

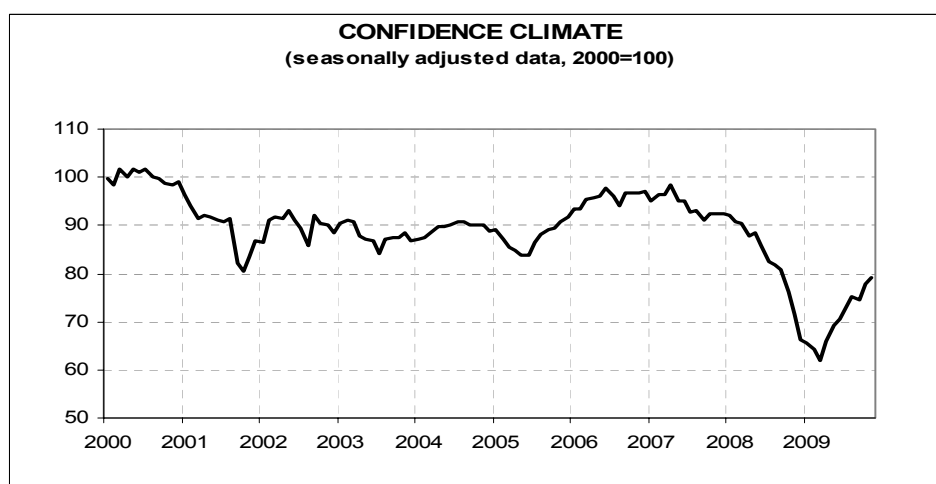


FURTHER INCREASES IN MANUFACTURING FIRMS' CONFIDENCE CLIMATE

- Considered net of seasonal factors, the index set at 78.8 (from 77.4) in November, showing its highest value since September 2008
- The increase was due to bettered short-term production forecasts and improved judgments on the state of current demand (mostly from abroad); inventories below standard values
- More pessimistic signals were sent about the country's general economic conditions and labour
- The index unevenly increased across areas: a sharper growth was recorded in consumer goods (from 83 to 85), a more moderate increase was observed for intermediate goods (from 76.1 to 77.6) and investment goods (from 69.1 to 70.2)
- Differences emerged at regional level: the index climbed in the North East (from 72.7 to 75.9), slightly increased in the Centre (from 80.5 to 82.4) and the North West (from 79.4 to 80.1) and clearly decreased in the *Mezzogiorno* (from 80.0 to 77.1)
- As to credit market, credit rationing slightly decreased and a sharper fall was reported on the financing demand from manufacturing firms

WITH REFERENCE TO CUSTOMARY HALF-YEAR QUESTIONS ON THE INVESTMENT ACTIVITY, FIRMS REPORTED A REDUCTION IN THE EXPENDITURE FOR CAPITAL GOODS FOR THE YEAR 2009 AND AN EXPECTED DROP FOR 2010

- The contraction in the accumulation process was mainly due to insufficient demand and to difficulties in receiving financial resources; the decisions to incur expenditures were inversely prompted by "technical factors" associated to technological developments
- Investments in both years were primarily addressed to replacing obsolete plants and, secondarily, to increasing the production capacity and the rationalization processes
- According to most respondents, the expenditure rationalization process was essentially addressed to automizing existing production processes and, to a lesser extent, introducing new production and energy saving techniques
- The expenditure for the aforementioned expansion plan was in most cases incurred within the framework of existing production programs even if a large share of firms (65%) affirmed to be interested in introducing new products by the year 2010
- The environmental expenditure was mainly addressed to soil, air and water protection as well as, to a lesser extent, to waste treatment and noise reduction programs



Data on December shall be released on 29 December 2009

The next ISAE surveys are scheduled as follows:

