



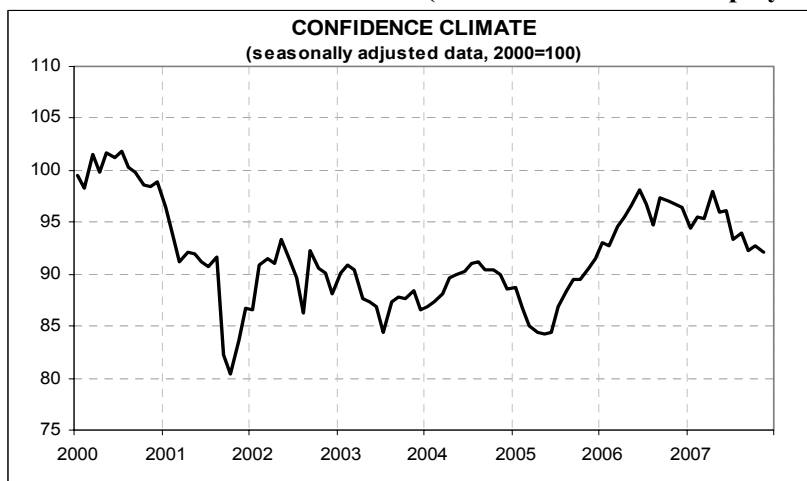
Date: November 27, 2007  
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## IN NOVEMBER MANUFACTURING FIRMS' CONFIDENCE REVERTED TO A DECLINE

- The seasonally adjusted confidence index (2000=100) lowered to 92.2 from 92.8 in the previous month, going back to its September level and remaining below its third quarter average
- The opinions on orders continued to worsen and production expectations were less optimistic, hovering however around their third quarter average level. Lastly, inventories started to decrease slightly
- Confidence diminished for intermediate goods (from 91.6 to 89.6), but showed signs of recovery for investment and consumer goods (from 94.3 to 94.7 and from 92.6 to 93.5, respectively)
- At the regional level, the index improved in the North West (from 93.1 to 93.6) and the Centre (from 91.2 to 92.2), but worsened instead in the North East (from 92.9 to 89) and, for the fifth month running, in the *Mezzogiorno* (from 95.7 to 95)

## FOCUS: CYCLICAL INDICATIONS FROM THE INVESTMENT GOODS SECTOR AND CONFIDENCE DEVELOPMENTS BY FIRM SIZE

- A special ISAE *focus* on the investment goods sector pointed to noticeable cyclical fluctuations in the last months: in spring, firms recorded a sharp rise in the flow of orders which came along with a particularly marked increase in the level of production and in short-term expectations for orders, production and employment
- Nonetheless, during the summer demand developments became less favourable, leading to a restocking of inventories starting from August and especially in October. In the presence of a new fall in orders, in November firms rapidly reduced on the one hand demand expectations and on the other the level of production and inventories
- Short-term prospects continued to waver. However, the practical stabilization of production expectations recorded in November might have reflected the gradual alignment of demand prospects to the required level of inventories
- According to the traditional quarterly ISAE *focus* on firms by size, the fall in confidence posted in the period September-November was particularly marked for medium-sized enterprises (employing 100-250 people) and for large firms (with more than 250 employees), whereas it was more moderate for small firms (with fewer than 100 employees)



**Data on December shall be released on December 21, 2007**

*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 6:** 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](http://www.isae.it))

