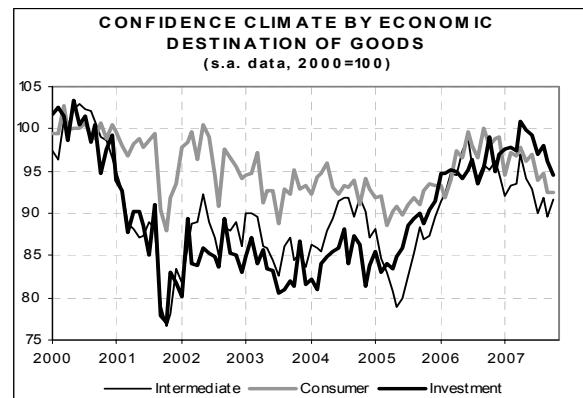
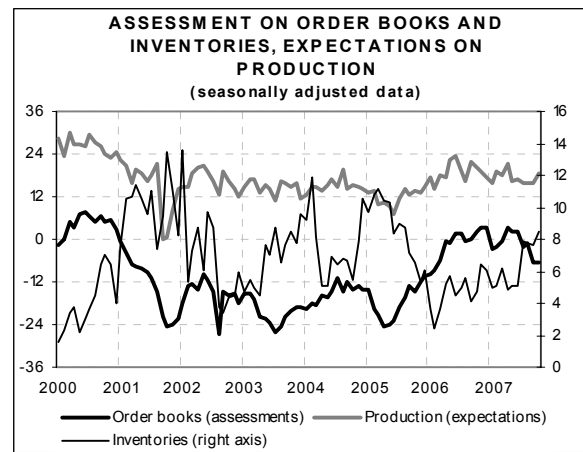
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

The ISAE Survey, carried out on a panel of about 4000 firms between October 1 and October 17, pointed to a recovery in the seasonally adjusted confidence index of manufacturing and mining firms. In October, the indicator increased to 92.9 from 92.4 in the previous month, remaining however slightly below its third quarter average value. The improvement was mainly attributable to the recovery in production expectations. In contrast, assessments on the level of inventories remained unchanged and the opinions on the state order books worsened further.

The trend at the aggregate level was the result of markedly diverse developments across both sectors and areas. For the second month running, confidence declined for investment goods (from 96.2 to 94.6) and remained virtually stable for consumer goods (at 92.5, compared to 92.6 in the previous month), but recovered instead in the intermediate goods sector (from 89.7 to 91.7). As for the regional breakdown, the index worsened in the North West and the Centre (from 93.9 to 93 and from 92.1 to 91.1, respectively), improved in the North East (from 90 to 93.2) and held steady in the *Mezzogiorno* (at 96).