23 December: ISAE Monthly Consumer Survey (Reference period: December)

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

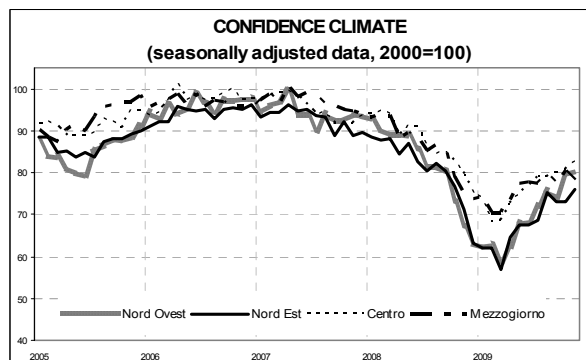
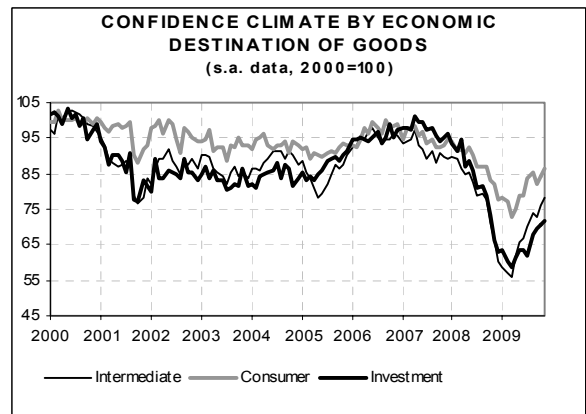
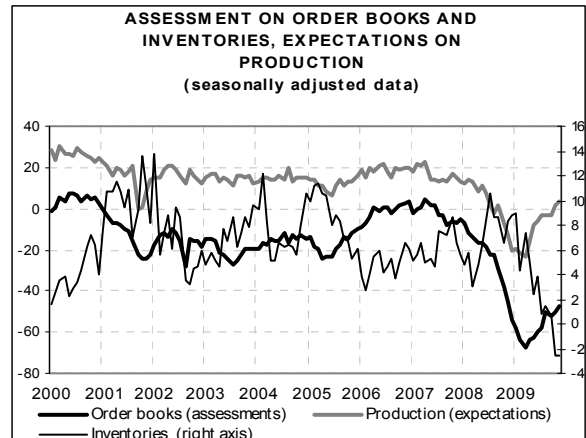
General results

According to the ISAE survey carried out from November 2 to 18 on a panel of about 4.000 firms, the confidence climate of the manufacturing and extractive sector, considered net of seasonal factors, climbed from 77.4 to 78.8 in November. Like in October, the hints of optimism reported in November were due to bettered judgments on the state of current demand (mostly from abroad) and to improved short-term expectations for production; inventories held steady below standard levels. Less positive hints, however, stemmed from the expectations on the country's general economic conditions and labour. As to the credit market, credit rationing slightly diminished and the financing demand from firms receded.

The index unevenly increased in all areas: confidence climbed from 76.1 to 77.6 for intermediate goods, from 83 to 85 for consumption goods and from 69.1 to 70.2 for investment goods. More significant differences instead were reported at regional level: confidence sharply recovered in the North East (from 72.7 to 75.9) and in the Centre (from 80.5 to 82.4), edged down in the North West (from 79.4 to 80.1) and dropped in the *Mezzogiorno* (from 80.0 to 77.1).

With reference to customary half-year questions on the investment activity, firms reported a reduction in the expenditure for capital goods in 2009 and forecasted a drop for 2010. The contraction in the accumulation process was mainly due to insufficient demand and to difficulties in receiving financial resources; the decisions to incur expenditure were inversely prompted by "technical factors" associated to technological developments. Investments in both years were primarily address to replacing obsolete plants and, secondarily, to increasing the production capacity and the rationalization processes. According to most respondents, the rationalization expenditure was addressed to automating existing production processes and, to a lesser extent, introducing new production and energy saving techniques. The expenditure for the