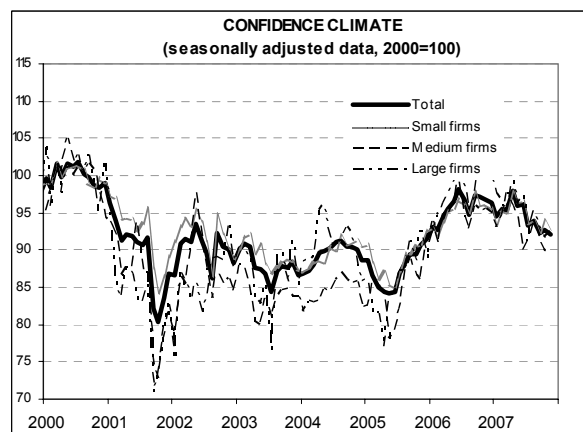
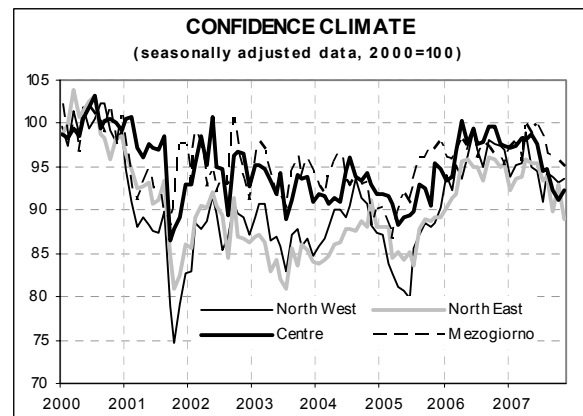
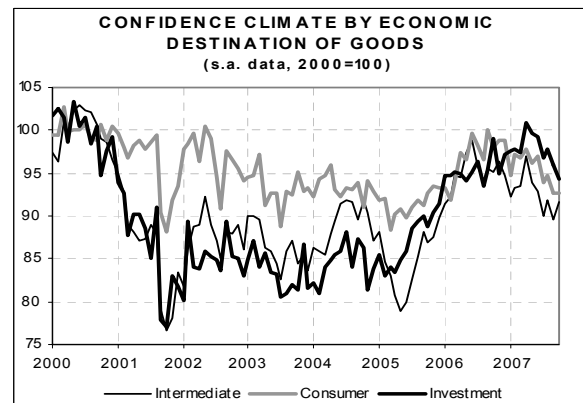
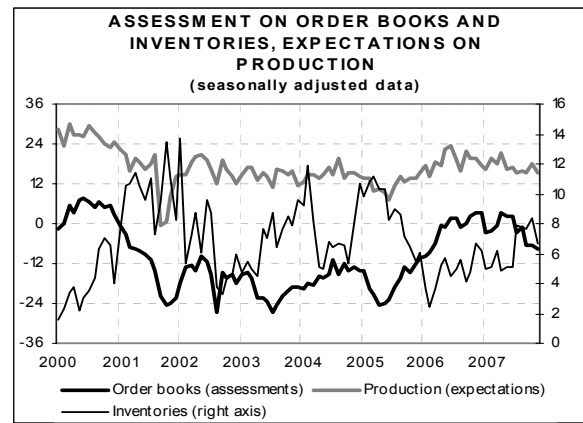
## General results

The ISAE Survey, carried out on a panel of about 4000 firms between November 2 and November 16, showed that the seasonally adjusted confidence index of manufacturing and mining firms went again into a decline. In November, the indicator diminished to 92.2 from 92.8 in the previous month. The deterioration was attributable to a new fall in demand and to a slight decrease in production expectations. Inventories instead turned down.

The breakdown of data by sector showed a decline in confidence for intermediate goods (from 91.6 to 89.6), but a recovery for consumer and investment goods (from 92.6 to 93.5 and from 94.3 to 94.7, respectively). Moreover, the index improved in the North West (from 93.1 to 93.6) and the Centre (from 91.2 to 92.2), but worsened instead in the North East (from 92.9 to 89) and the *Mezzogiorno* (from 95.7 to 95).

A special *focus* conducted by ISAE on the investment goods sector pointed in the last months to noticeable cyclical fluctuations: in spring, firms recorded a sharp rise in the flow of new orders which came along with a marked increase in the level of production. However, during the summer, orders lowered, leading to a sharp restocking of inventories. In front of a new drop in orders, in November firms rapidly reduced on the one hand demand expectations and on the other the level of production and inventories. Short-term prospects continued to waver. However, the practical stabilization of production expectations recorded in November might have reflected the gradual alignment of demand prospects to the required level of inventories.

