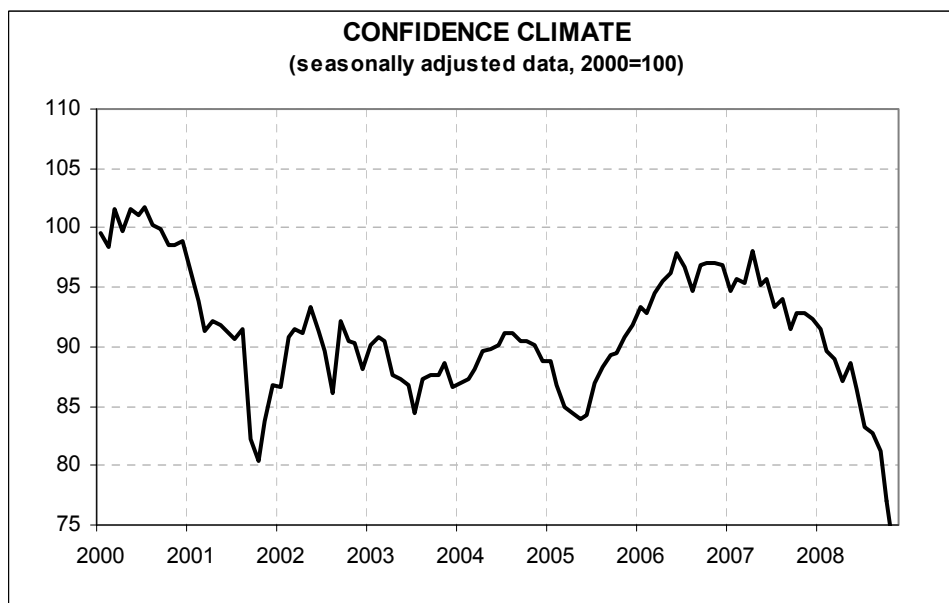




Date: November 26, 2008
TEL.: 06/444821

MANUFACTURING FIRMS' CONFIDENCE DECLINES IN NOVEMBER AND SIGNS OF CREDIT CONTRACTION EMERGE

- The seasonally adjusted confidence index (2000=100) fell to 72.2 from 76.9 in the previous month, reaching its lowest value since August 1993
- Also current and expected orders markedly declined in both domestic and foreign markets. Moreover, the fall in demand negatively affected production expectations
- For the first time since ISAE introduced in the survey new questions about possible credit constraints connected to the ongoing crisis, the share of firms indicating a tightening in credit access conditions increased (from 27.2% in September to 43.5% in November)
- The proportion of firms which had recent contacts with banks but did not obtain the credit they hoped for went up from 8% to 14%. In most cases, the failure to obtain credit was caused by explicit denial by banks
- The fall in confidence was widespread across all main productive sectors: the index mostly dropped for investment and intermediate goods (from 73.8 to 66.2 and from 72.3 to 67.3, respectively), whereas it posted a lower reduction in the consumer goods sector (from 83.7 to 82.8)
- At the regional level, the fall was particularly noticeable in the North (moving from 74.4 to 68.4 in the North West and from 77.2 to 72.1 in the North East) and in the *Mezzogiorno* (from 80.3 to 76.3), while it was less marked in the Centre (from 83.5 to 80.9)
- The nearly ten-point deterioration in confidence recorded by manufacturing firms in the last three months was rather homogeneous also according to firm size. Between August and November the index diminished from 84.9 to 74.9 for small firms, from 76.9 to 64.1 for midsize ones, and from 81.4 to 68.4 for large firms



Data on December shall be released on December 29, 2008

The next ISAE surveys are scheduled as follows:

November 27: 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)

