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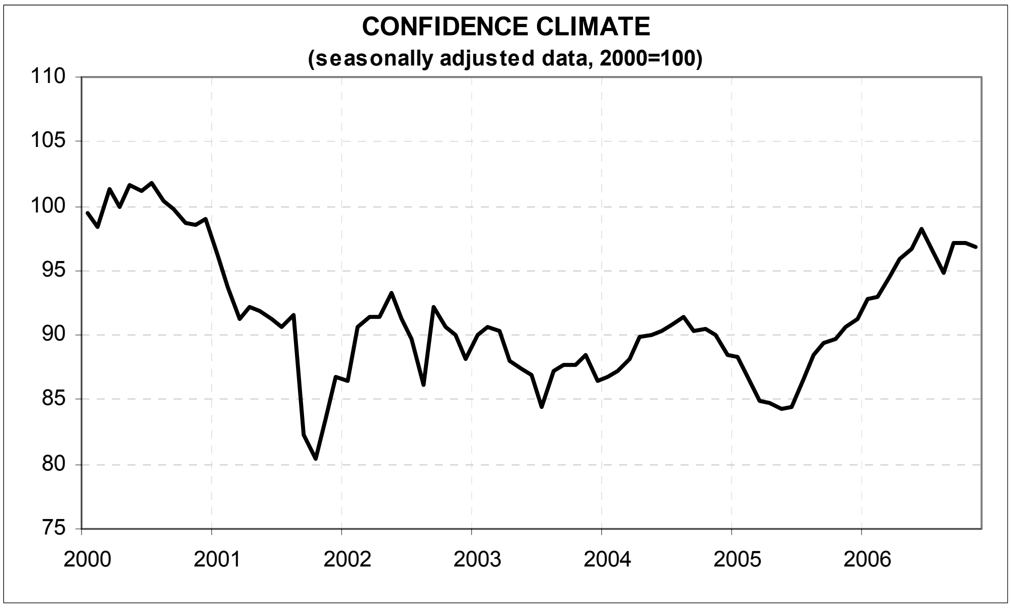
MANUFACTURING FIRMS' CONFIDENCE DECLINES IN NOVEMBER

- **In November the seasonally adjusted confidence index (2000=100) came in at 96.8, lower than in October (97.1)**
- **The decline was the result of a slight drop in production expectations and of new restocking of inventories of finished products. The opinions on the level of current order books, instead, moderately improved**
- **The short-term outlook for orders and for the Italian general economic trend worsened as well, in a situation also characterized by expectations of a fall in industrial selling prices**
- **In November, the regional and industrial breakdown of the data showed highly diverging trends. In particular, in the investment goods sector producers' confidence abruptly plunged from the high level recorded in October (the index lowered from 98.1 to 93.7). For consumer and intermediate goods, instead, the indicator increased from 98 to 99.1 and from 95.6 to 96.4, respectively**
- **At the regional level, confidence edged down slightly in the North West (from 98.1 to 97.9) and more markedly in the North East (from 96.5 to 95.1), the Centre (from 99.2 to 97.4) and the *Mezzogiorno* (from 96 to 95.5)**
- **The splitting up of data by firm size indicated that in the period August-November the trend in confidence was particularly favourable for larger firms, mainly due to the gradual step up in the assessment on current demand. Confidence rose (though less markedly) also for medium and small-sized firms, thanks mainly to the improvement in opinions on demand for the former variable and to the slow recovery in production expectations for the latter one**



Data on December shall be released on December 22, 2006
The next ISAE surveys are scheduled as follows:
November 28: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: November); ISAE Monthly Business Services Survey (reference period: November) and ISAE Monthly Survey on Construction (reference period: October)*
December 5: *ISAE International Comparison of Consumer and Business Surveys (reference period: November)*

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)