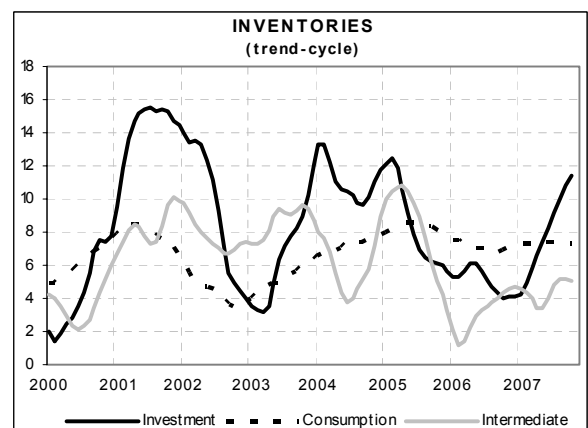
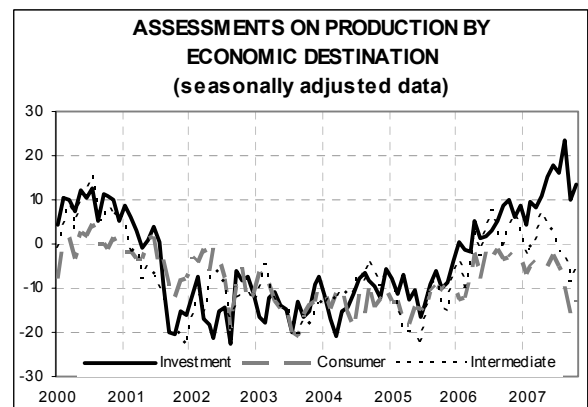
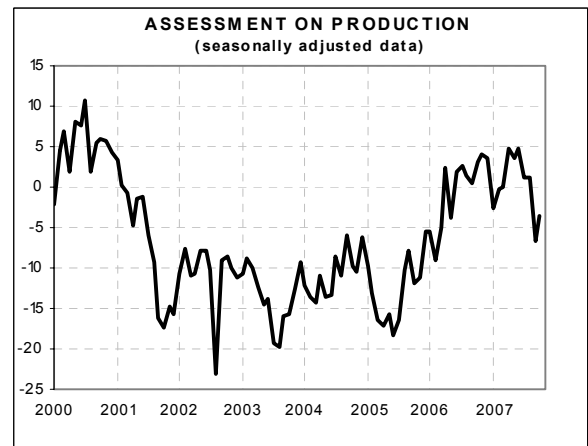
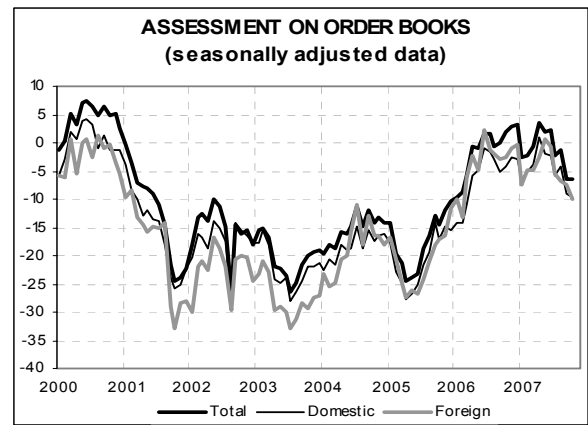
The traditional ISAE quarterly survey on operating capacity gave generally negative indications. The plant utilization rate stood at 77.4% (78.1% in the second quarter), its lowest level since the fourth quarter of 2004. The length of production assured by current order books and expectations for the trend in productive capacity remained stable instead. However, firms indicated a new drop in the flow of new orders and in the volume of exports, a fall in work hours and an increase in constraints limiting production. Lastly, firms' perception of their competitive position remained stable, in the presence of a deterioration in domestic and EU markets and of a slight improvement in non-EU ones.



Situation in the reference period (October 2007)

In October, firms' evaluation of the trend in orders continued to worsen, but the opinions on production recovered: the balance for total orders diminished from -6 to -7, in the presence of a fall in the domestic market (from -9 to -10) and, above all, in foreign markets (from -7 to -10). The opinions on company liquidity worsened as well (from 34 to 33). Nevertheless, assessments on the current level of production recovered (from -7 to -3) and inventories held steady for the fourth month in a row (the balance stood at 8).

Above all, producers of investment goods pointed to a worsening in demand (the balance diminished from 11 to 8), mainly due to the negative trend in the foreign component (the balance lowered from 2 to -3, going back in negative territory for the first time since November 2006; domestic demand lowered from 11 to 9). In this sector, also inventories started to increase once more (the balance rose from 11 to 14) and company liquidity declined (from 38 to 35). Production levels recovered instead from 10 to 14. For consumer goods, the opinions on demand remained negative, though they recovered moderately over the previous month (the balance rose from -18 to -16). The evaluation of domestic orders recuperated (from -21 to -18), but the one regarding foreign markets deteriorated further (from -14 to -19). Company liquidity and inventories stayed virtually stable (moving from 27 to 26 and from 7 to 8, respectively), while the level of production recovered instead (from -16 to -13). Lastly, in the intermediate goods sector, the opinions on orders were basically unchanged (the overall balance moved from -8 to -9; the one for the domestic market also stabilized at -11, while the balance for foreign markets lowered somewhat, moving from -8 to -9), whereas the opinions on productions showed signs of recovery (from -9 to -6). Finally, the level of company liquidity and of inventories diminished (from 6 to 3 and from 6 to 5, respectively).



