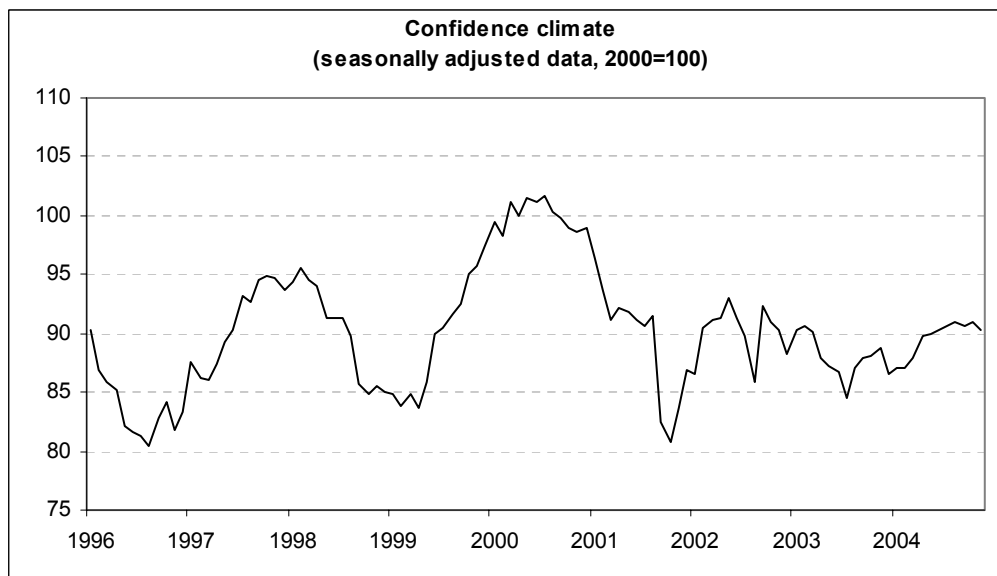




Date: November 25, 2004
TEL.: 06/444821

THE MANUFACTURING FIRMS' CONFIDENCE CONTRACTS AGAIN IN NOVEMBER, THUS FALLING BELOW THE CYCLICALLY HIGH SUMMER FIGURES

- The seasonally adjusted confidence index (base year 2000 = 100) falls from 91 to 90.2, close to the May 2004 minimum figures. The contraction is mainly due to the new stock rise and to slightly darker forecasts on production, given weaker evaluations on the current demand level
- Confidence improves in consumer goods, where the index passes from 91.4 to 94.7, while it deteriorates in intermediate goods (from 92.4 to 90.5) and, in particular, in investment goods (from 85.7 to 81.3, which is the lowest figure reached since February 2004)
- Among the other variables, assessments on the current production levels and short-term forecasts on the general economic trend and employment are stable. Conversely, forecasts on order books slightly fall
- With regard to selling price expectations, the tensions registered over the past few months in intermediate goods now affect final goods. However, the growing phase of the balance of that variable in intermediate goods is coming to an end, probably because of the new exchange rate appreciation



Data referring to December shall be diffused on **December 28, 2004**.

Next ISAE surveys are scheduled as follows:

November 30, 2004: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: October) and ISAE Monthly Business Service Survey (Reference month: November)

December 1, 2004: Comparative Business Surveys for Italy, Germany and France (Reference Month: November)

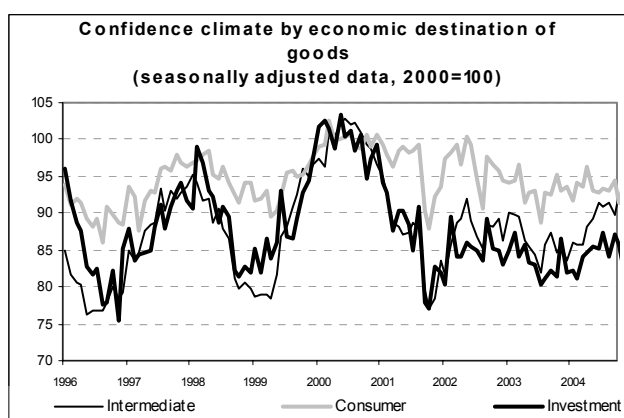
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site www.isae.it)

General Results

According to the ISAE Monthly Survey carried out between November 2 and 17 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls from 91 to 90.2, thus decreasing below the Summer cyclically high figures. The contraction is mainly due to new stock rises and to slightly darker forecasts on production; also evaluations on the current demand level are weak.

Looking at single sectors, confidence improves in consumer goods, where the index passes from 91.4 to 94.7, which is close to the April peaks. Conversely, confidence deteriorates in intermediate goods (from 92.4 to 90.5) and, in particular, in investment goods (from 85.7 to 81.3, which is the lowest figure reached since February 2004).