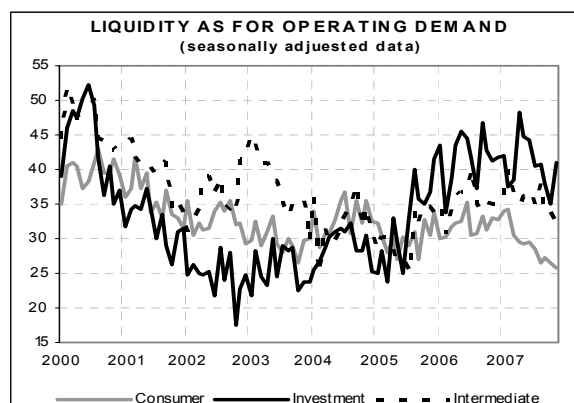
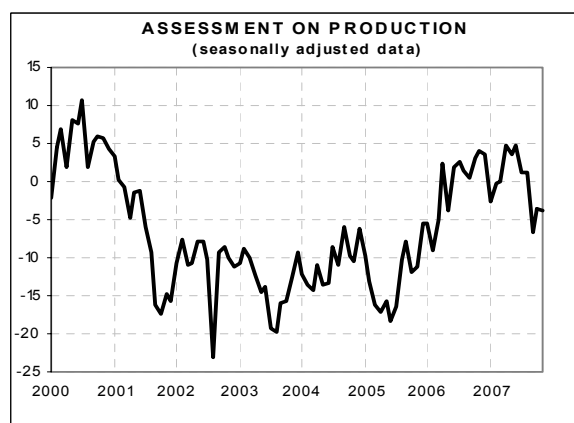
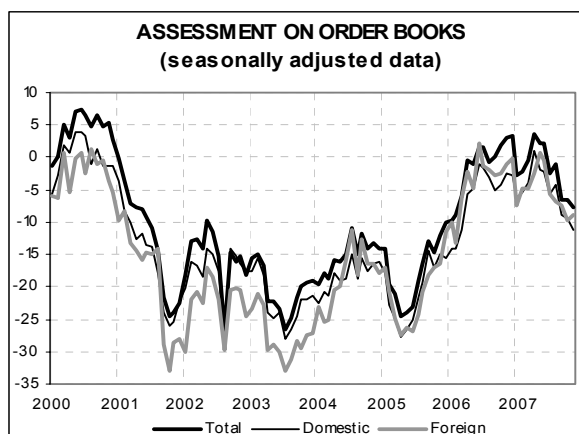
According to the traditional quarterly ISAE *focus* on firms by size, the fall in confidence posted in the period September-November was particularly marked for medium-sized firms (employing 100-250 people) and for large firms (with more than 250 employees), whereas it was more moderate for small firms (with fewer than 100 employees).



### Situation in the reference period (November 2007)

In November, firms' evaluation of the trend in orders sunk to the low level recorded in February 2006, coming in at -8, compared to -6 in October. At this stage, internal demand posted the worst result: the balance fell from -10 to -11, the lowest value since March 2006. With regard to foreign markets, opinions remained negative, but the related balance slightly recovered over the previous month (from -10 to -9). At the same time, production levels dropped sharply (the balance diminished from -3 to -4), whereas, following four months of stability, inventories edged down slightly (the balance moved from 8 to 7) and company liquidity remained stable (at 32).

At the sector level, consumer and intermediate goods showed signs of virtual stability. In the first case, the opinions on orders remained decidedly negative, but recovered slightly with respect to October (the balance rose from -16 to -14: domestic orders held steady at -18 and foreign orders edged up from -19 to -18). Also the opinions on production and inventories moderately recovered (from -13 to -11 and from 8 to 7), while liquidity remained unchanged (at 26). In the intermediate goods sector, instead, the opinions on orders declined from -9 to -10 (from -11 to -10 in the domestic market and from -9 to -10 in foreign markets), those on production recovered from -6 to -4 and at the same time inventories started to build up again (rising from 5 to 6). Lastly, liquidity declined slightly (from 34 to 32). Ample cyclical fluctuations mainly characterized the investment goods sector (see hereafter the related special *focus*).