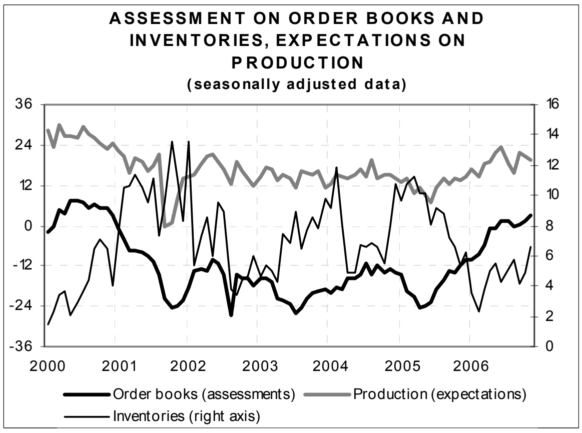
General results

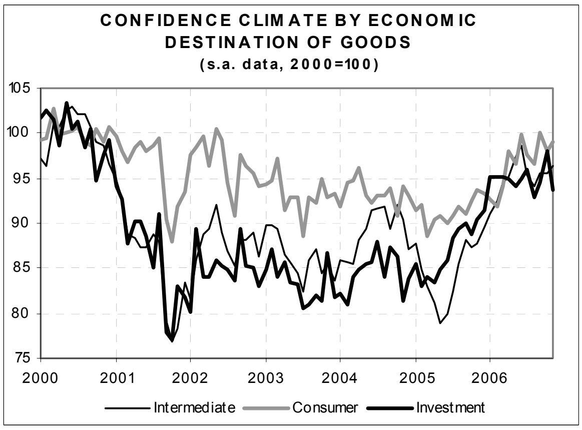
The ISAE Survey, carried out on a panel of about 4,000 respondents between November 2 and November 20, pointed to a decline in the seasonally adjusted confidence index of manufacturing and mining firms. In November, the indicator lowered to 96.8 from 97.1 in October: the assessment on current order books slightly edged up, whereas production expectations declined and inventories started to increase once more. Furthermore, firms continued to be pessimistic about short-term prospects for the Italian economy, in a situation characterized, however, by expectations of a decline in industrial selling prices.

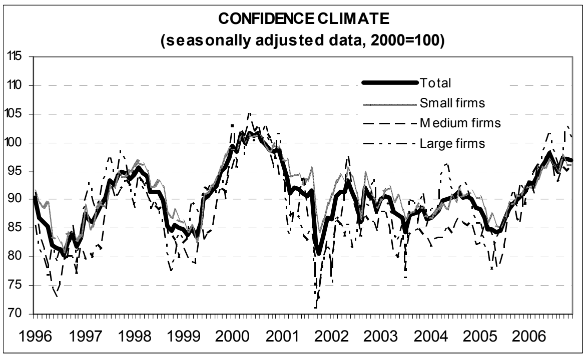
Nevertheless, the fall in confidence was not evenly spread across sectors: the deterioration stemmed entirely from the investment goods sector, where the index plunged from 98.1 to 93.7; for consumer and intermediate goods, producers' confidence, instead, moved up from 98 to 99.1 and from 95.6 to 96.4, respectively.

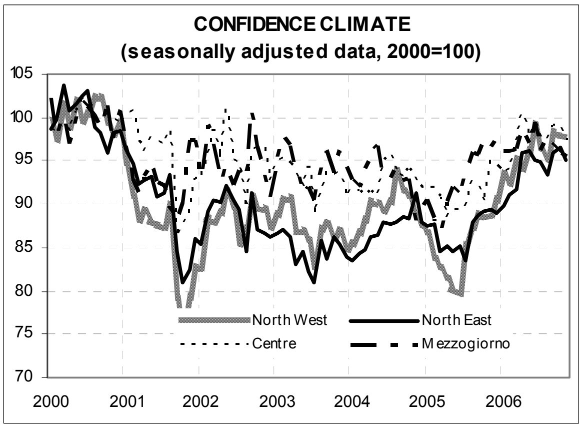
At the regional level, the confidence worsened slightly in the North West (from 98.1 to 97.9) and more markedly in the other areas (from 96.5 to 95.1 in the North East, from 99.2 to 97.4 in the Centre and from 96.0 to 95.5 in the *Mezzogiorno*).

Finally, with regard to the breakdown of data by firm size, in the period August-November confidence bettered markedly for larger firms, due mainly to the gradual step up in the assessment on current demand. Confidence rose (though less markedly) also for medium and small-sized firms, thanks above all to the improvement in the opinions on demand for the former variable and to the slow recovery in production expectations for the latter one.





