



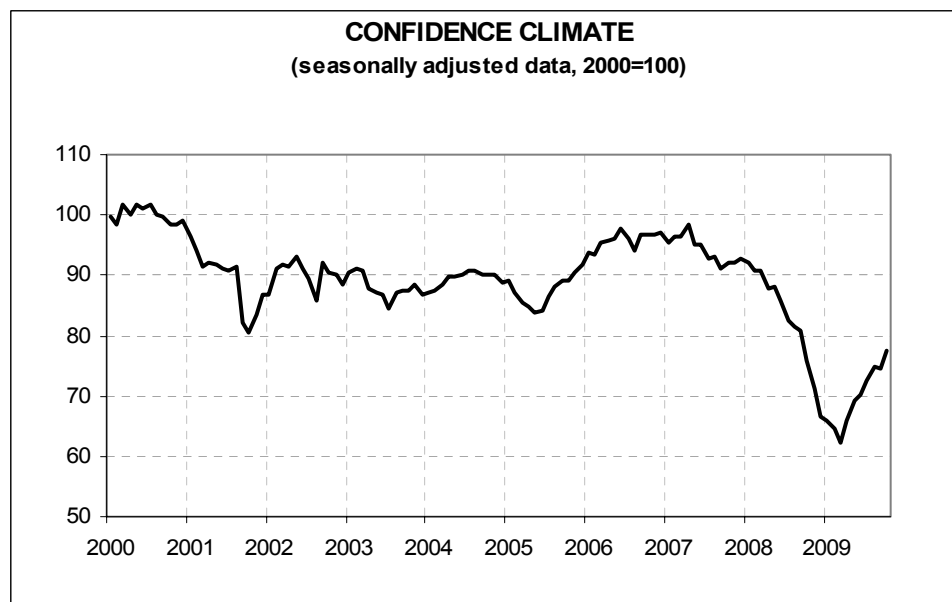
Date: 28 October 2009

MANUFACTURING FIRMS' CONFIDENCE ON THE RISE IN OCTOBER

- The seasonally adjusted confidence index increased to 77.1 (from 74.3), fully recovering the slight decrease of the previous month and reaching the highest peak since September 2008
- The improvement was mainly due to a notable growth in production forecasts and to the de-stocking of inventories. Also, orders moderately increased
- Firms were also less pessimistic with regards to the future economic scenario for the country, and on employment prospects
- At sector level confidence grew across all sectors, but most markedly amongst producers of intermediate and consumer goods (75.7 from 72.3, and 82.7 from 80.5, respectively), while the investment goods sector displayed more caution (69.5 from 68.8)
- Differences emerged at regional level too, with confidence growing more strongly in the North West (from 74.1 to 79.3) and in the *Mezzogiorno* (from 77.3 to 79.4), and more weakly in the Centre (from 79.5 to 80.2), while it dropped slightly in the North-East (from 72.6 to 72.4)
- In October, the share of firms that stated they failed to obtain funding from financial institutions in the past months remained almost unchanged compared to the previous months

IN THE 3Q 2009 OPINIONS ON DEGREE OF USE OF OPERATING CAPACITY ALSO SENT SIGNS OF RECOVERY

- The customary quarterly survey revealed that the degree of use of the industrial plants grew by one point in the third quarter, up to 66.5% from 65.4%. Data, though, was still close to an all-time low
- Number of work-hours also improved
- Firms confirmed a more favourable flow of new orders, and virtual stability on the low level of the length of assured production. Short-term expectations on exports too were relatively more optimistic than in the past



Data on November shall be released on November 26, 2009

The next ISAE surveys are scheduled as follows:

