



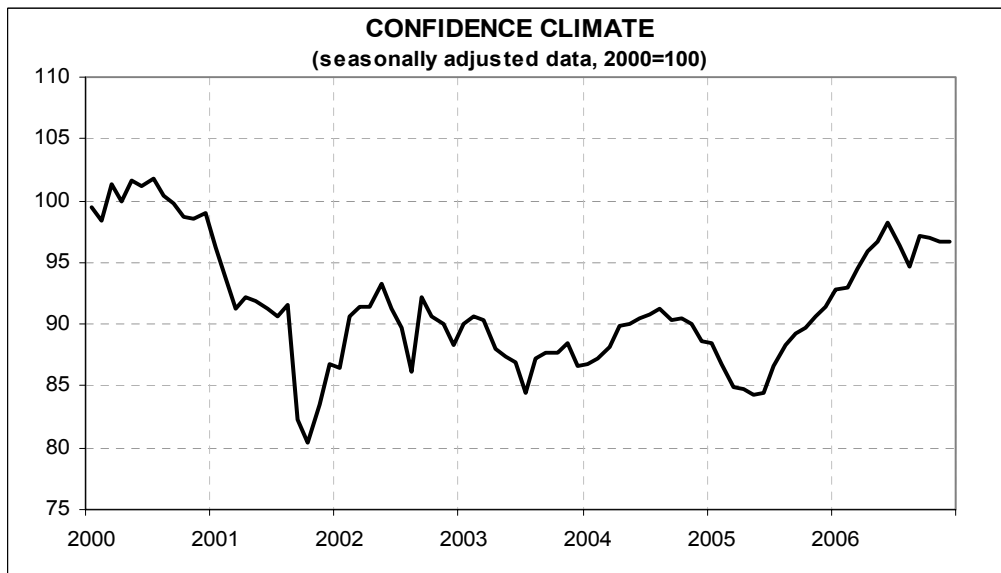
Date: December 22, 2006
TEL.: 06/444821

MANUFACTURING FIRMS' CONFIDENCE STABILIZES IN DECEMBER

- The seasonally adjusted confidence index (2000=100) came in at 96.7 (as in November): the opinions on the level of current order books continued to improve, inventories diminished, but production expectations declined
- The short-term outlook for the Italian economy and for the level of current liquidity improved as well. Selling prices stabilized
- Confidence bettered in the investment goods sector (from 94 to 96.5), remained virtually unchanged for consumer goods (moving from 99.1 to 99.2) and worsened, instead, for intermediate goods (from 96.3 to 95.5). At the regional level, the confidence index grew in the North East (from 94.9 to 95.2), practically stabilized in the North West (moving from 97.8 to 97.7) and worsened, instead, in the Centre (from 97.4 to 97.1) and the *Mezzogiorno* (from 95.6 to 95)

IN THE 4Q 2006 THE ASSESSMENT ON CURRENT EXPORT TURNOVER SLIGHTLY WORSENS, BUT SHORT-TERM PROSPECTS IMPROVE

- The share of firms perceiving the existence of factors limiting their export activity also declined, thanks to lower pressures connected to goods quality and financing capabilities
- The assessment on the ratio between export and domestic prices declined from the peak reached in the third quarter, though remaining at a high level
- A slight improvement characterized the share of exports going to France, the non-EU European countries, the United States and the European Union countries other than France, Germany, the Benelux and the United Kingdom. The share of exports headed to Germany and the Benelux declined instead
- Finally, firms pointed to a fall in competitive pressures coming from Germany and China and to an increase in the competitive position of France, the other non-EU European countries and the European Union countries, excluding France, Germany, the Benelux and the United Kingdom



Data on January shall be released on January 29, 2007

The next ISAE surveys are scheduled as follows:

December 27, 2006: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: December), ISAE Monthly Business Services Survey (reference period: December) and ISAE Monthly Survey on Construction (reference period: November)

January 10, 2007: ISAE International Comparison of Consumer and Business Surveys (reference period: December)