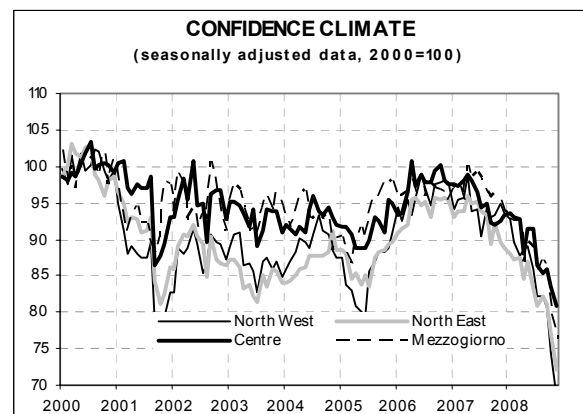
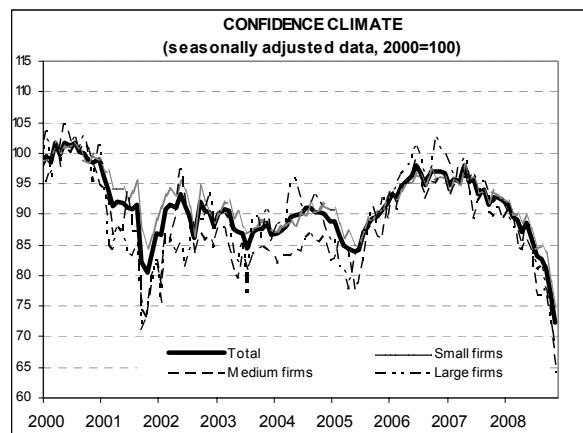
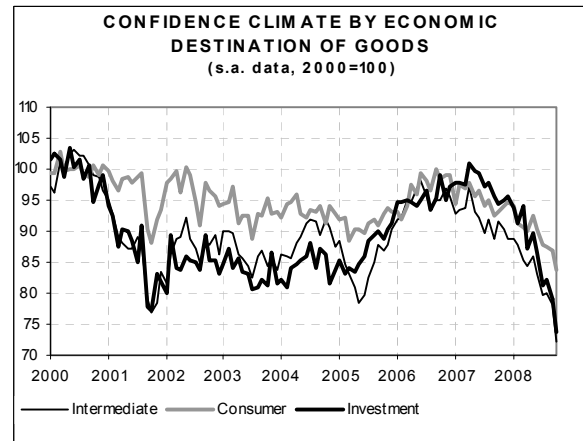
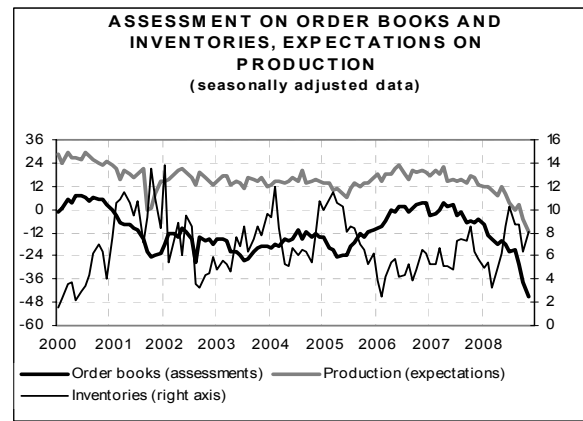
General results

According to the ISAE Survey, carried out between November the 3th and the 19th, the confidence climate of manufacturing and mining firms diminished from 76.9 in October to 72.2 in November, the lowest level since August 1993. Entrepreneurs were markedly pessimistic about the current state of demand (mainly foreign demand) and production. Accordingly, inventories of finished products increased, though moderately. This attitude of mistrust affected all main productive sectors, though not homogeneously. The index fell nearly eight points in the investment goods sector (from 73.8 to 66.2, a minimum last seen in September 1993) and was down five points for intermediate goods (from 72.3 to 67.3, a historical low since the start of the nineties). Confidence declined more moderately for consumer goods (from 83.7 to 82.8, a low last reached in July 1993).

Deterioration widely spread across the country, though at different rates in the various areas. The decrease was sharper in the North (from 74.4 to 68.4 in the North West and from 77.2 to 72.1 in the North East) and in the *Mezzogiorno* (from 80.3 to 76.3), while it was less marked in the Centre (from 83.5 to 80.9).

The nearly ten-point fall in confidence recorded by manufacturing firms in the last three months was rather uniform also according to firm size. Between August and November, the index diminished from 84.9 to 74.9 for small firms, from 76.9 to 64.1 for midsize ones, and from 81.4 to 68.4 for large firms.