### Outlook for the following three months

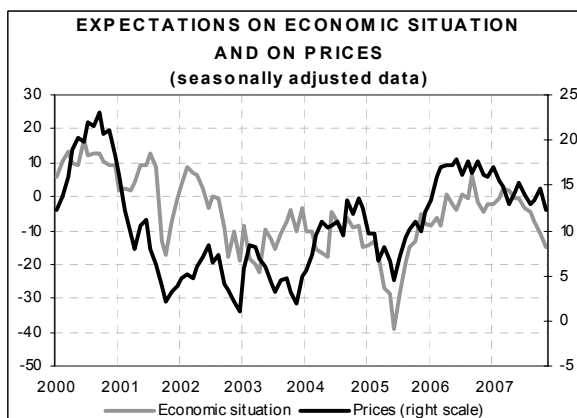
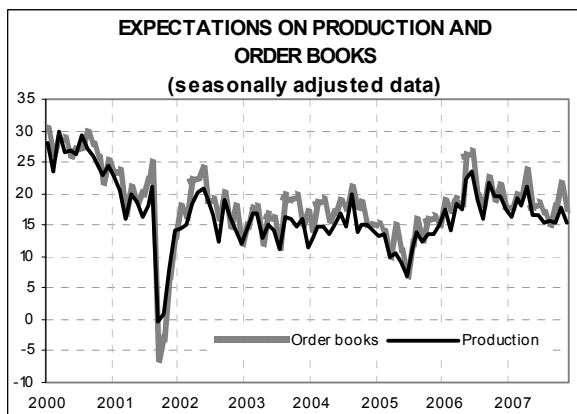
Forecasts for the trend in main company variables and for the general economic situation worsened relative to the previous month, but selling price pressures diminished slightly. More in detail, production expectations declined from 18 to 15, going back to the level posted in September, and the ones for orders moved from 21 to 17. In contrast, forecasts for employment developments recovered from -1 to 0. Also the number of firms planning to raise selling prices diminished (the balance declined from 15 to 12), while expected liquidity lowered slightly (from 4 to 2). Anticipations for the country's economic situation continued however to deteriorate: the balance stood at -15 (compared to -11), hitting the lowest level since September 2005.

In the consumer goods sector, forecasts for orders and production showed signs of recovery (from 19 to 21 and from 15 to 16, respectively). Nevertheless, prospects for company liquidity and for employment, as well as for the general economic situation and for prices declined (falling, in the order, from 3 to 2, from

-1 to -3, from -18 to -19 and from 14 to 13). Instead, producers of intermediate goods were uniformly more pessimistic compared to October: the balance for orders in the following three months declined from 20 to 15. The balances for production, liquidity and the general economic situation lowered from 16 to 11, from 0 to -1 and from -20 to -22, the latter reaching the lowest value since September 2005. Partially in opposing trend, employment expectations recovered (from -3 to 1) and those for selling prices declined (from 17 to 14). Also with regard to short-term forecasts, the investment goods sector showed very ample fluctuations, which are considered in more detail in the following section.

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

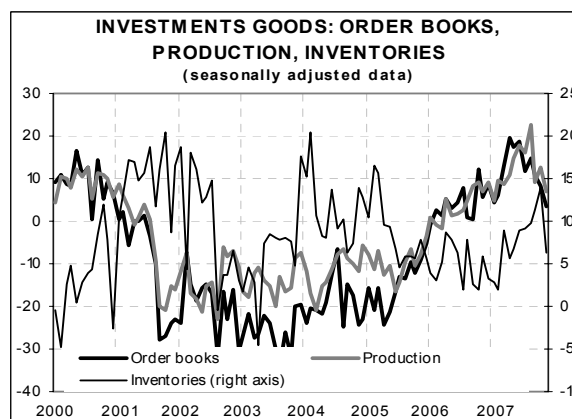
	Confidence climate	Order-book level	Inventories	Expectations on production
September	92.3	-6	8	15
October	92.8	-6	8	18
November	92.2	-8	7	15



**Focus: Trend in confidence in the investment goods sector**

The investment goods sector posted very ample fluctuations starting from last spring. In particular, between February and April firms recorded a sharp increase in orders and demand. The balance rose from 6 to 20 in the two-month period and subsequently stabilized at a high level till June. In the early stage, mostly domestic demand increased, followed by foreign demand. Until August firms continued to expect ever higher demand. They consequently increased the level and the prospects for production and improved their expectations for labour market developments.

In July, however, demand growth started to slow down (the balance for orders reverted to the level posted in March) and inventories started to build up (the balance reached 14 in October, the highest level since March 2005). November showed a sharp adjustment: entrepreneurs who recorded a further decrease in demand reacted on the one hand sharply downsizing expectations for orders (the related balance reverted to 4) and, on the other hand, markedly scaling down their opinions on the current level of production so that inventories were also sharply reduced. Short-term prospects continued to waver. Nevertheless, practical stability recorded in November by production expectations might have reflected the gradual alignment of demand prospects to the required level of inventories.



## Regional breakdown of ISAE survey results

The worsening in confidence at the national level was the result of diverging trends across areas: the index improved in the North West and the Centre (from 93.1 to 93.6 and from 91.2 to 92.2, respectively), but worsened in the North East and the South (from 92.9 to 89 and from 95.7 to 95). With regard to the underlying components of the confidence climate, the opinions on the level of orders and production expectations sent contrasting signals. Instead, inventories were considered to be diminishing in the North West, the Centre and the South and increasing in the North East.