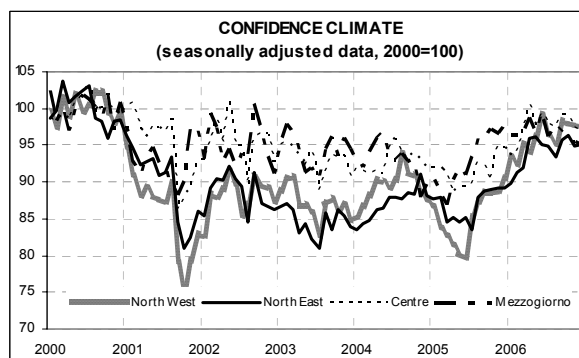
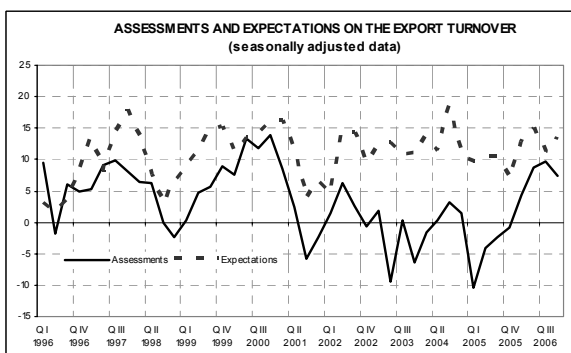
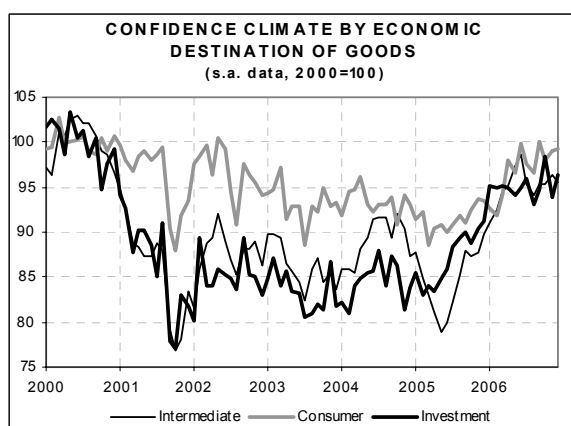
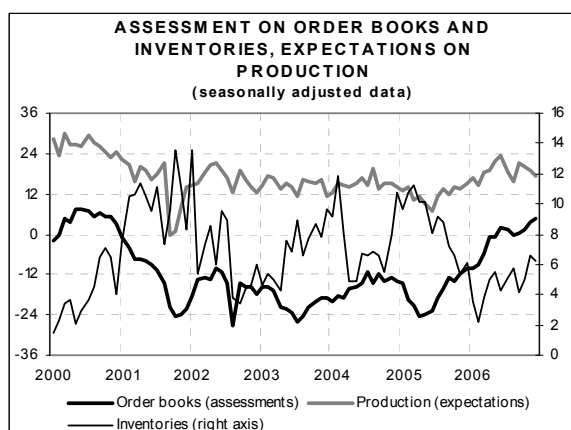
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

General results

The ISAE Survey, carried out on a panel of about 4,000 respondents between December 1 and December 19, pointed to stability in the seasonally adjusted confidence index of manufacturing and mining firms. In December, the indicator stayed at 96.7: the assessment on current order books improved and inventories slightly declined, but production expectations worsened. Surveyed firms were nevertheless more optimistic about short-term prospects for the Italian economy and the current level of liquidity, and they did not expect significant adjustments in selling prices.

Nevertheless, the change in confidence was not homogeneous across sectors: the indicator actually increased in the investment goods sector (from 94 to 96.5), remained virtually unchanged for consumer goods (moving from 99.1 to 99.2) and declined for intermediate goods (from 96.3 to 95.5). At the regional level, confidence remained stable in the North West (going from 97.8 to 97.7), grew in the North East (from 94.9 to 95.2) and worsened, instead, in the Centre (from 97.4 to 97.1) and the *Mezzogiorno* (from 95.6 to 95).