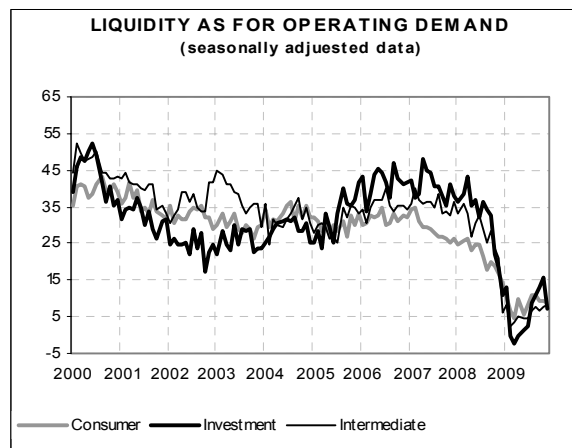
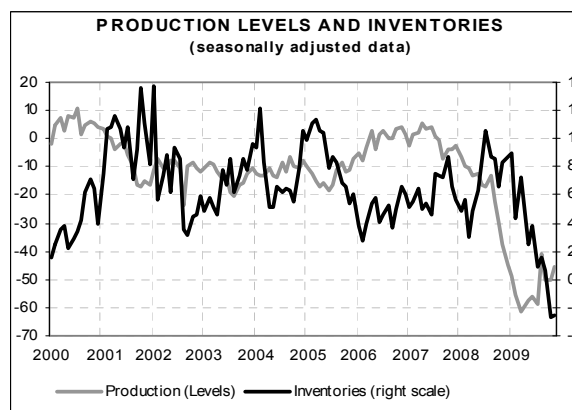
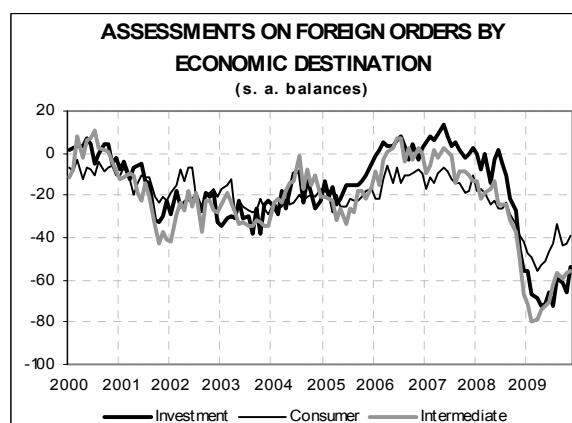
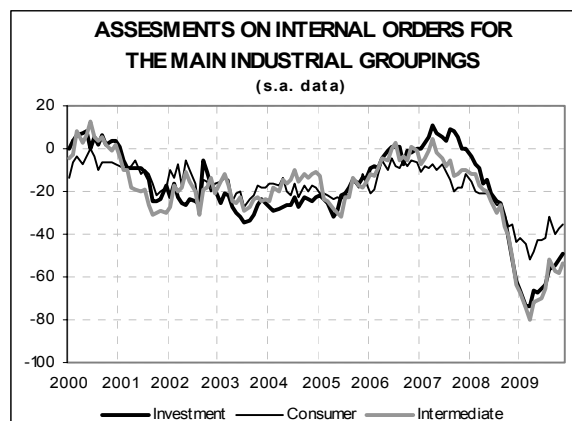
aforementioned expansion plan was, in most cases, incurred within the framework of existing production programs even if a large share of firms (65%) affirmed to be interested in introducing new products by 2010. The environmental expenditure was mainly addressed to soil, air and water protection as well as, to a lesser extent, to waste treatment and noise reduction programs.