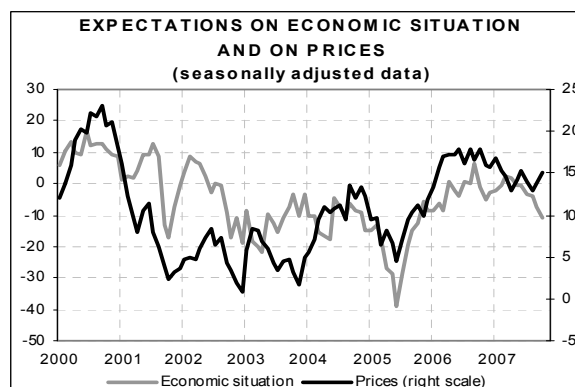
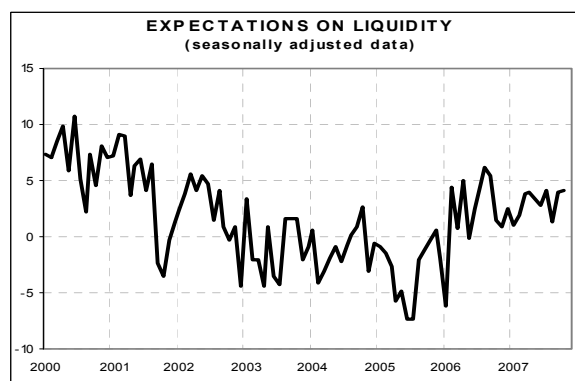
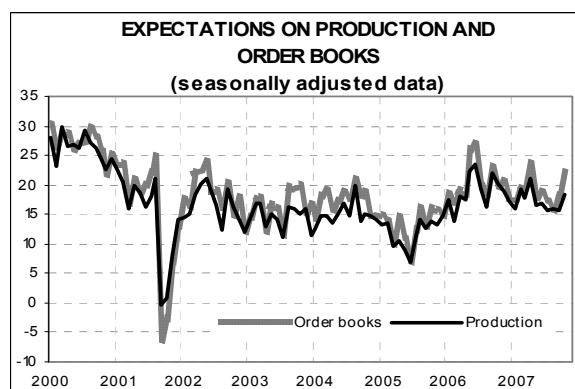
Outlook for the following three months

Forecasts for the trend in main company variables improved relative to the previous month, but companies markedly scaled down their expectations for the general economic trend and for labour market developments. More in detail, following three consecutive months of stability, the balance for production expectations increased from 16 to 18. The balance for orders expectations rebounded from 18 to 22, reaching the highest level since last April. Nevertheless, firms planned to further increase selling prices (the balance rose from 14 to 15), while they expected stability for liquidity (the balance stayed at 4, as in September). However, the balances for employment developments and for the trend in the Italian general economic situation declined (from 2 to -1 and from -7 to -11, respectively). At the industry level, producers of consumer goods stepped down their expectations for demand (from 20 to 19), production (from 17 to 15), company liquidity (from 6 to 3) and employment (from 2 to 0). Inflation expectations remained stable (at 15) and those for the overall economy plummeted (from -7 to -18). In the intermediate goods sector, favourable indications prevailed instead: demand and production expectations reached the highest value in the last five months (rising, in the order, from 13 to 20 and from 11 to 17) and those for employment and liquidity remained basically unchanged (at -3 and 0 respectively, from -2 and 0). Nevertheless, new signs of inflationary

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

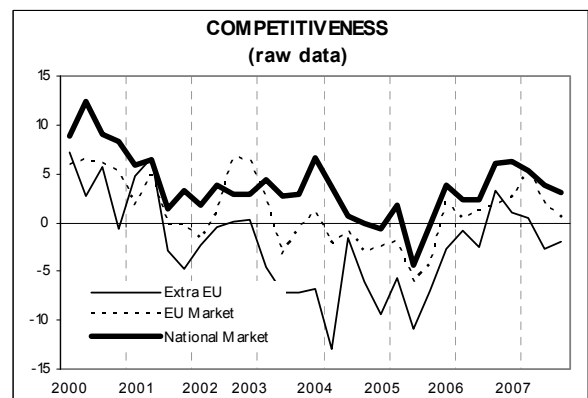
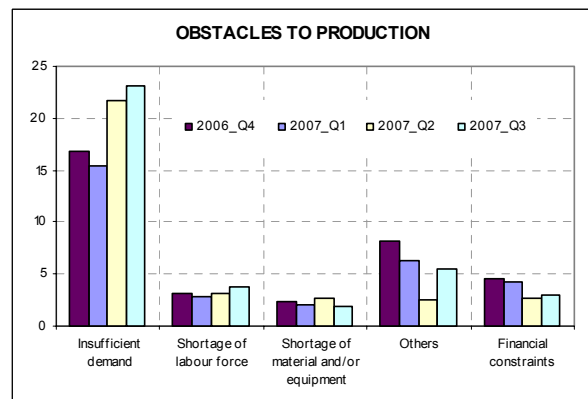
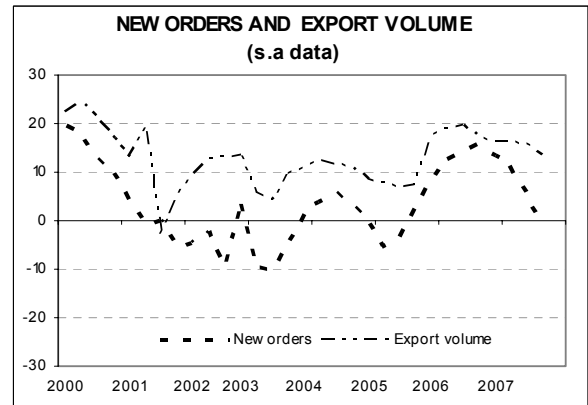
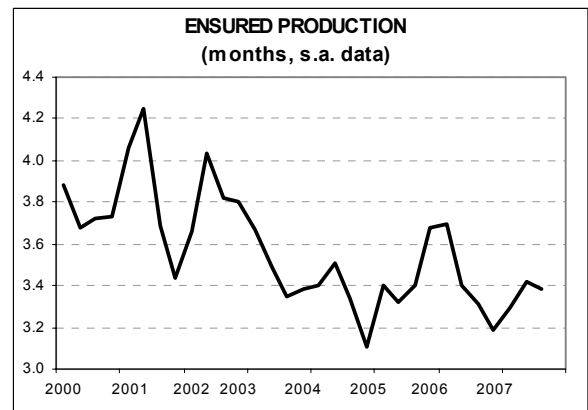
	Confidence climate	Order-book level	Inventories	Expectations on production
July	93.5	-2	8	16
August	94.0	-1	8	16
September	92.4	-6	8	16
October	92.9	-7	8	18

