



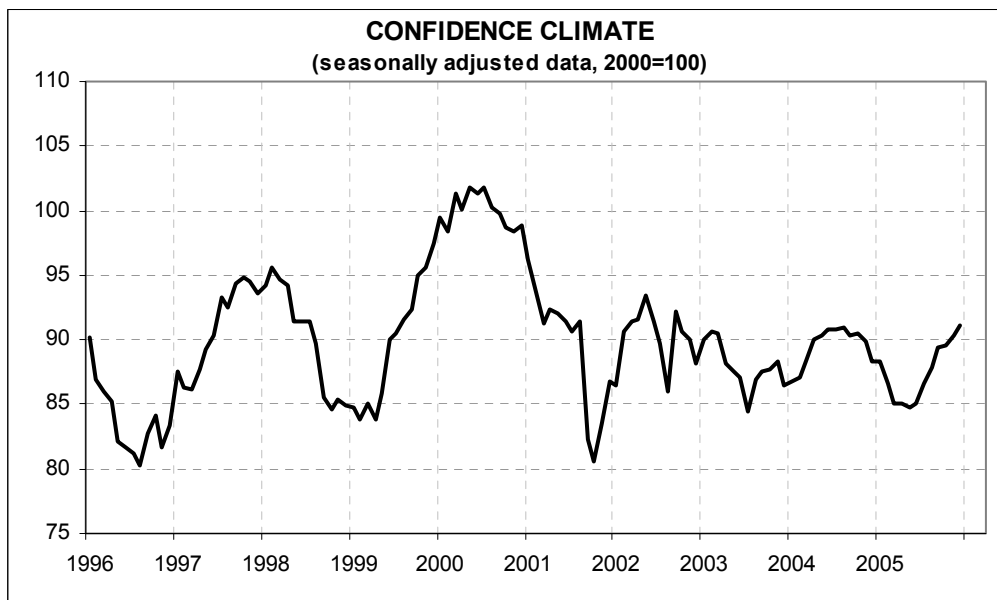
Date: December 22, 2005
TEL.: 06/444821

THE MANUFACTURING FIRMS' CONFIDENCE GROWS IN DECEMBER, GETTING CLOSE TO THE PEAKS OF THE PAST THREE YEARS

- In December, the seasonally adjusted confidence index (base year 2000 = 100) rises from 90.3 to 91.1, thanks, in particular, to better expectations on production and to rosier assessments on (foreign) order books
- The improvement is also observed in the evaluations on the production level and variation and on the labour market trend. Short-term forecasts on the overall economic situation and on the order-book trend got worse together with an increase of inflationary expectations
- The confidence recovery is particularly intense in intermediate and investment goods: in the former case, the index grows from 87.1 to 89.6, in the latter case it goes from 89.5 to 90.8, while confidence in consumer goods decreases from 93.6 to 93.2

EXPORT TURNOVER IS STABLE IN Q4, BUT IT IS BOUND TO FALL IN Q1 2006, THOUGH OBSTACLES TO EXPORTS SHOULD DIMINISH

- The export turnover is stable in Q4, but it is expected to worsen in the next quarter
- Export constraints diminish, thanks in particular to less cost-linked constraints, probably due to the euro exchange rate
- Entrepreneurs also signal a rise in the competitive pressure exerted from Germany, China and the United States
- Looking at exports by geographical area, the export share towards France and the United States grow, while – according to ISAE respondents - the percentages aimed at the other EU countries decrease
- Finally, the ratio between export prices and producer prices increases compared to Q3 2005



Data referring to January shall be diffused on **January 26, 2006**.

Next ISAE surveys are scheduled as follows:

January 3, 2006: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: November) and ISAE Monthly Business Service Survey (Reference month: December)