Situation in the reference period (November 2009)

An increase in order books was signaled by businesses in November. The balance was equal to -48 (from -51 in October). Foreign demand increased (from -54 to -49) to a larger extent compared to domestic demand (from -49 to -48). The production trend was deemed to recover (balance from -50 to -46) but corporate liquid funds were receding (balance from 11 to 8). The share of businesses affirming that inventories were below normal levels was higher than that of firms considering inventories above normal: the balance moved from -3 to -2.

At sector level, the producers of investment goods showed an increase in book orders (from -62 to -56) – especially from abroad (from -66 to -54) – and an upsurge in production (balance from -61 to -52). Judgments on inventories slightly improved (from -1 to 0) but those on disposable assets for production needs sharply deteriorated (from 16 to 7). As to demand, the producers of consumption goods displayed signs of caution: judgments on order books rose from -38 to -36, despite foreign orders were clearly recovering (from -43 to -39). Inventories for this sector slightly increased (from 2 to 3) whereas production levels were deemed to hold steady (balance -37). Judgments on corporate liquid funds slightly deteriorated (balance from 9 to 8). The producers of intermediate goods were moderately optimistic: judgments on order books slightly recovered (balance from -56 to -54), as a result of the increased domestic demand (from -58 to -54) which compensated for the stability of foreign demand (to -56). Judgments on production levels (from -53 to -51) and corporate liquid funds (balance from 7 to 8) also improved; judgments on inventories slightly deteriorated (from -6 to -7).



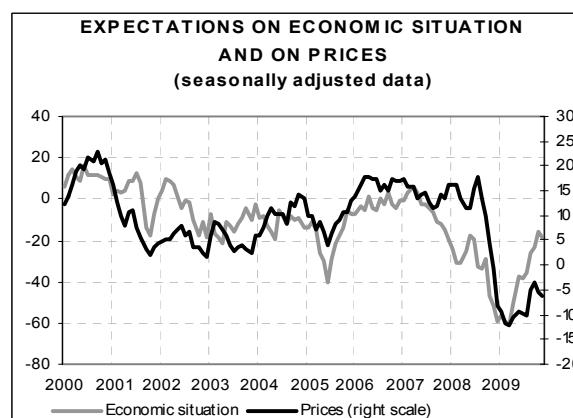
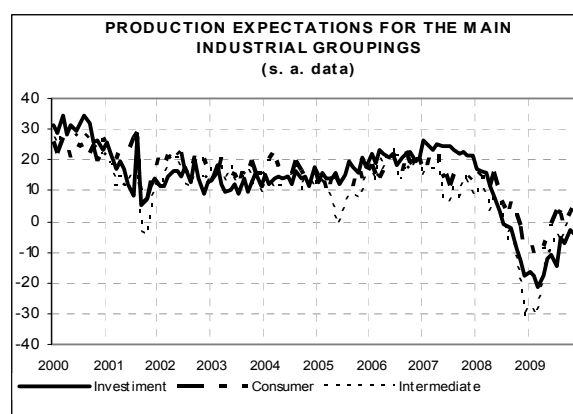
Outlook for the following three months

Discordant forecasts were expressed by businesses as to the company's main variables for the following months and more pessimistic hints, compared to last month, were sent by the same businesses on the general prospects for Italian economy. Expectations on production set at 3 in terms of balance (1 in October); forecasts on order books set at 5 (same as October) and those on liquid funds decreased to -12 (from -11); labour expectations fell (balance from -16 to -17) and the number of firms affected by an increase in selling prices in the following three months also diminished (balance from -5 to -7). The balance for general expectations on the Italian economic conditions finally slumped to -19 (from -16).