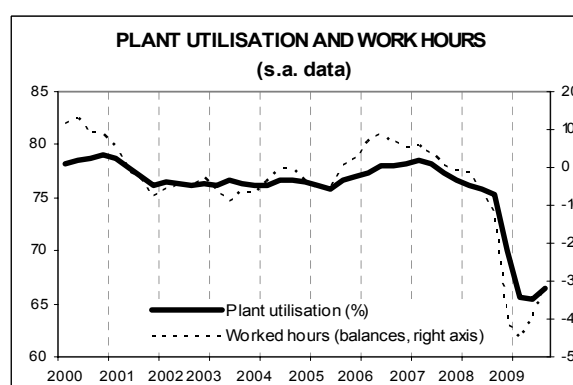
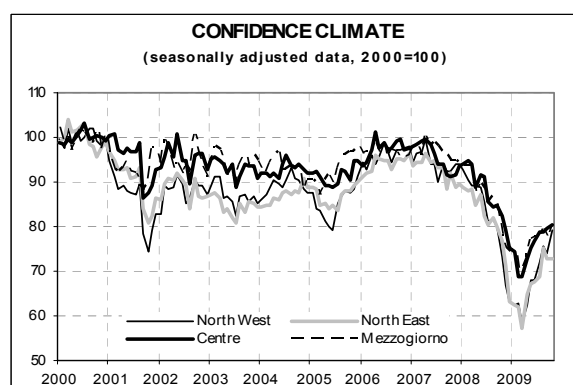
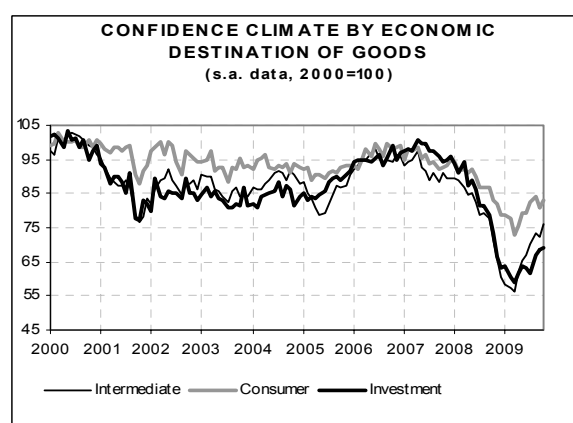
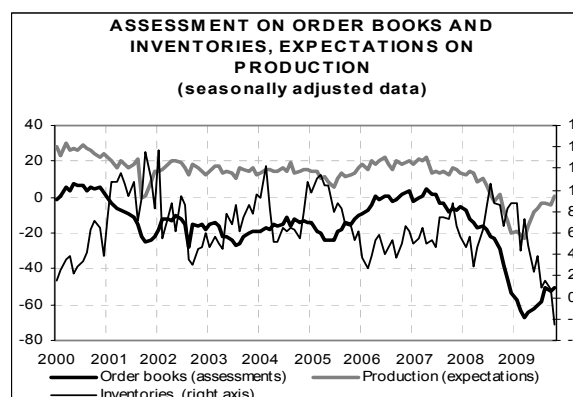
November 25, 2009: ISAE Monthly Consumer Survey (reference period: October)

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

General results

According to the ISAE Survey carried out between October 1 and October 20 on a panel of approximately 4,000 firms, the seasonally adjusted confidence index of manufacturing and extractive firms rose in October from 74.3 to 77.1, after a slight decrease in September. The sharp increase was due to a net recovery of short-term expectations on production and to a de-stocking of inventories. Moderate signs of recovery came from the current state of demand too. Expectations on the country's general economic situation and employment prospects were also less pessimistic. Confidence increased across all main productive sectors, though with different intensity: the index increased from 72.3 in September to 75.7 for the intermediate goods, and from 80.5 to 82.7 for consumer goods, and, lastly, from 68.8 to 69.5 for investment goods. The most significant difference emerged at the regional level: growth was sharper in the North West (from 74.1 to 79.3) and the *Mezzogiorno* (from 77.3 a 79.4), while moderate in the Centre (from 79.5 to 80.2). Confidence decreased moderately in the North East, edging down from 72.6 to 72.4.

The traditional ISAE quarterly survey revealed that the level of capacity utilization recovered from 65.4 to 66.5, which, however, was still close to an all-time low. In addition, the share of firms believing that the level of capacity utilization was "more than enough" shrank. Work-hours increased sharply, while operating days assured by order books remained stable. The flow of new orders was high and, consistently, the forecasts on the volume of exports grew. Obstacles to production decreased slightly, while the perception of the firms' competitiveness within the EU improved slightly.