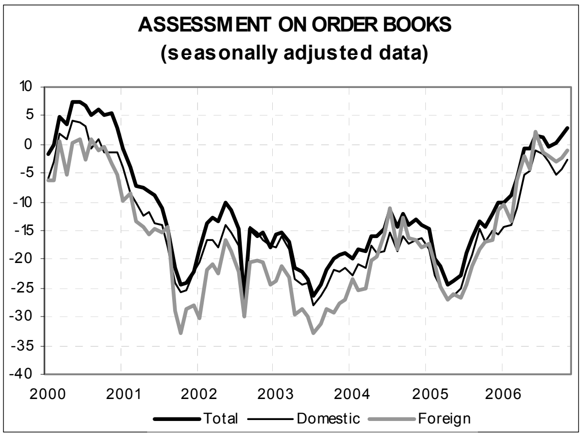


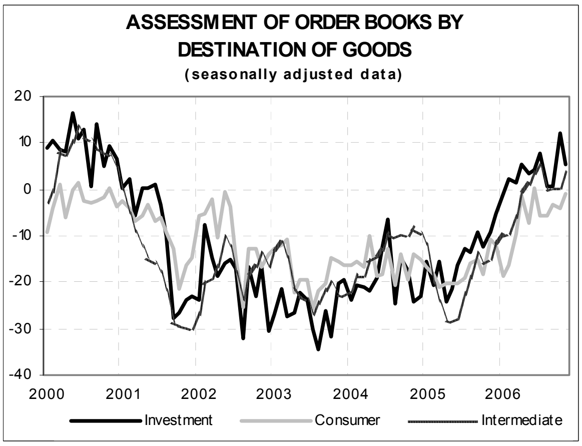


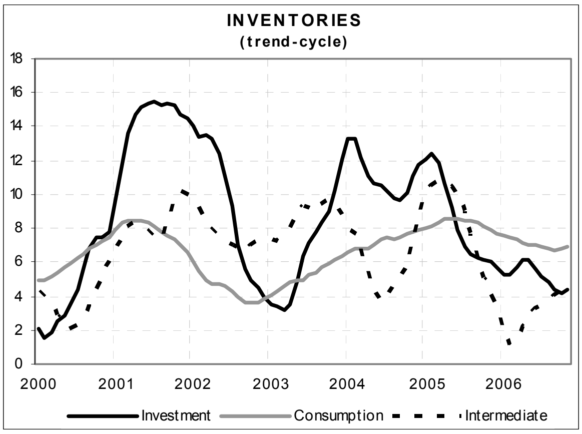
Situation in the reference period (November 2006)

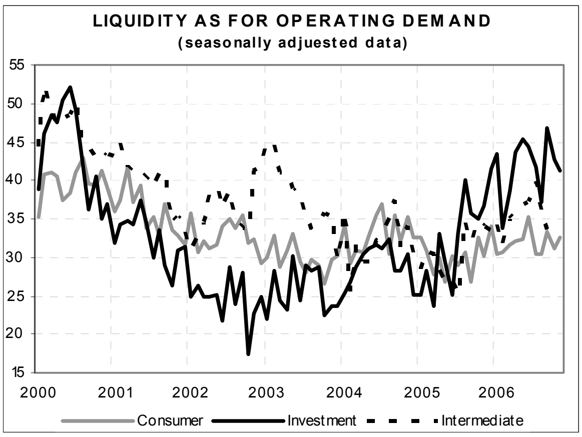
The evaluation of current demand improved in November (the related balance rose to 3 from 2 in October), backed by positive indications coming from both domestic and foreign markets (the related balances rose from -4 to -3 and from -2 to -1, respectively). The rise in the level of production (to 4 from 3) was confirmed, but inventories increased (to 7 from 5). Finally, the ratio of available liquidity to operational requirements remained unchanged (the balance stood at 36, as in the previous month).

However, diverging trends emerged at the industry level. Following the rebound posted in the previous month, the opinions on orders clearly worsened in the investment goods sector, where the balance lowered from 12 to 6, showing a strong decline in both domestic and foreign markets (the related balances plunged from 0 to -4 and from 4 to -3, respectively). In this sector, the evaluation of the level of production worsened as well (from 9 to 5), inventories increased (from 2 to 6) and the ratio of available liquidity to operational requirements slightly deteriorated (from 43 to 41). General optimism prevailed, instead, among producers of consumer goods: the balance for orders recovered from -4 to -1, thanks to the improvement in both domestic and foreign demand (the related balances rose from -9 to -6 and from -10 to -8, respectively). Also the levels of production and liquidity bettered (the balances moved from -3 to -2 and from 31 to 33), though in conjunction with renewed moderate restocking (from 7 to 8). Lastly, the intermediate goods sector was characterized by an increase in the balance for demand (from 0 to 3, due to an improvement in both its domestic and foreign components) and in the level of current production (from 4 to 7). Nevertheless, the ratio of liquidity to operational requirements declined (from 35 to 34) and inventories stabilized (at 5, as in October).