At sector level, expectations on order books (from 7 to -2) and the Country's economic situation (from -18 to -26) fell across the producers of investment goods: a slight decrease was also reported in the expectations on production (from -7 to -9) and employment (from -15 to -18). A further drop in selling prices (from -9 to -11) and stability from corporate liquid funds (balance -19) were also expected from producers. Expectations on order books (from 4 to 9) and production (from 2 to 7) strongly improved among producers. Hints of pessimism, however, were expressed on the prospective economic situation of the country (balance from -16 to -25). Unlike the other sectors, producers expected an increase in employment prospects (balance from -18 to -15) and a slight deterioration of corporate liquid funds (from -9 to -10). Forecasts on selling prices held steady (balance -4). Expectations on order books (from 6 to 7) and those on production (from 1 to 4) bettered among the producers of intermediate goods. An increase in list prices (balance from -9 to -8) and, differently from other sectors, a sharp recovery in the general economic trend (from -25 to -18) of the country were also expected. Cautious hints of optimism finally characterized the sector expectations on employment (from -18 to -17) and corporate liquid funds (-20 to -8).

Confidence climate and balances of index-building series

	Confidence climate	Level of order books	Inventories	Expectations on production
Aug. 2009	74.9	-51	2	-3
Sept. 2009	74.5	-52	1	-4
Oct. 2009	77.4	-51	-3	1
Nov. 2009	78.8	-48	-2	3



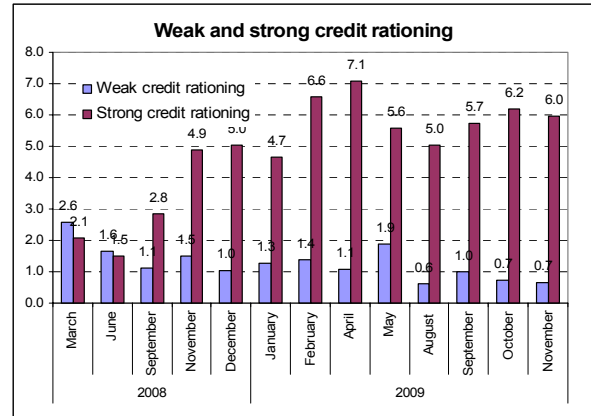
Access-to-credit conditions

A slight improvement was observed in November in the judgments from manufacturing and extractive firms on the access-to-credit conditions: the share of firms which considered conditions less favourable moved, in fact, from 24.6% to 22.3%; a particularly sharp increase was forecasted for medium-sized firms (from 24.2% to 18.1%, against March 2008 values); as to large-sized firms, on the contrary the rate increased with respect to the previous survey, moving from 15.7% to 16.2%. At regional level, a worsening in the access-to-credit conditions was mainly reported by the firms seated in the *Mezzogiorno*, whereas less unfavourable judgments were reported in the other areas.

The aforementioned positive signals were confirmed by the share of firms affirming not to have obtained the requested loan: such share, in fact, decreased from 6.9% to 6.6% of the sample. At size level, difficulties shrunk for medium and, most of all, large-sized firms (respectively from 6.7% to 5.2% of the sample and from 4.9% to 3%) but slightly increased for smaller firms. At geographical level, the share of rationed firms decreased in all main areas, except for the Centre (from 4.8% to 6.8%). The non-assignment of loans was still essentially due to the bank refusal which, in any case, seemed to decrease with respect to the previous month (from 6.2% to 6% of “strongly rationed” firms); the share of firms (0.7%) refusing new and more expensive credit conditions (the so-called “weakly rationed” firms) held steady.

The decreased supply-side pressures were, however, accompanied by a decreased credit demand, which shrunk from 30% to 26% among those who were granted the loan; among these, about 19% declared to have obtained the loan at the same conditions as the previous month and 7% lamented more expensive conditions. In particular, large-sized firms lamented higher rates for obtaining loans; the most significant increase at regional level was observed in the North

West. Among the extra burdens affecting the granting of the loan, firms highlighted the increase in interest rates and management costs and, to a lesser extent, the request of eligible guarantees.