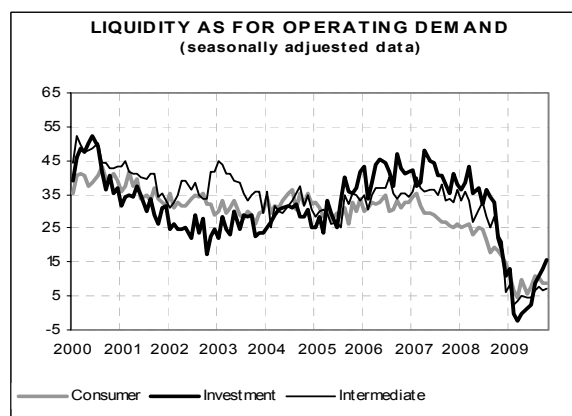
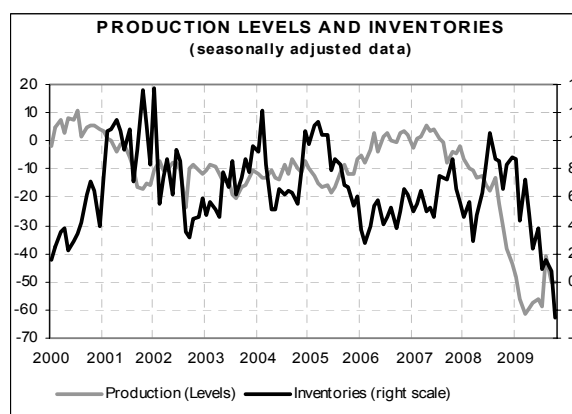
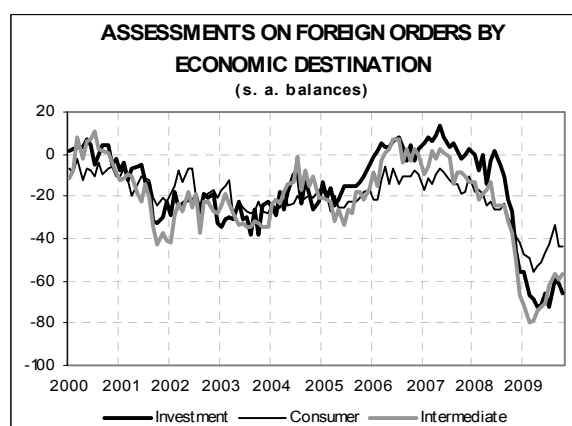
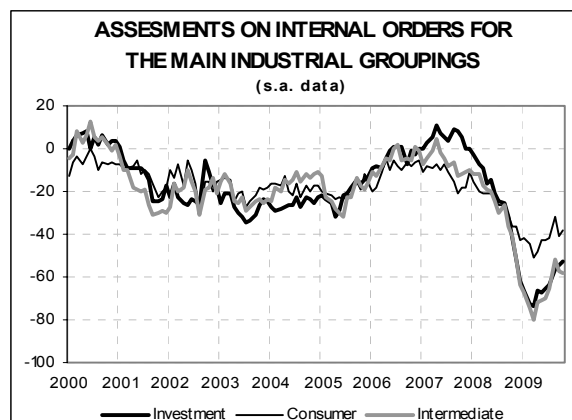


Situation in the reference period (October 2009)

In October, firms indicated a slight improvement of their order books. The balance for the opinions on orders reached -51 (from -52 in September). The balances related to both domestic and foreign demand increased (from -51 to -49, and from -56 to -55, respectively). Opinions on the level of production were stable (-50 the balance), while the balance for company liquidity rose (from 9 to 11). Firms recorded a net de-stocking of inventories, with a higher share of those believing that the stocks were lower than normal than those believing that they were higher than normal. Consequently, for the first time since the beginning of '80s, the balance of the variable became negative (-3 in rough terms, -2 the seasonally adjusted data). A lower than normal stock level normally anticipates a recovery phase of the industrial cycle.

At sector level, investment goods firms reported a slight worsening of orders (with the balance decreasing from -61 to -62), especially of foreign demand (the balance decreased from -61 to -66). The levels of production and of the inventories too remained stable (balance -64 and -1 respectively, the latter as in September). Also company liquidity was considered to have improved (from 13 to 16). Entrepreneurs in the intermediate goods sector were more positive with regards to demand, and opinions on overall orders improved from -40 to -38, with recovery both for domestic demand (from -41 to -38) and for foreign demand (from -44 to -43). Firms in this sector reported, though, a worsening of productive levels (from -34 to -37) and stability for company liquidity, with a moderate decrease of inventories (from 4 to 2). Also, company liquidity was viewed as stable (balance at 9). Expectations of producers of intermediate goods were different. Opinions on orders were stable (-56), thanks to an improvement of foreign demand (from -59 to -56), which more than offset the shrinking of domestic demand (from -58 to -59). Opinions on productive levels improved (from -55 to -54), while stock inventories decreased sharply (from 1 to -6). Lastly,

company liquidity was substantially unchanged (7 the balance).