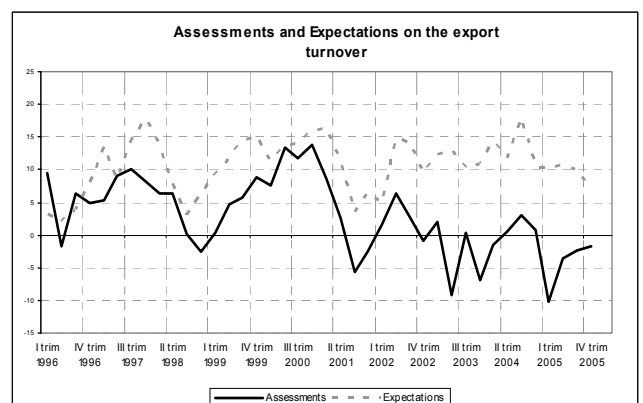
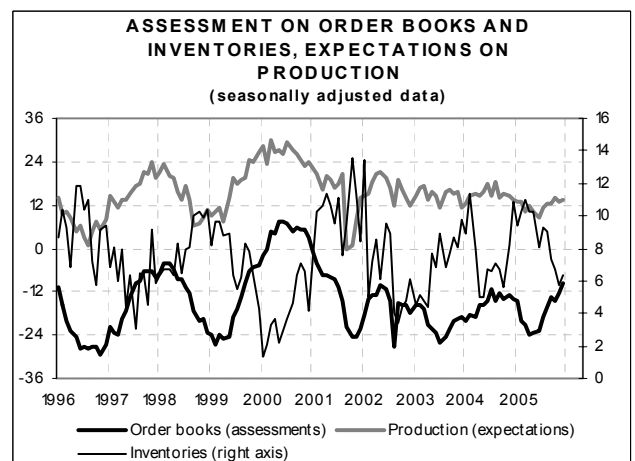
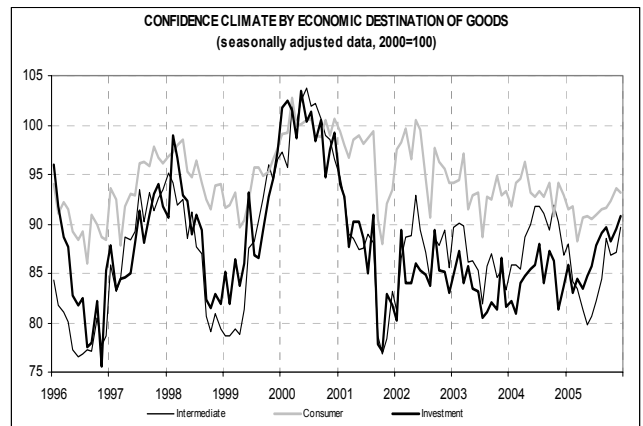
January 4, 2006: Comparative Business Surveys for Italy, Germany and France (Reference month: December)

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 1 and 20 on a panel of about 4,000 firms, the seasonally adjusted confidence index of manufacturing and extractive firms rises in December for the seventh month in a row, passing from 90.3 to 91.1, which is the best score ever reached since September 2002, even though it is still below the figures attained in late-2000. The rise is due to the growth in demand, concerning in particular the foreign market, and in expectations on production. In this phase, foreign order books may be positively affected by the signals of recovery of the European industry signalled by the latest Surveys (particularly in Germany). The confidence increase is particularly intense in intermediate and investment goods: in the former case, the index grows from 87.1 to 89.6, in the latter case it goes from 89.5 to 90.8, while confidence in consumer goods runs counter this trend and decreases from 93.6 to 93.2. Among non confidence-building variables, assessments on the production level and variation continue to improve, as do those on the labour market trend. Conversely, expectations on order books and the general economic situation are worsening, while new selling price tensions are emerging.