### North West

In November, the confidence indicator recovered, rising to its September level. The improvement was prompted by better opinions on the level of orders (both domestic and foreign) and of inventories of finished products, whereas production expectations sent negative signals.

### North East

Following the rise posted the previous month, in November confidence started to deteriorate once more, returning to the level shown last September. The worsening was related to a marked deterioration in the opinions on orders (both domestic and foreign) and in production expectations. Also the opinions on inventories of finished products, which were considered to be building up, sent negative signals.

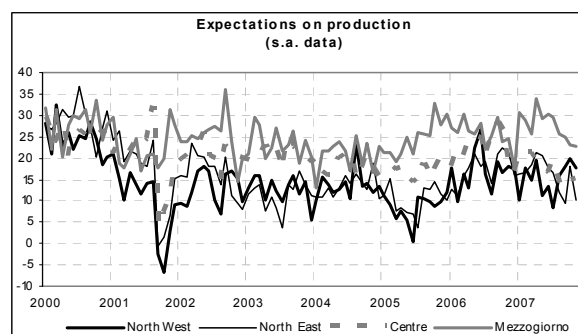
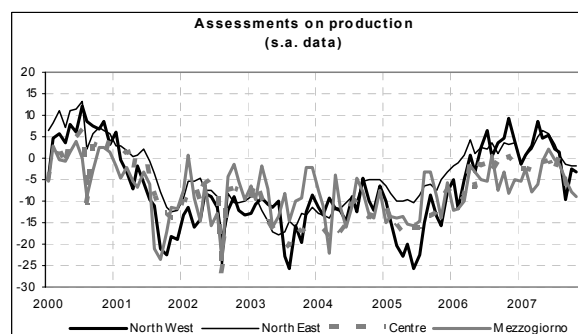
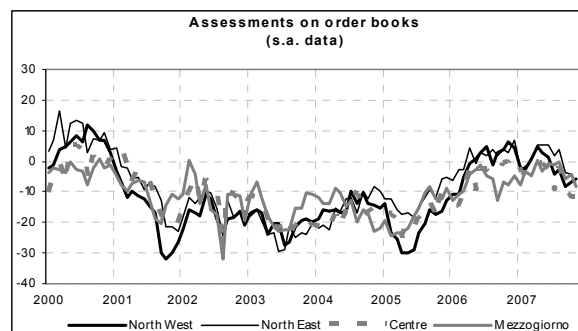
### Centre

Confidence of firms in this area started to improve once more, reaching also in this case its September level. The recovery was mainly due to the improvement in the opinions on inventories of finished products, which came along with stability in production expectations (the related balance held steady at 15 for the third consecutive month) and in opinions on the level of orders (which was the result of virtual stability in domestic demand and of a fall in foreign demand).

### Mezzogiorno

Confidence declined for the fifth straight month, returning to its December 2006 level. The worsening

was the result of diverging opinions: the assessments on the level of orders declined markedly (mainly in domestic markets), while expectations on the level of production remained instead virtually stable and inventories of finished products diminished.



## **Focus: Confidence developments by firm size**

In the September-November period, manufacturing firms' confidence deteriorated: in November the indicator was 1.7 points lower than in August. The splitting out of data by firm size showed that the fall was particularly marked for medium-sized firms (employing 100-250 people) and for large firms (with more than 250 employees), whereas it was more moderate for small firms (with fewer than 100 employees).

In particular, for small firms confidence posted an abrupt fall in September (from 94 to 92.4), but subsequently recovered in October and November, reaching 92.7. For medium- and large-sized enterprises, the fall in September was followed by a new decline in October and by a slight recovery in November, when the indexes hit 90.2 and 92.4 respectively, coming in decidedly lower than in August (93.9 and 95.3).

As for the underlying components of the confidence climate, the opinions on the level of orders recorded a sharp drop for all firm sizes in the last three months, declining to the lowest level since the start of 2006. Inventories diminished instead for smaller firms and continued to build up for medium- and large-sized ones. Lastly, with regard to production expectations a moderate recovery characterized smaller firms, while those with more than 100 employees instead recorded a slight deterioration.

**Confidence climante by firm size**

	Confidence Climate	Small Firms	Medium Firms	Large Firms
August	93.9	94.0	93.9	95.3
September	92.3	92.4	91.2	93.0
October	92.8	93.9	89.9	91.8
November	92.2	92.7	90.2	92.4