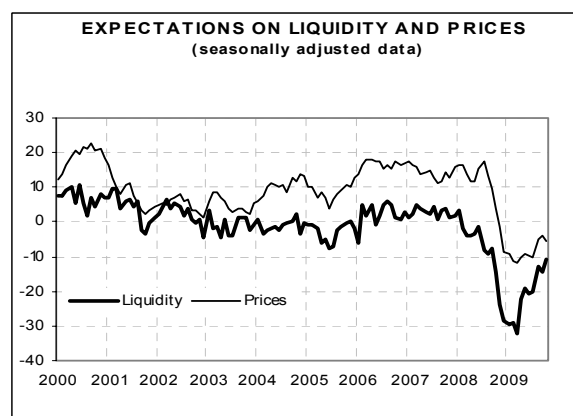
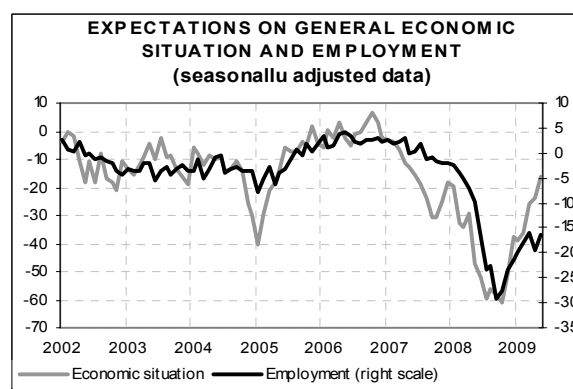
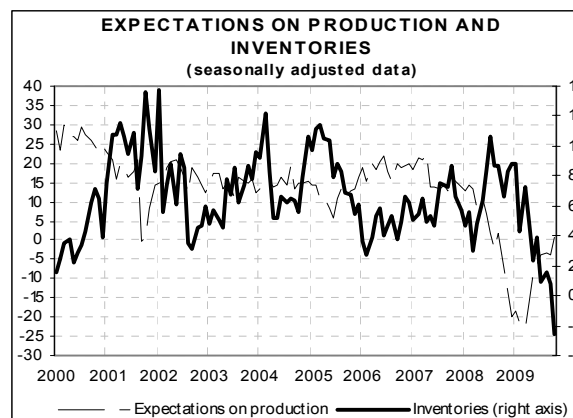
Outlook for the following three months

Firms were more optimistic with regards to all main company variables, and, especially, expectations for the country's economic situation improved. The balance for production expectations rose from -4 in September to 0, while the one for orders grew to 5 (from 0), and the one for liquidity to -12 (from -16). The balance for employment also recovered (from -19 to -16), while that of the firms that expected selling prices to increase shifted from -4 to -5. Predictions on the country's general economic situation clearly recovered (from -23 to -16).

At sector level, investment goods producers' forecasts both for production and for orders improved (from -9 to -6, and from 2 to 8 respectively), as did those for the general economic situation (markedly, from -22 to -18) and on employment (from -19 to -14). Firms in this sector also expected a further drop of selling prices (from -7 to -9), and were not optimistic about company liquidity (from -19 to -20). For producers of consumer goods, forecasts for orders, production, liquidity and country's economic situation were more positive (the related balances rose, in the order, from 0 to 4, from -3 to 1, and from -21 to -16). Entrepreneurs in this sector differentiated themselves from those in other sectors with regards to employment levels, for which they foresaw no change in the forthcoming quarter (-19, as in September), or in selling prices (-4). Forecasts for company liquidity were of recovery (from -12 to -9). Lastly, expectations of producers of intermediate goods noticeably improved too. Expectations for orders and production increased (from -3 to 6, and -5 to 0 respectively). Entrepreneurs expected a reduction of selling price lists (from -3 to -9), and were more pessimistic than others on the prospects for the country's economic situation (from -21 to -25). Despite this, employment and company liquidity prospects posted improvement (from -23 to -19, and from -22 to -20 respectively).

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

	Confidence Climate	Order-book Level	Inventories	Expectations on production
Jul. 2009	72,5	-58	1	-4
Aug. 2009	74,7	-51	2	-4
Sept. 2009	74,3	-52	1	-4
Oct.2009	77,1	-51	-2	0



Regional breakdown of ISAE survey results

The slight improvement in confidence posted at the national level was unevenly spread across the country, but showed a net more optimism in the North West, where the index jumped from 74.1 to 79.3, and in the *Mezzogiorno* (from 77.3 to 79.4). While firms in the Centre were more cautious (from 79.5 to 80.2), in the North East they were slightly pessimistic (from 72.6 to 72.4). The opinions on order books and inventories of finished products sent contrasting signals. Expectations for production were optimistic, except in the North East.