Outlook for the following three months

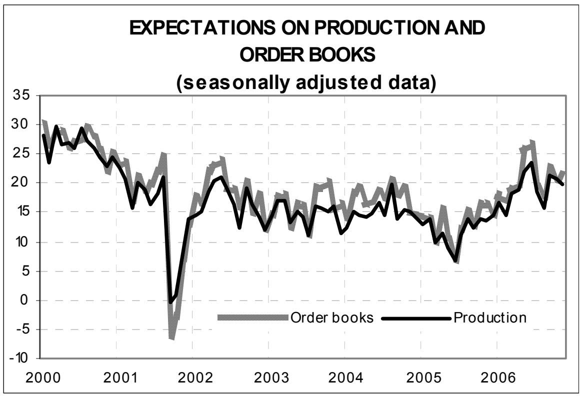
Surveyed firms gave contrasting indications regarding prospects for main company variables: forecasts for orders actually improved, but those for production and especially those for the Italian general economic situation worsened; forecasts for employment and liquidity developments remained unchanged instead, and expectations for a rise in selling prices decreased.

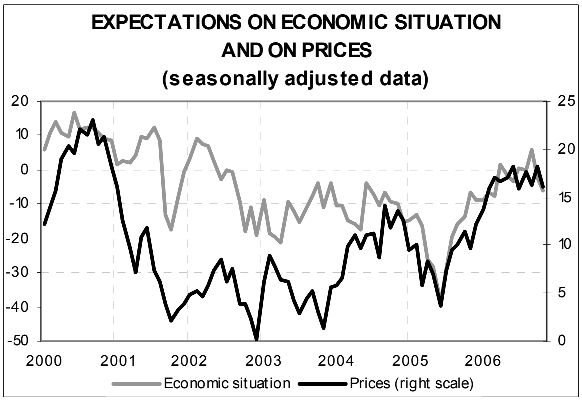
Particularly, the balance referring to expectations for production, orders, selling prices and the Italian economic situation stood, in the order, at 20 (compared to 21 in October), 21 (from 20), 16 (from 18) and -6 (from -2). Expectations for the employment trend (seasonally adjusted by ISAE starting from October) stabilized, instead, at 4, and those for liquidity remained unchanged as well (the balance came in at 1).

Also the industrial breakdown of data showed diverging trends. In the consumer goods sector, expectations for production, orders and employment actually increased to 21, 26 and 0 (from 20, 22 and -1, respectively). Predictions for the Italian general economic situation worsened instead (from -6 to -9), as well as those for the trend in selling prices. Finally, prospects for liquidity remained stable at 0. A general pessimism prevailed instead among investment goods firms: expectations actually worsened for orders (from 19 to 15), production (from 22 to 17), liquidity (from 0 to -1), the Italian general economic situation (from 4 to -5), employment (from 9 to 7) and selling prices (from 14 to 15). Finally, in the intermediate goods sector, anticipations for orders stabilized (at 20, as in the previous month), but an improvement characterized those on the country's economic situation (the balance rose to -14 from -10), production (from 18 to 20), employment (from 3 to 4) and selling prices (for which the balance moved from 26 to 22). Lastly, firms expected a moderate decline in company liquidity (the balance lowered to 0, from 1).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
September	97,3	0	4	21
October	97,1	2	5	21
November	96,8	3	7	20





Regional breakdown of ISAE survey results

In November, the negative development in confidence recorded at the national level mirrored uneven trends across regions. The seasonally adjusted index declined moderately in the North West (from 98.1 to 97.9) and more markedly in the North East, the Centre and the South: the index lowered, in the order, from 96.5 to 95.1, from 99.2 to 97.4 and from 96.0 to 95.5. The opinions on the level of orders and production expectations sent contrasting signals. Inventories were considered to be rising in the North of the country and declining in the Centre and the South.

<u>North West</u>

For the second consecutive month, the confidence indicator extended its downward trend, remaining around its May-September average level. In this area, the decline was mainly due to the negative assessment on inventories of finished products. Positive indications came, instead, from the opinions on orders (optimism characterized both domestic and foreign demand) and, to a lesser extent, from production expectations.

<u>North East</u>

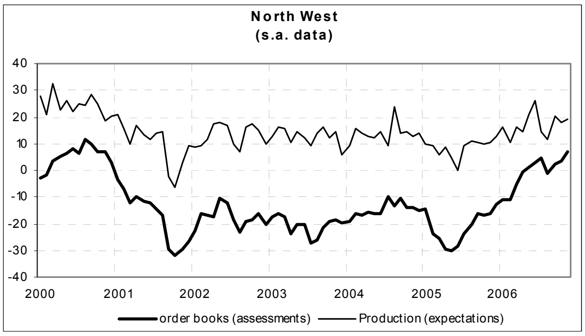
Following growth in two straight months, entrepreneurs' confidence resumed its downward trend, returning to the level posted last June. The assessment on orders and production expectations deteriorated and inventories of finished products built up again.