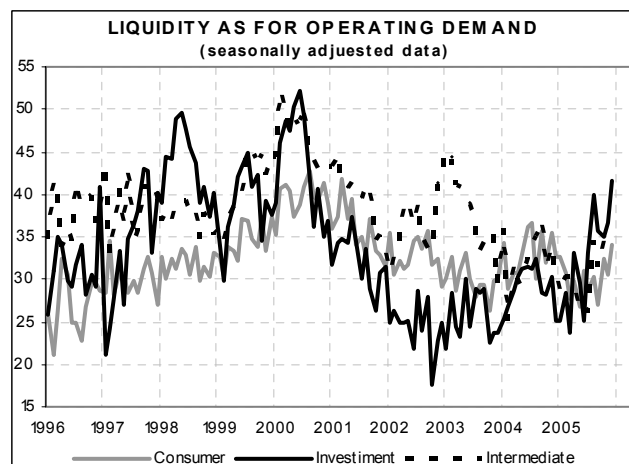
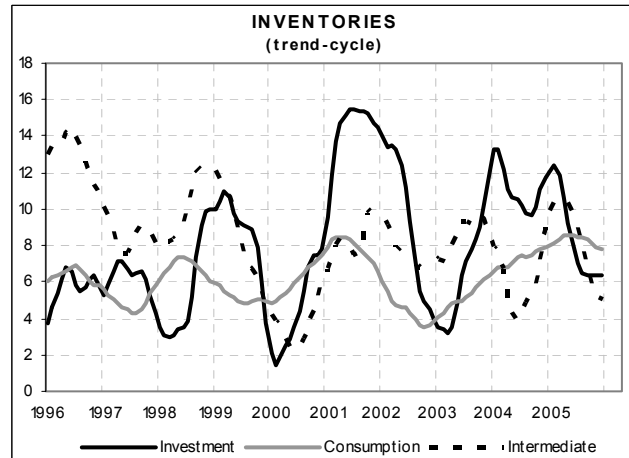
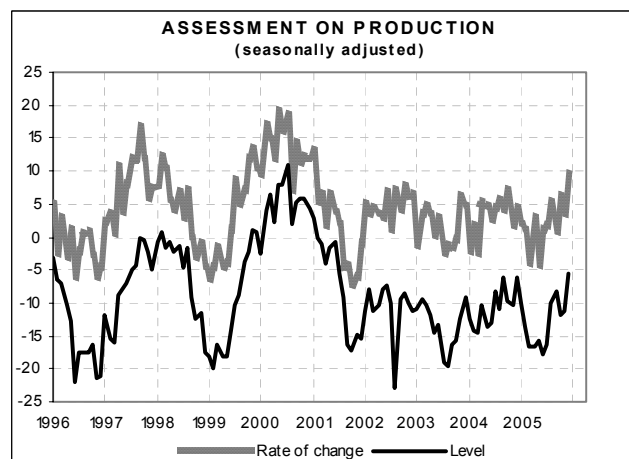
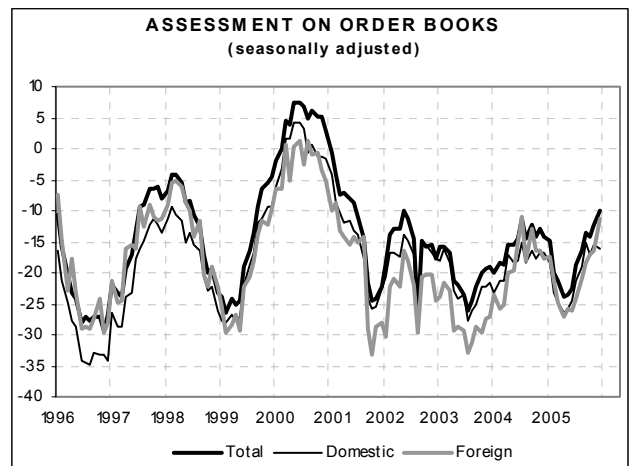
According to the traditional quarterly Survey on exporting firms, assessments on the current export turnover trend stabilise, though export expectations slightly decrease. Export constraints diminish, even though entrepreneurs signal an increase in the competitive pressure exerted from China, Germany, France and the other EU countries. Indeed, also the competitive pressure exerted from the United States is growing. Finally the destination areas of Italian exports are substantially stable: France and the United States register a small growth, while the remaining countries remain stable or slightly decrease.



Situation in the reference month (December 2005)

Assessments on the main firm variables improve in December. Indeed, the order-book balance recovers from -12 to -10, thanks in particular to the foreign market growth (passing from -17 to -11, while the balance of the domestic markets remains at -16). Also evaluations on the current production level and variation are rosier (from -11 and 3 to -5 and 9 respectively), while inventories remain stable at 6. Finally, the balance of the liquidity available for operational needs grows from 34 to 36.