pressures emerged (the balance related to expectations for selling prices increased from 12 to 17) and prospects for Italy's general economic situation deteriorated (from -14 to -20).



Main quarterly survey results (third quarter 2007)

According to the traditional ISAE quarterly survey, in the third quarter of 2007, operating capacity declined from 78.1% to 77.4%, hitting the lowest level since the fourth quarter of 2006. The length of production assured by current order books remained stable at 3.4 months, but the number of work hours declined (the related balance lowered from 3 to 1) and the flow of new orders abruptly diminished (the balance fell back from 6 to -1). The number of firms indicating the existence of factors limiting productive activity actually increased (from 31% to 33% of the total), mainly due to insufficient demand and “other factors”. The latter obstacles were probably related to the further appreciation of the euro against the US dollar. The trend in the euro/dollar exchange rate could also explain the deterioration of Italy’s competitive position in domestic and EU markets (from 4 to 3 and from 2 to 0, respectively) and the lingering, in negative territory, of competitiveness in non-EU markets (the balance moved from -3 to -2). As for short-term forecasts, firms were less optimistic, compared to the previous quarter, about prospects for the volume of exports (the balance declined from 16 to 14), while the evaluation of the short-term trend in productive capacity remained unchanged (at 22). Lastly, the balance for inventories of raw materials and semi-finished products decreased (to -6 from -5).



Regional breakdown of ISAE survey results

The improvement in confidence at the national level was the result of diverging trends across areas: the index worsened in the North West and the Centre (from 93.9 to 93 and from 92.1 to 91.1, respectively), improved in the North East (from 90 to 93.2) and remained basically unchanged in the *Mezzogiorno* (at 96). Production expectations generally improved in the North and the *Mezzogiorno*, while the opinions on orders and inventories sent instead contrasting signals. Lastly, the rate of plant utilization posted negative results, falling in all geographic areas.

North West

In October, the confidence climate indicator worsened for the second straight month, remaining nevertheless at the average level posted in the last four months. The worsening was mainly prompted by sharp restocking of inventories of finished products. Production developments sent instead positive signals. Finally, firms considered the capacity utilization rate to be declining for the second consecutive quarter.

North East

Entrepreneurs' confidence improved once more, reaching the February-March 2007 average level. The recovery was essentially related to an improvement in production expectations, which came along with a de-stocking of inventories of finished products. In this case, the opinions on orders sent negative signals worsening for the second month running. Lastly, plant utilization diminished for the fourth consecutive quarter.

Centre

Confidence of firms in this area deteriorated for the second straight month, posting one of the lowest values since October 2005. The opinions on orders declined (especially regarding the domestic market; foreign orders remained virtually stable) and production expectations deteriorated. Completing this pessimistic picture, the rate of operating capacity declined, reverting to the average level recorded in the third and fourth quarter of 2005.

Mezzogiorno

Confidence remained basically stable, hovering around its July 2006 average value. The balance for the opinions on the level of orders improved (only in domestic markets, while foreign markets slightly worsened), whereas pessimism characterized expectations on the level of production, and inventories built up. Lastly, also in this area, the capacity utilization rate showed a sharp decline.