Granted Loan - 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
Dic-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
Sep-09	27.7	26.9	32.8	31.7
Oct-09	30.0	28.8	34.0	33.1
Nov-09	26.0	24.4	27.9	33.7

Granted Loan – Yes, but...				
	August	Sept.	October	November
... same conditions	18.5	20.3	22.3	18.9
... more expensive conditions	7.7	7.4	7.7	7.1

Reasons for extra burdens on credit conditions				
	August	September	October	November
Rates	5.0	5.0	5.0	4.0
Eligible guarantees	2.0	3.0	2.0	2.0
Collateral	1.8	1.8	2.0	1.4
Restrains	1.6	1.7	3.0	1.5
Costs	2.3	1.8	2.8	2.0

Regional break down of ISAE survey results

The moderate confidence recovery reported at national level stemmed from different behaviours at regional level: the seasonally adjusted index sharply grew in the North East (from 72.7 to 75.9), slightly increased in the Centre (from 80.5 to 82.4) and the North West (from 79.4 to 80.1) and shrunk in the *Mezzogiorno* (from 80.0 to 77.1).

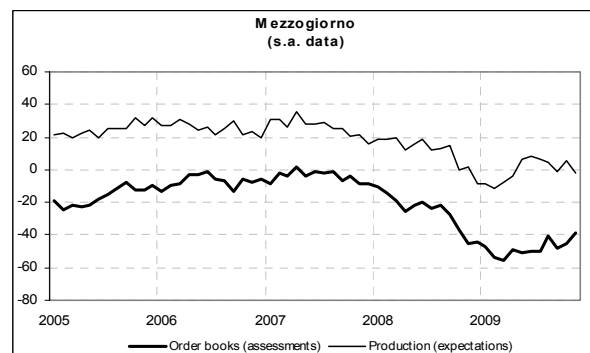
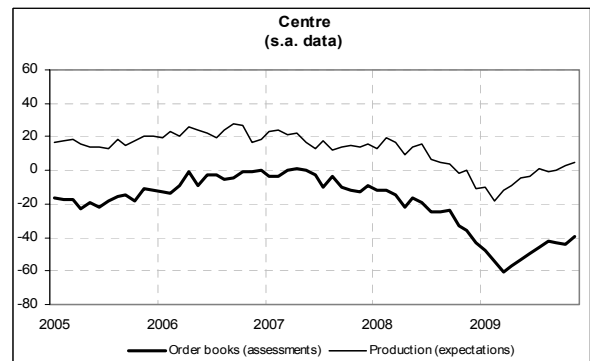
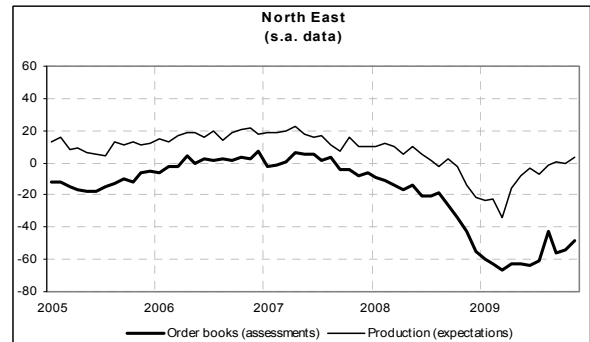
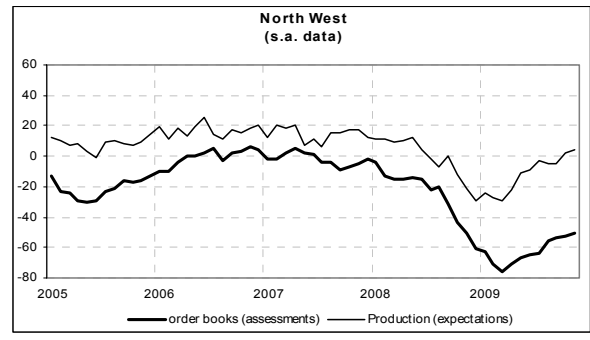
Contrasting signals stemmed particularly from the assessments on end-product inventory levels and production expectations. As to demand, optimism spread across the Country, albeit differently according to regions.