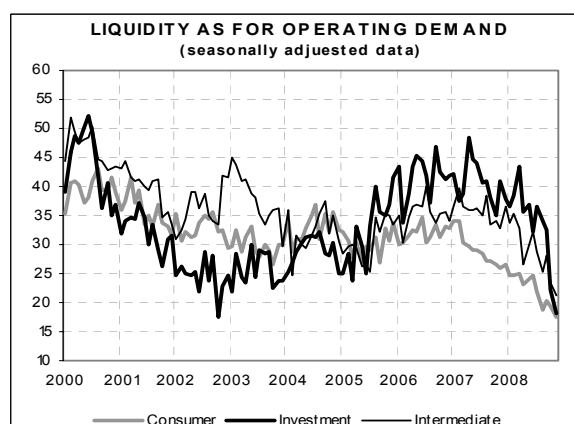
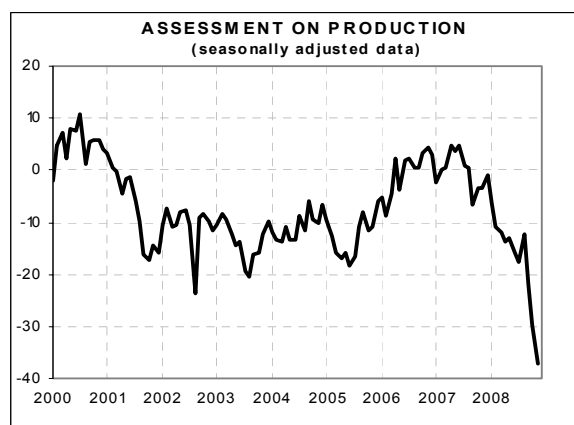
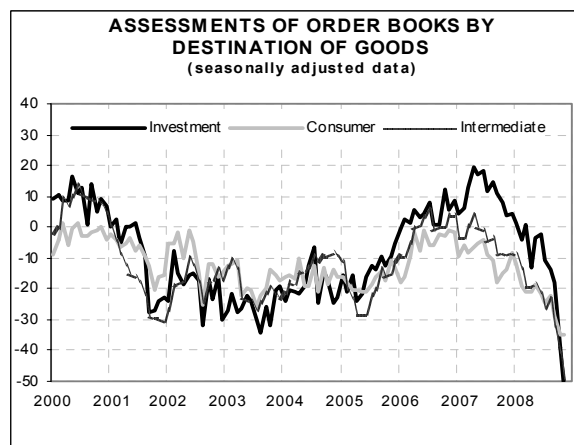
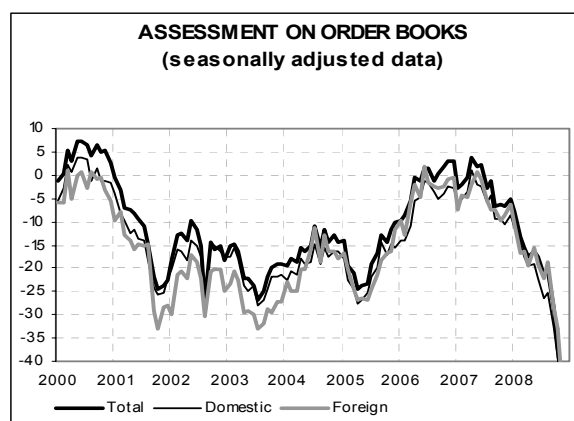
For the first time since ISAE introduced in the survey new questions about possible credit constraints connected to the ongoing crisis, the share of firms indicating a tightening in credit access conditions increased (from 27.2% in September to 43.5% in November). Moreover, the proportion of firms which had recent contacts with banks, but did not obtain the credit they hoped for, rose from 8% to 14%. In most cases the failure to obtain credit was caused by explicit denial by banks.



Situation in the reference period (November 2008)

In November, manufacturing firms were clearly more pessimistic, compared to the previous month, about the current trend in orders and production. The decline mainly characterized foreign demand (the balance lowered from -33 to -44), but affected also the domestic market (from -39 to -46). Overall the opinions on orders diminished from -37 to -45, hitting the lowest value since August 1993. In line with the negative trend in demand, production levels decreased, moving from -30 to -37 and inventories increased slightly (from 6 to 8). Also company liquidity declined (from 22 to 19).

Pessimism about the current situation distinguished all productive sectors, though not uniformly. Among producers of investment goods, the opinions on the level of orders declined from -39 to -52, lowering in both domestic and, mainly, foreign markets (from -41 to -50 and from -27 to -45, respectively). Also assessments of the level of production dropped seven points (from -28 to -35), inventories increased (from 6 to 11), and company liquidity shrunk (from 22 to 18). In the intermediate goods sector, the opinions on orders diminished from -41 to -50. Also in this case, the fall was slightly sharper in foreign markets than in the domestic one (from -38 to -50 and from -41 to -51). Firms also gave highly negative assessments on the trend in the current level of production (the balance declined from -30 to -43), while inventories remained stable and company liquidity decreased (from 24 to 21). In partial contrast, producers of consumer goods recorded virtual stability for orders and production, though foreign orders clearly declined (from -34 to -39). Inventories remained unchanged and company liquidity lowered (from 19 to 17).