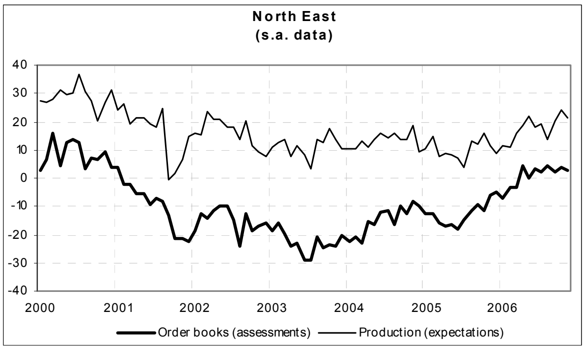
<u>Centre</u>

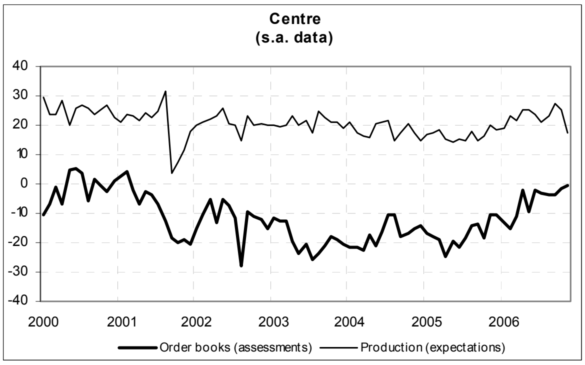
The confidence indicator lowered to its July-August level. The worsening was mainly driven by deterioration in production expectations (the balance went back to the value posted in October 2005), which came along with a slight improvement in the opinions on the level of orders and on inventories of finished products.

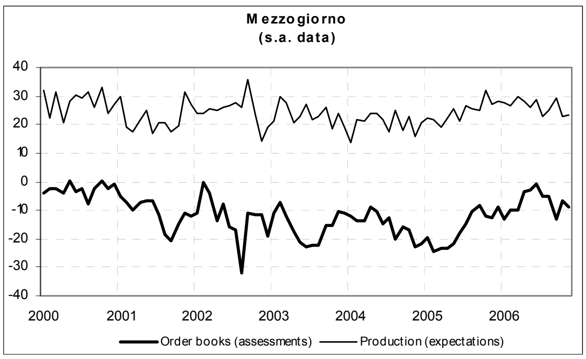
<u>Mezzogiorno</u>

Entrepreneurs' confidence in this area fell for the third month in a row, returning to its July 2005 value. According to the respondents, the level of orders declined due to a negative trend in the domestic market, whereas optimism portrayed expectations on the future level of production. Lastly, the opinions on inventories of finished products remained virtually unchanged.









***Focus*: Confidence trend by firm size**

In the last three months, manufacturing firms' confidence showed overall signs of improvement: at the aggregate level, following a strong rise in September, confidence stabilized in October and declined in November. The indicator, nevertheless, remained close the relatively high level reached in the second quarter of the year.

The rise in confidence, which characterised all firm sizes, was particularly strong for larger firms, increasing from 95.8 in August to 97.4 in September and again to 102.9 in October, but falling to 100.6 in November. The opinions on current orders and demand slowly inched up to levels clearly higher than those recorded in summer, causing, at the same time, a gradual de-stocking of inventories. Nevertheless, production prospects, which had decidedly improved between September and October, edged down in November, and the related balance went back toward the level recorded last August. Between August and November confidence visibly bettered also for medium-sized firms: in this case the indicator rose in September to 95.7 (from 93.1), fluctuating in the following two months (to 94.9 in October and 95.5 in November), but remaining basically close to its cyclical high levels. In this case, the rise in confidence was due to a remarkable improvement in the assessment on the level of orders. Production expectations also increased, but inventories built up somewhat. Finally, for smaller firms, confidence clearly rose in September (from 94.9 to 97.6), but started to decline again in October (to 96.2), and stabilized in November. The opinions on current order books recorded in this case only a slight improvement and inventories started to increase again (mostly in November). Nevertheless, production expectations showed favourable signals, regaining a decidedly higher level than its last summer average.

Confidence climate by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
August	94.8	94.9	93.1	95.8
September	97.2	97.6	95.7	97.4
October	97.1	96.2	94.9	102.9
November	96.8	96.2	95.5	100.6