North West

In this area, confidence rose by 5 points on September. The slight improvement in the opinions on orders (from -54 to -53) was spread on overall demand. The de-stocking of inventories (from -1 to -9) was coupled with strongly positive signals from production expectations (from -6 to 2).

North East

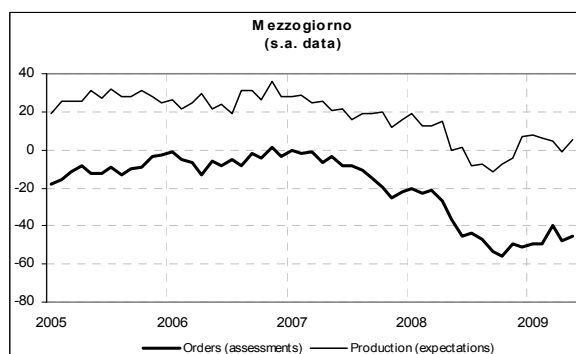
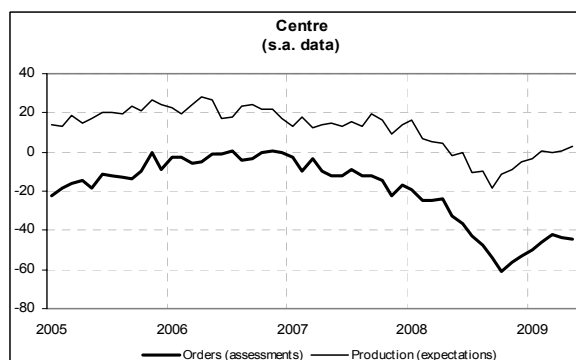
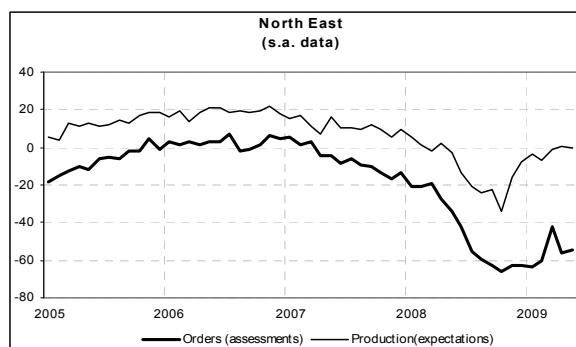
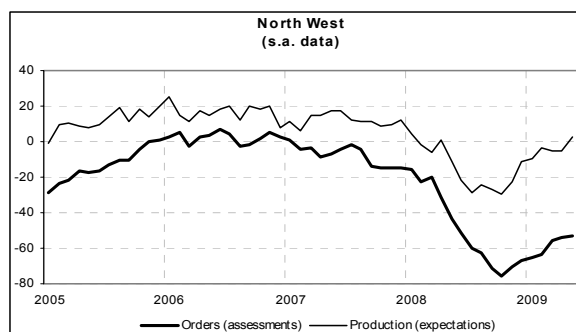
The confidence index showed signs of decline as the moderate increase of orders (from -56 to -55) was compensated by a worsening of production expectations (from -1 to -2) and a stocking of inventories (from 2 to 3).

Centre

The confidence index increased, in spite of the worsening of the opinions on orders, especially of foreign ones (from -44 to -45, and from -44 to -48 respectively). This was a consequence of an improvement in the opinions on production expectations (from 0 to 2), and of unchanged, virtually normal, levels of inventories.

Mezzogiorno

The recovery in confidence returned to the August levels: orders were stable, though there was a sharp increase in foreign demand (from -57 to -55). Production expectations were strongly optimistic (from -1 to 5). Lastly, inventories were stable with respect to the previous month (balance 1).