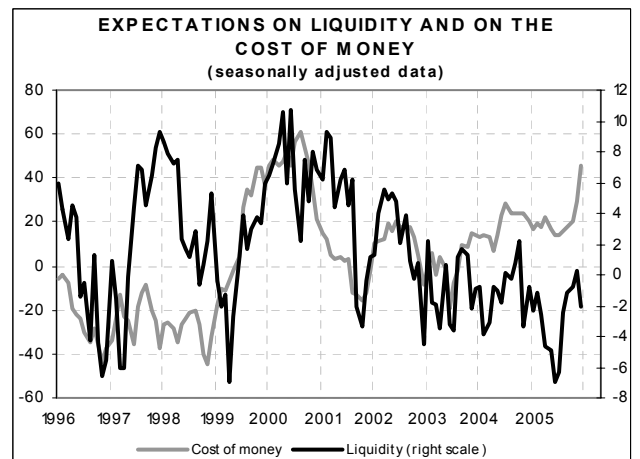
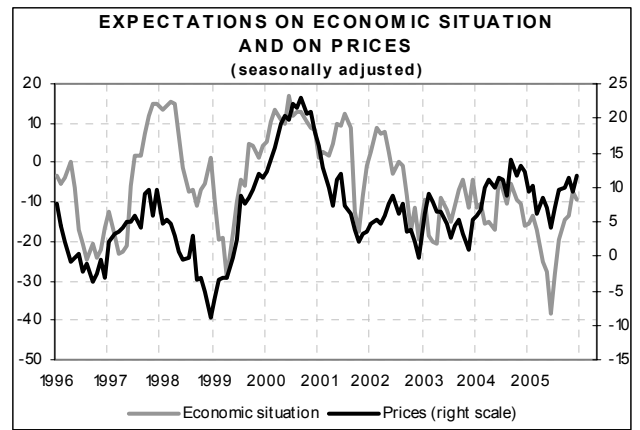
Assessments are particularly favourable in intermediate goods, where the balance recovers by 5 points, passing from -16 to -11 (to be precise from -19 to -17 on the domestic market and from -22 to -16 on the foreign one). The production level balance gains 9 points, rising from -15 to -6; indeed, also the production variation shows a favourable performance (from 4 to 9 in terms of balance), inventories fall from 5 to 4 and the available liquidity for operational needs slightly diminishes (from 34 to 33). Evaluations are clearly improving in investment goods as well, where the order-book volume grows from -9 to -5 (in terms of balance), thanks in particular to the better foreign demand trend (the balance growing from -11 to -5). Indeed, the production level and variation are increasing (from -9 and 7 to -4 and 18 respectively). Inventories are decreasing (from 8 to 6), while liquidity rises from 37 to 41 compared to operational needs. Demand falls from -11 to -12 (in terms of balance) in consumer goods, owing to a contraction in the domestic component (from -12 to -16) which partly offsets the smooth foreign demand trend (from -18 to -16). In this sectors, a worsening is observed in evaluations on the production level (from -9 to -10), while its variation improves (from 2 to 3) and inventories remain stable (at 8). Finally, liquidity grows compared to the operational needs and its balance rises from 30 to 34.



Forecasts for next quarter

In December, the balances of short-term expectations on production and employment are slightly rising from 13 and -6 to 14 and -3 respectively, while expectations on order books fall from 16 to 14 (in terms of balance) and those on the general economic situation decrease from -7 to -10. Finally, selling prices are expected to grow (the balance passing from 9 to 12), while liquidity for operational needs are diminishing (from 0 to -2).

Forecasts in the various industrial sectors are rather diversified: the trend is substantially negative in investment goods, where expectations fall with reference to order books (from 18 to 11), production (from 18 to 16) and the country's general economic situation (from -6 to -8). Investment good producers also signal selling price rises (from 14 to 16) and an improvement in the employment trend (from -9 to -5), together with a reduction in the firm liquidity (from 3 to 1). In consumer goods, expectations on production and on selling prices are stable (passing from 143 and 10 to 14 and 11), while those on the overall economic situation decrease (from -6 to -7), as do those on production (from 2 to 1) and on the available liquidity (from -1 to -3). Finally, in intermediate goods, expectations on production and on employment improve (from 8 and -8 to 12 and -5 respectively), while those on order books worsen (from 12 to 10) within a framework characterised by further price rises. Expectations on the general economic situation remain stable (at -13), while those on liquidity improve (from -7 to -6).



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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Sept. 2005	89.3	-14	7	13
Oct. 2005	89.6	-14	7	14
Nov. 2005	90.3	-12	6	13
Dec. 2005	91.1	-10	6	14

The main results of the Survey on exports

The seasonally adjusted balance of the turnover trend of the ongoing quarter remains stable at -2: indeed, for the next quarter firms expect a slowdown of their export turnover (from 10 to 7 in terms of balance). However, the share of those reporting significant export constraints decreases from 44 to 40%, thanks in particular to a contraction in the role of cost factors, probably linked to the exchange rate trend. China and Germany are indicated as the major competitors of the firms surveyed by ISAE (30% and 29% of the sample respectively). With reference to the export destinations by geographical area, the export shares towards France and the United States rise again, while, according to the ISAE respondents, the percentages aimed at the other EU countries diminish. Finally, the ratio between export prices and producer prices increases compared to the previous quarter.

