



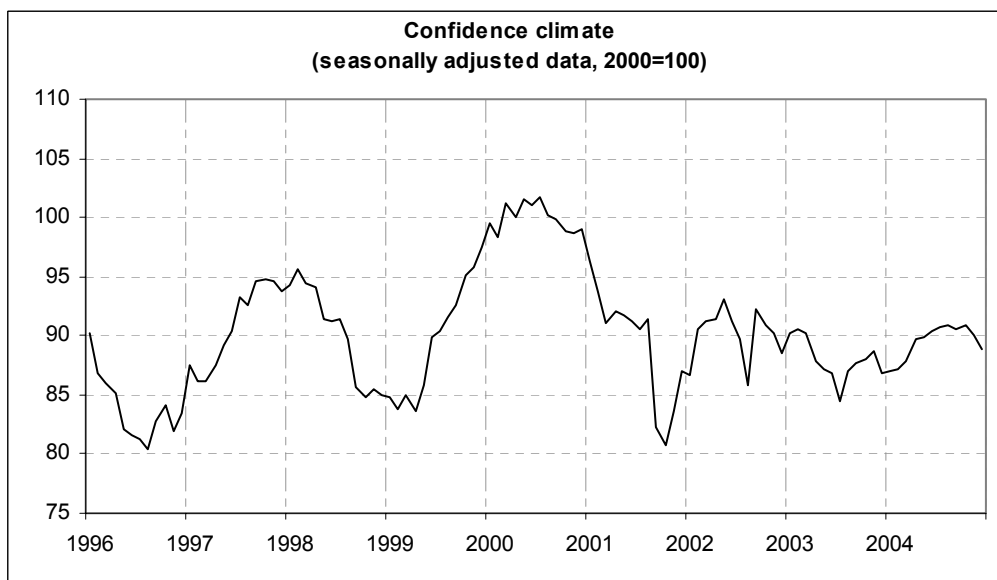
Date: December 28, 2004
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MANUFACTURING FIRMS' CONFIDENCE FALLS AGAIN IN DECEMBER

- In December, the seasonally adjusted confidence index (base year 2000 = 100) falls from 90.1 to 88.9, which is close to the minimum figures of March 2004. The contraction is mainly due to the end of the stock reduction phase, alongside with cautious assessments on the order-book trend and with slightly darker forecasts on production compared to November
- Among the other variables, a worsening is registered in forecasts on the employment trend and on the general economic situation
- Looking at single sectors, confidence improves in investment goods (the index passing from 82 to 84.3), but it falls in intermediate (from 90.3 to 87.6) and in consumer goods (from 94.7 to 93.5)

EXPECTATIONS ON THE EXPORT TURNOVER DECREASE IN Q4

- In Q4, the balance concerning the expected trend of the export turnover (for the first time seasonally adjusted by ISAE) falls down from 18 of Q3 to 9; also evaluations on the current trend of that variable are decreasing from 4 to 2
- Unfavourable indications also come from assessments on the constraints to exports, which are growing compared to the previous quarter, maybe because of the further euro appreciation
- Among the countries which are considered as important competitors on both the domestic and the international markets, the role of China and of the other non-EU countries continues to grow



Data referring to January shall be diffused on **January 27, 2005**.

Next ISAE surveys are scheduled as follows:

December 29, 2004: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: November) and ISAE Monthly Business Service Survey (Reference month: December)

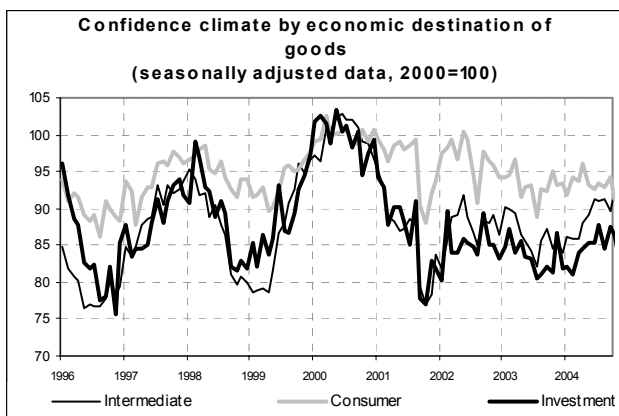
January 11, 2005: Comparative Business Surveys for Italy, Germany and France (Reference month: December)

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 December 2 and 20 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls again in December from 90.1 to 88.9, which is close to the minimum figures of March 2004. The contraction is mainly due to the end of the stock reduction phase, alongside with cautious assessments on order books and slightly darker forecasts on production compared to November. Among non confidence-building variables, a worsening is registered in forecasts on employment and on the general economic situation. The selling price balance stabilises on the high levels reached in the past few months, with a further rise in investment goods, a slight fall (from high levels) in intermediate goods and a substantial stability (on rather modest levels) in consumer goods.

Looking at single sectors, confidence improves in investment goods (the index passing from 82 to 84.3), but it falls in intermediate (from 90.3 to 87.6) and in consumer goods (from 94.7 to 93.5).



Situation in the reference month (December 2004)

In December, manufacturing firms' assessments on order books and demand show signals of weakening, particularly with reference to foreign markets, which are negatively affected by the euro appreciation. Indeed, less negative indications come from production.