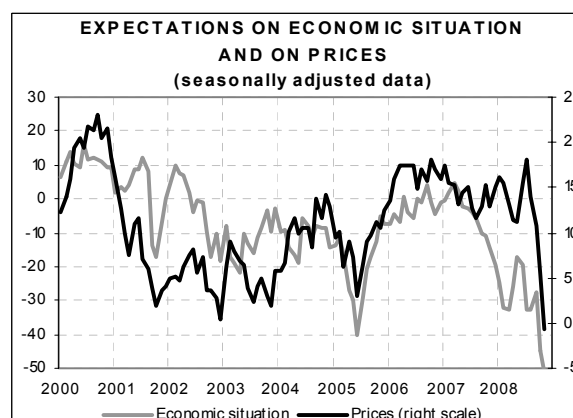
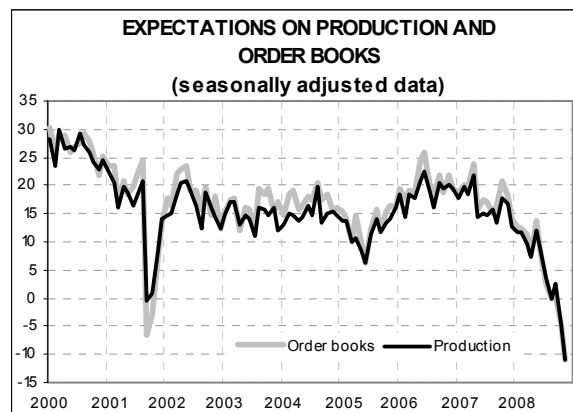
Outlook for the following three months

In November, firms' prospects for main company variables and for the Italian general economic conditions sent highly negative signals, sharply worsening with respect to October. The balances related to expectations for orders and production slumped (both dropped six points over the previous month). Firms were also extremely pessimistic about employment expectations (the balance lowered from -10 to -17). Prospects for company liquidity and the general economic situation mirrored the negative trend in financial markets. The related balances diminished from -14 to -22 and from -45 to -51, respectively. Also expected selling price pressures eased (from 5 to -1).

At the sector level, a slump mainly distinguished expectations of manufacturers of investment and intermediate goods. In detail, with regard to the former, expectations for demand, production, employment and liquidity sharply dropped (moving from -3 to -18, from -7 to -14, from -7 to -16 and from -21 to -27, respectively), while selling price prospects increased slightly (from 7 to 8). Consequently, the outlook for the overall Italian economy came in markedly negative (the balance fell from -51 to -61). In the intermediate goods sector, firms cut their expectations for production and prices (they both fell approximately eight points over the previous month), reduced orders' prospects (the balance declined from -13 to -17), and downgraded those for the general economic conditions (from -53 to -58). Also expectations for employment and company liquidity worsened (both by five points over the previous month). The fall in short-term prospects was less dramatic for companies producing consumer goods: forecasts for production, prices, employment and the overall economy declined, in the order, from 3 to 1, from 7 to 5, from -10 to -14 and from -49 to -51. Forecasts for orders and liquidity gave instead more unfavourable indications (the balance went down from 6 to 1 and from -9 to -14, respectively).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
Aug 2008	82.7	-21	9	0
Sept 2008	81.3	-28	9	2
Oct. 2008	76.9	-37	6	-5
Nov. 2008	72.2	-45	8	-11



Regional breakdown of ISAE survey results

The deterioration in confidence was widely spread across the country. The seasonally adjusted index clearly dropped in the North (from 74.4 to 68.4 in the North West and from 77.2 to 72.1 in the North East), while in the Centre and the South pessimism was more moderate (the index moved from 83.5 to 80.9 in the Centre and from 80.3 to 76.3 in the *Mezzogiorno*). The analysis of the single underlying components of the confidence climate pointed to widespread pessimism for assessments on the level of orders, while production prospects improved in the Centre. Inventories of finished products were considered to have built up everywhere, except in the North East.