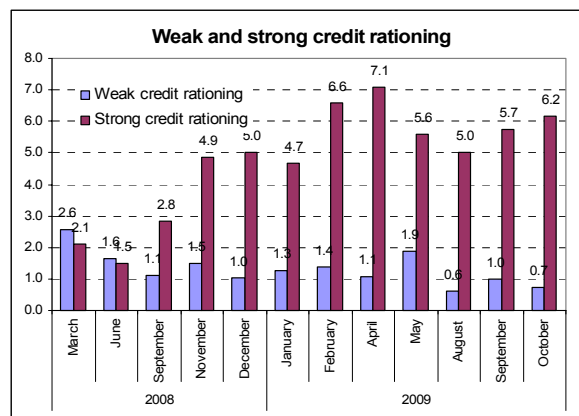
Credit access conditions

In October, extractive and manufacturing firms' opinions on credit access conditions worsened slightly. The share of firms considering deterioration for credit availability increased from 22.1% to 24.6%. The worsening was particularly sharp for small firms (from 22.7% to 27.2%). On the contrary, medium-sized and large firms' opinions improved, with the quota shrinking from 25.7% to 24.2%, and from 18 to 15.7% of the sample. At a regional level, it was mainly firms in the North West which experienced more unfavourable credit terms, while in the rest of the country opinions were slightly less negative.

However, the percentage of firms which in the last months obtained credit remained virtually unchanged. Difficulties were linked to firm size: the share of medium-sized firms and large firms which did not obtain credit crept up, for the manufacturing firms, from 5.8% to 6.7%, and from 1.9% to 4.9%, respectively. By contrast, difficulties encountered by small firms decreased. At a regional level, the quota of rationed firms increased in the North West (from 7.3% to 8.6%) and the North East (from 5.7% to 6%), while in the rest of the country it decreased. The failure to obtain bank credit was increasingly caused by explicit denial by banks (7.1%). By contrast, 30% of manufacturing firms obtained the requested credit (up from 27.7 of the previous month), and over 20% stated they had obtained it at the same credit terms, while 7% received it, but with more onerous credit terms. In particular, it was the small-sized firms, located especially in the Centre and *Mezzogiorno*, that reported higher interest rates for obtaining credit.

The failure to obtain bank credit was still mainly caused by explicit denial by banks, with a substantial increase in the North West and in the North East which endured "harsh" rationing (from 7 to 8.2% and from 5.5 to 5%, respectively). The share of firms which rejected funding because of too onerous credit terms ("soft" rationing) declined from 1.0 to 0.7% instead.

Lastly, among the main hurdles encountered when obtaining bank credit, the firms singled out the limits imposed on the amount of bank credit issued, followed by higher costs caused by charges or extra expenses.



	Credit obtained - Yes			
	Total	Small	Medium	Large
Mar-08	34,7	34,9	36,4	32,4
Jun-08	30,5	29,5	36,1	32,2
Sept-08	30,5	31,3	35,7	24,5
Nov-08	23,6	23,3	26,1	24,0
Dec-08	23,9	23,3	25,2	26,3
Jan-09	26,1	26,7	22,8	26,1
Feb-09	22,6	21,9	23,3	26,7
Apr-09	25,5	22,6	32,2	36,2
May-09	23,9	22,3	22,1	33,9
Aug-09	26,2	25,4	28,2	29,9
Sept-09	27,7	26,9	32,8	31,7
Oct-09	30,0	28,8	34,0	33,1
- same conditions	22,3	21,4	21,5	26,6
- more costly conditions	7,7	7,3	12,5	6,5

	Reasons why conditions were worse			
	Total	Small	Medium	Large
Interest rates	0,8	0,7	2,4	1,0
Unsecured guarantees	0,3	0,5	0,5	0,0
Secured guarantees	0,3	0,2	1,2	0,3
Limitations	0,5	0,4	1,8	0,3
Costs	0,5	0,3	1,4	0,6

**Main quarterly operating capacity survey results
(Third Quarter 2009)**

The traditional ISAE quarterly survey revealed that in the third quarter of 2009, manufacturing firms signalled positive information on current state and production and demand prospects. The flow of new orders increased sharply (from -34 to -21), and, accordingly, the number of hours actually worked (from -40 to -32). The level of capacity utilization too increased, albeit slightly, (the balance rose from 65.4 to 66.5), and was still close to historic low. Prospects, however, were favourable, with the share of firms believing that the level of capacity utilization on the basis of their current productions requirement was “more than enough”, shrinking slightly (from 41 to 39).

The length of production assured by order books was stable at 2.8 months. Lastly, inventories of raw materials and semi-finished products diminished (from -20 to -18). Obstacles to production were relevant for 51% of the interviewees – a slight decrease on the second quarter – mainly as a consequence of a decrease of the “other reasons” and of an increased scarcity of labour.

The firms’ competitiveness increased on the national market (from -5 to -2 the balance), and was stable on the EU markets (-4), and on the non-EU ones (-7). The balance for the expected trend for exports for the subsequent quarter improved from -9 to -6.