The seasonally adjusted order-book balance slightly falls from -13 to -14, alongside with a stable domestic demand (the balance equalling -16, as in November) and with a decreasing foreign demand (the balance contracting from -16 to -18, which is close to the minimum August figures). Inventories are growing (the balance rising from 8 to 11, near the February peaks) and the stock rise may partially justify the growing balance of the present production levels and of their current variation (passing from 3 to 5).

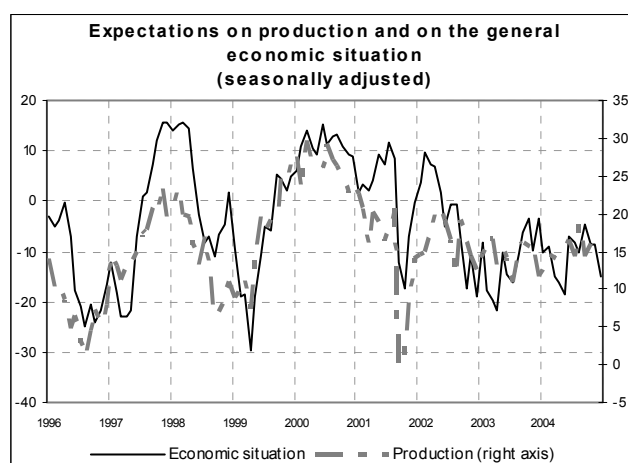
Looking at single sectors, the picture is rather dishomogeneous: demand assessments slightly improve in investment goods both on domestic (from -24 to -23) and on foreign (from -26 to -23) markets. Also the production levels and variation recover (the balances passing from -13 and -5 to -4 and 5 respectively), while the stock balance slightly falls (to 13) compared to the high figures registered in the previous month (14). Consumer goods producers are less optimistic and signal an order-book worsening (from -13 to -15), alongside with a modest recovery in the production level (from -12 to -10) and in the current production variation (from 5 to 7). Finally, the situation of intermediate goods is even more negative, as the balance of foreign order books strongly deteriorates (from -11 to -21), though the overall order-book balance is stable (at -9) and a marked stock growth (the balance passing from 6 to 12) goes alongside with a slight recovery in the production levels (from -9 to -6) and in the production variation (from 3 to 5).

Forecasts for next quarter

In December, ISAE respondents are slightly more pessimistic than in the previous month with reference to both the main firm variables and the overall Italian economic perspectives.

The balance of order-book expectations falls from 16 to 15, while the one on production goes from -3 to -6. The general economic expectations are particularly negative (the balance deteriorating from -9 to -15, which is close to the minimum May figures). The selling price balance remains high (at 13), though registering a slight fall compared to November (14).

Also forecasts by sectors are dishomogeneous, with a widespread pessimism in intermediate goods and rosier indications in sectors producing final goods. In particular, balances of expectations on order books and production in investment goods give signals of recovery (the balances rising from 14 for both variables to 16 and 19 respectively). However, in this sector, price expectations rise from 15 to 20, while those on employment and on the general economic trend suddenly fall (from -1 and -5 to -10 and -16 respectively). In consumer goods, balances remain stable, with the only exception of the one on production falling from 18 to 17. In intermediate goods, expectations on order books are worsening (from 14 to 11), as do those on production (from 13 to 10), employment (from -3 to -6) and the general economic trend (from -15 to -17). Selling price expectations decrease for the second month in a row as against the peaks reached in the past two months (the balance equalling 18, as in September).



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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Sept. 2004	90.6	-12	7	14
Oct. 2004	90.9	-14	5	16
Nov. 2004	90.1	-13	8	15
Dec. 2004	88.9	-14	11	14

The main results of the Survey on exports

According to the quarterly questionnaire submitted to exporting firms (almost half of the ISAE sample) - elaborated for the first time with the new methodology adopted since October 2004 - expectations on the export turnover diminish compared to Q3, with the seasonally adjusted balance falling from 18 to 9; assessments on the same variable also decrease, the seasonally adjusted balance passing from 4 to 2. Firms also signal growing constraints to exports: the share of those reporting significant export constraints goes up from 43 to 48%. In particular, respondents mention costs (which are relevant for 29% of the sample, as against 25% in Q3) and other reasons (23% of respondents, as against 20% in Q3) as the major constraints, probably both linked to the strong euro appreciation against the dollar.

Besides, the Survey provides information on the countries which are considered as the main competitors of Italian firms on the international markets. To this end, China (a major competitor for 24% of respondents as against 21% in Q3) is losing ground, as are other non-EU countries (which are important for 11% of the sample compared to 6%). On the other hand, the role as competitors of European countries such as Germany (signalled by only 23% of the sample, as against 26%), or of EU countries other than France, Germany and the United Kingdom (including new entrants, who are signalled as significant competitors by 14% of the sample, compared to 19% in Q3), or of the United States is decreasing, in spite of the

dollar devaluation (only 7% of respondents consider the USA as a major competitor, compared to 11% in the previous Survey). Finally, the roles of France and of the United Kingdom remain stable.

With regard to exports by geographical area, the share of exports towards Germany (absorbing 18% of all exports as against 16% in the previous quarter) and towards non-EU European countries (from 9 to 11% of the overall exports) grows, while exports aimed at EU countries other than France, Germany, Benelux and the United Kingdom are decreasing (from 23 to 20% of exports).

Finally, according to respondents, the domestic prices/export prices ratio is growing again and the seasonally adjusted balance rises from 3 to 4.