North West

Confidence continued to decrease, reaching in November its September 1993 low. In this area, the fall was mainly due to increasingly negative assessments on the level of orders (both domestic and foreign) and to gloomy prospects for the level of production. Also inventories of finished products were considered to have increased over the previous month.

North East

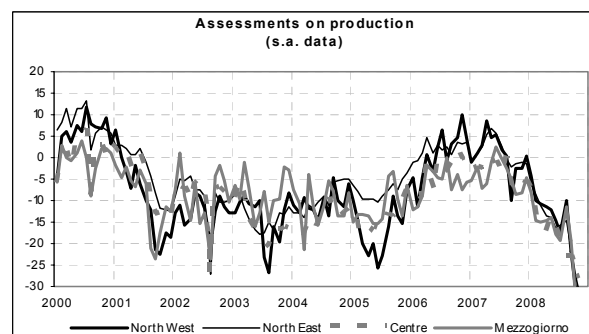
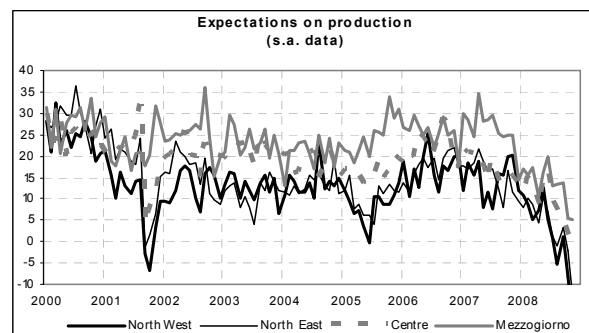
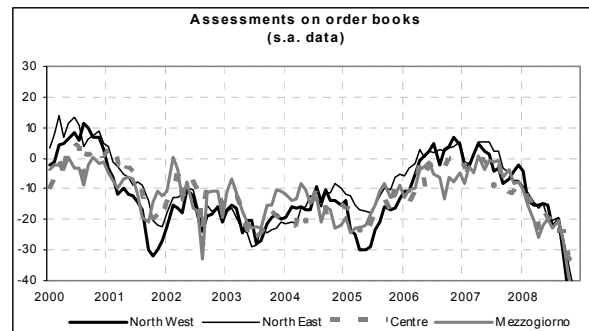
Confidence worsened for the third straight month, coming in at its lowest level since August 1993. The fall essentially stemmed from the sharp deterioration in the opinions on orders (both domestic and foreign) and in production expectations. Instead, a moderate de-stocking of inventories of finished products sent signs of recovery.

Centre

Confidence deteriorated for the second consecutive month, reaching also in this case one of the worst showings since August 1993. The fall was mainly driven by sharp worsening in the opinions on orders (pessimism affected both domestic and foreign demand) and in inventories of finished products. In contrast with the other areas, production prospects improved slightly.

Mezzogiorno

Confidence decreased for the sixth consecutive month, hitting the worst result since August 1993. The fall was the consequence of sharply negative opinions on the level of orders (both domestic and, above all, foreign ones), while production expectations remained virtually stable. Lastly, inventories of finished products were considered to have increased.



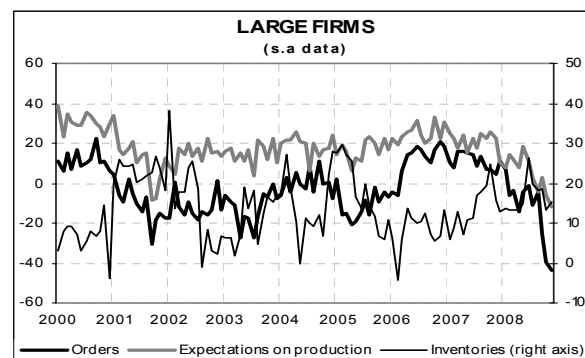
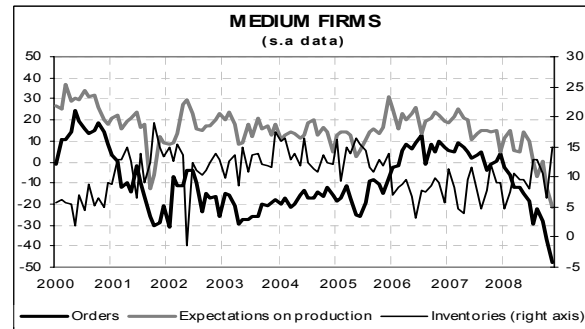
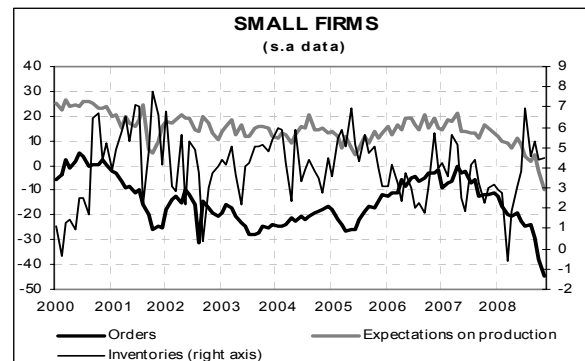
Focus: Confidence trend by firm size