Among the other variables, assessments on the current production levels and short-term forecasts on the general economic trend and employment are stable. Conversely, forecasts on order books slightly fall and expectations for selling price rises strengthen.



Situation in the reference month (November 2004)

In November, the manufacturing firms' assessments on their order-book and demand trends remain weak. Moreover, negative signals come from production, within a framework characterised by larger stock rises.

The (seasonally adjusted) order-book balance recovers from -14 to -13, while foreign orders remain unchanged (at -16) and the assessments on domestic demand slightly improve from -17 to -16 (seasonally adjusted balance). On the one side, firms signal a substantial production level stagnation while, on the other side, a further rise in finished products inventories is emerging (the balance passing from 5 to 8, which is close to the March 2004 maximum levels).

Evaluations are however not homogeneously diffused in all sectors. With regard to order-books, the pessimistic approach of investment goods producers is growing (the balance falling from -17 to -24) because of a considerable worsening in assessments on the domestic (from -22 to -27) and, in particular, on the foreign (from -18 to -26) demand components. Conversely, the order-book balance improves in intermediate and in consumer goods: indeed, the balance of this latest sector passes from -20 to -13, thanks to domestic demand (growing from -21 to -16), while foreign demand slightly deteriorates from -20 to -21. The balance referring to production recovers from -14 to -12 in consumer goods and falls from -10 to -13 in investment goods, while it remains almost stable in intermediate goods. Moreover, the balance of inventories doubles from 7 to 14 in machinery and equipment and deteriorates from 8 to 6 in consumer goods.

Forecasts for next quarter

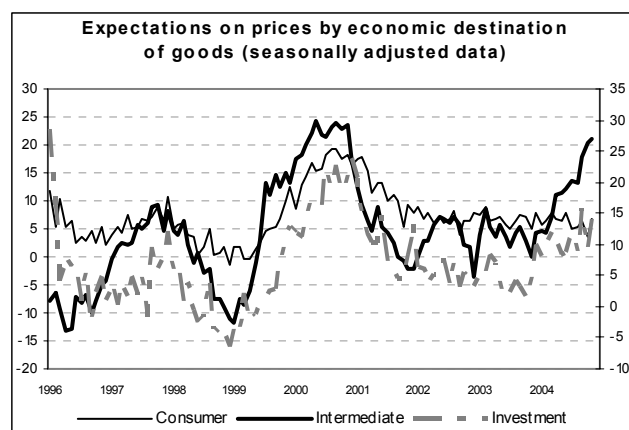
In November, forecasts of ISAE respondents on order books, production, employment and the general economic trend are generally stagnating on the October levels. Moreover, further selling price rises are expected in the next few months, even though the growing phase of the balance of that variable in intermediate goods is coming to an end.

The balance of order-book expectations falls from 19 to 16, which is close to the January minimum figures. The one on production slightly rises from 15 to 16 (thus reaching the average 2004 values), while the balance on employment expectations stabilises (at -3, as in October). Expectations on the Italian general economic trend remain negative and the balance remains at -8, as in October. Finally, most firms continue to expect selling price rises in the next few months: indeed, the balance passes from 13 to 14, thus equalling the maximum cyclical figure of September 2004.

Forecasts of ISAE respondents are rather dishomogeneous in single sectors: generally negative signals come from the main variables in investment and intermediate goods, while rosier indications stem from consumer goods. In investment goods, balances of order-book and production expectations decrease from 21 and 13 to 14 and 11 respectively. In intermediate goods, the balances of those same variables pass from 22 and 17 to 15 and 14 respectively. Conversely, in consumer goods forecasts on order books and production improve from 16 to 18. With reference to employment, a slight improvement is registered in investment goods (the balance passing from -4 to -1), while a substantial stability is observed in consumer and intermediate goods.

Selling price rises – mainly due to the oil price growth – which, up to October, seemed to be limited to intermediate goods, now also affect final goods producers: indeed, the balance of that variable rises from 9 to 14 in investment goods and from 4 to 7 in consumer goods. However, in intermediate goods, the growing trend is coming to an end (the balance remaining at 21), probably because of the further exchange rate appreciation. This reduces the concerns about a possible inflationary tension rekindling in the next few months.

Finally, with reference to the country's general economic trend – unlike what happens with the main firm variables – investment goods producers are more optimistic than their colleagues in the other sectors. Indeed, the balance of firms producing machinery and equipment clearly recovers in November compared to the particularly negative figures of last month (the balance rising from -18 to -5), while expectations of consumer goods producers worsen (from -13 to -16) and the one of intermediate goods producers remains stable at -15 (as in October).



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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Aug. 2004	91.0	-14	7	19
Sept. 2004	90.6	-12	6	14
Oct. 2004	91.0	-14	5	16
Nov. 2004	90.2	-13	8	15