North West: Confidence increase was favoured by the improved judgments on order books (balance from -53 to -51), with particular reference to foreign ones. The slight inventory recovery (from -9 to -8) was accompanied by positive hints on production forecasts (from 2 to 4).

North East: The index rose more than 3 points compared to October, thanks also to the sharp increase in orders (from -54 a -49) – both domestic and from abroad – to the sharp improvement in production expectations (from -1 to 3) and to the moderate de-stocking of end products (from 3 to 2).

Centre: Confidence grew nearly 2 points as a result of the increased level of orders (from -45 to -41), especially from abroad (from -48 to -42). Expectations on production also increased (from 3 to 4) and inventories held steady (next-to-normal levels).

Mezzogiorno: Differently from what reported in the other areas, confidence decreased hitting the same levels as May: the strong order recovery (from -46 to -41; from -55 to -45 on foreign markets) was more than offset by the decreased expectations on production (from 5 to -3) and by new inventory accumulation (balance from 1 to 8).



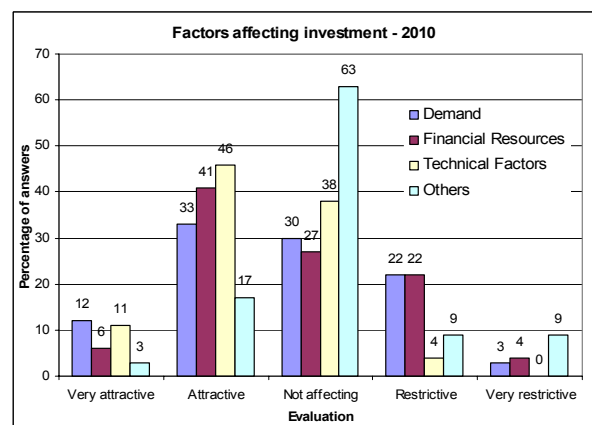
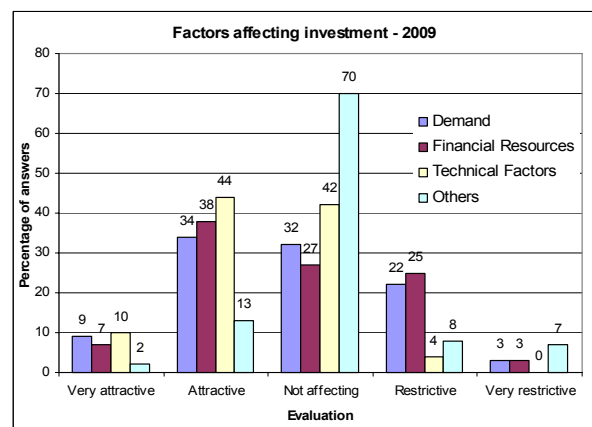
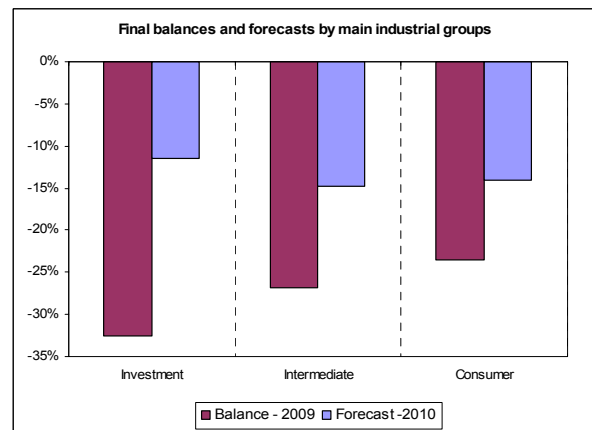
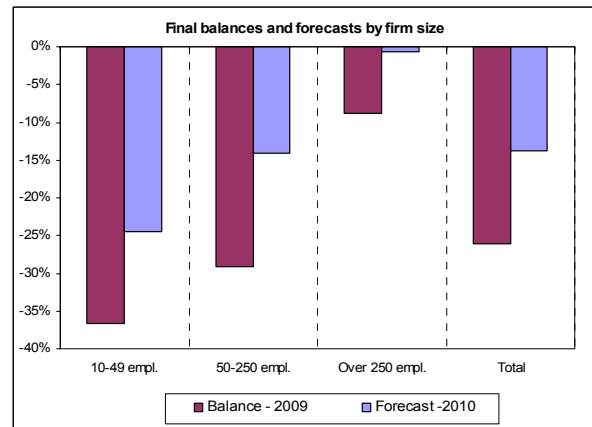
Investments in 2009 and forecasts for 2010