Manufacturing firms' confidence lowered by more than ten points between August and November 2008, going back to the low posted during the 1993 crisis. The splitting out of data by firm size showed that the sharpest deterioration occurred for medium and large-sized firms, but the indicator declined significantly also for smaller ones (with up to 99 employees). More in detail, for small firms, the confidence indicator diminished ten points between August and November, moving from 84.9 to 74.9, for medium-sized firms (employing 100-250 persons) the indicator dropped from 76.9 to 64.1, while for large firms it declined from 81.4 to 68.4.

As for the variables included in the calculation of the confidence climate, the downturn posted between August and November by small firms was due to the sharp deterioration in the opinions on orders and to growing uncertainty about short-term production prospects. Inventories remained instead virtually stable at the level reached in the summer. For medium-sized firms, the collapse in demand came along with marked downsizing of production expectations and slight restocking of inventories. Lastly, for large-sized firms, demand collapsed (the related balance reached a record low last seen at the start of the nineties) and production expectations markedly deteriorated as well. However, inventories started to diminish slightly with respect to the maximum posted during the summer months.

Confidence climate by firm size

	Confidence Climate	Small Firms	Medium Firms	Large Firms
August	82.7	84.9	76.9	81.4
September	81.3	83.8	77.9	77.2
October	76.9	79.1	72.9	71.8
November	72.2	74.9	64.1	68.4



Focus: The access to credit

According to the questions on credit access conditions, added by ISAE on a monthly basis starting from November 2008, the share of firms complaining about increasingly deteriorating conditions rose markedly (43.5% of the sample, compared to only 23.4% and 27.2% in June and September). Firms reporting worsening credit conditions were mainly those in the North and the Centre (42.5% in the North West, 46.9% in the North East, and 43.4% of the sample in the Centre). In the *Mezzogiorno* such a percentage clearly increased, though it remained below the national average (37.3%). According to firm size, credit conditions were considered particularly negative by medium-sized firms (53.9%, compared to 42.2% of small firms and 42.3% of large ones).

In contrast with the previous surveys, discouragement emerged. The share of firms which formulated their opinion only on the basis of sole personal beliefs increased (55.7% of the sample, compared to 44.3% of firms which relied instead on recent direct contacts with banks). Firms in the *Mezzogiorno* and large-sized ones mainly continued to make their judgement according to their personal beliefs (in both cases, over 60% of surveyed firms). However, an increase also characterized the number of firms that contacted credit institutions for information purposes only, without actually asking a loan (32.3%, as opposed to 26.6% in June and 30.1% in September).

Among those who stated they did have recent contacts with banks, 53.3% obtained a loan, 14.4% received a denial, and 32.3% only asked information. Total new loans continued to decline with respect to both June (66.5%) and September (61.9%). In contrast, the share of firms which were refused credit increased (from 6.9% in June and 8% in September), mostly in the North West. With regard to firm size, mainly medium-sized firms complained about failure to obtain lending (19% of firms which actually applied for it, compared to 13.9% for small firms and 14.2% for large ones).

The failure to obtain bank credit was mainly caused by explicit denial by banks (for 11% of the sample, compared to 3.3% in June and 5.8% in September). The share of firms indicating they rejected credit because of too onerous credit terms did not significantly rise instead (3.4% of the sample, compared to 3.6% in June and 2.2% in September). Across all regions and firm sizes, the explicit denial by the bank continued to be the main cause for firms' failure to obtain credit. However, for 7.2% of large firms excessively costly conditions were also a significant motivation.