Last October, ISAE carried out the usual half-yearly survey on the investing activity carried out by the manufacturing and extractive firms. Only 2,626 out of 4,000 firms included in the panel provided answers to the questionnaire. The survey was exclusively addressed to those firms which had effectively carried out or planned investment activities in the 2008-2010 period.

According to the pre-final balance for the year 2009, investments in the manufacturing and extractive sector were experiencing a 26.1% contraction; firms expected a new 13.7% expenditure reduction in 2010. The result for 2009 mirrored the general negative trend affecting firms of all sizes and sectors. Investment reduction particularly affected small-sized firms (-36.6%) and the producers of investment goods (-32.5%). The result for 2010 was homogeneous at sector level, with sharp differences under the dimensional profile: investments were deemed to decrease for firms with up to 250 people employed in the investment division and to hold steady for large-sized firms.

Factors affecting investment

According to the firms consulted on the ongoing and following year (2010), the accumulation process was essentially driven by technical factors associated to technological developments: 44% and 46% of firms respectively declared that such factors represented an “attraction” for the decisions to incur the expenditure for 2009 and 2010 with respect to 4% of firms, in both years, which considered the same factors as “restrictive”. On the other hand, the major restraints stemmed from insufficient availability of financial resources, which was deemed “restrictive” from, respectively, 25% (in 2009) and 22% (in 2010) of firms included in the sample; similarly, the demand contribution was deemed “restrictive” by 22% of firms, both for 2009 and 2010.



Expenditure allocation

According to the respondent firms, the main expenditure goal, both for 2009 and 2010, was the replacement of obsolete plants (respectively 38% and 34% of total expenditure), followed by the enlargement of the production capacity (27% and 28%), the rationalization processes (24% and 22%), “other expenses” (8% and 12%) and environmental protection (3% and 4%). Looking at the firm size, the other three classes under exam wanted the expenditure to be allocated for the replacement of obsolete plants (respectively 43%, 37% and 32% for small, medium and large-sized firms). If, for small-sized firms, expenditure was equally addressed to the rationalization processes and the enlargement of the production capacity (23%), for medium-sized firms expenditure was essentially directed to the enlargement of the production capacity whereas for large-sized firms it was addressed to the rationalization processes. At sector level, the expenditure for expanding the production capacity characterized the accumulation process of the firms producing investment goods whereas, most expenditure was to be addressed to the replacement of obsolete plants for the firms producing consumption and intermediate goods.

Expenditure for rationalization processes and enlargement of production capacity

A largest share of the rationalization expenditure was addressed to the automation and mechanization of existing production processes (77% and 82% of answers in 2009 and 2010), followed, in order of importance, by investment for introducing new production (54 and 60% of answers) and energy saving (41% in both years) techniques. The expenditure for the enlargement of the production capacity in 2009 was utilized within the framework of existing production processes by 76% of existing firms; the expenditure for introducing new products was used by 57%; this share is set to increase to 65% in the next year. The

expenditure for environmental purposes was mainly related to soil, air and water protection and, to a lesser extent, to waste treatment and noise reduction.