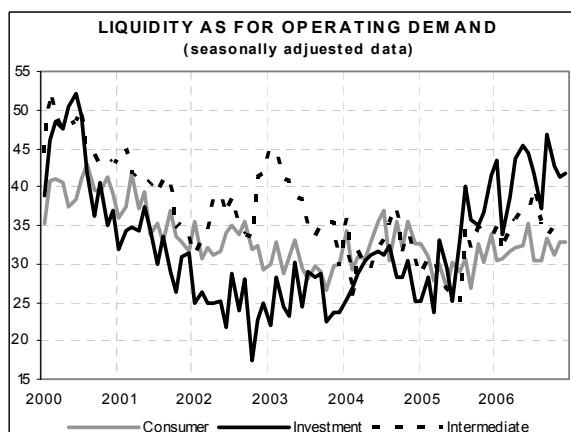
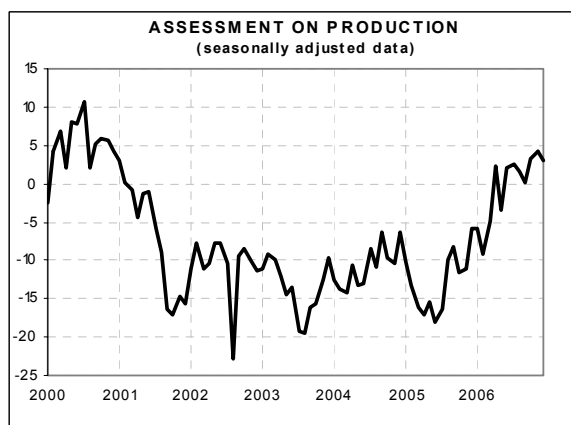
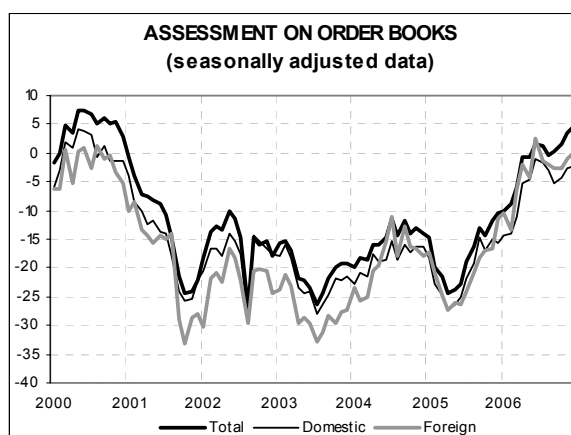
The traditional ISAE quarterly survey on exporting firms indicated a fall in export turnover and a reduction in the ratio between export and domestic prices. Nevertheless, the survey sent encouraging signals for the following months: firms forecast a rise in turnover and a fall in export constraints, mainly due to lower pressures connected to goods quality and financing capabilities. Finally, firms indicated a fall in competitive pressures from Germany and China and a rise from France and the other non-EU countries. With regard to the geographical breakdown of export destinations, the share of exports going to France, non-EU countries and the United States slightly increased, while the proportion of those headed to Germany and the Benelux diminished.



Situation in the reference period (December 2006)

The evaluation of current demand improved in December (the balance rose from 3 to 5) backed by positive indications coming from both domestic and foreign markets (the related balances rose from -3 to -2 and from -1 to 0, respectively). Nevertheless, the current level of production declined from 4 to 3, but inventories started to lower once more. Finally, the ratio of available liquidity to operational requirements remained unchanged (the balance stood at 36, as in the previous month).

However, diverging trends emerged at the industry level. In the consumer goods sector, the opinions on order books slightly bettered (from -1 to 0), thanks to a recovery in domestic demand (from -6 to -5), which offset the decline in foreign demand (from -8 to -9), and slight de-stocking of inventories (from 7 to 6). The ratio of available liquidity to operational requirements and the level of production remained, instead, stable at their previous month level (at 33 and -2, respectively). For intermediate goods, the improvement in the assessment on order books (from 4 to 5) was mainly driven by the recovery in domestic demand (from -1 to 1), while the evaluation of foreign demand worsened from 2 to 0. Deterioration also characterized the level of production (from 7 to 2) and inventories (from 5 to 6), whereas the ratio of available liquidity to operational requirements remained stable. For the investment goods sector as well, the balance for the assessment on order books improved with respect to the previous month, but in this case positive signals distinguished both domestic demand (from -3 to -1) and, above all, foreign demand (from -3 to 3). Inventories declined, the level of production increased (from 6 to 9) but, unlike the developments for consumer and intermediate goods, also company liquidity slightly improved (from 41 to 42).



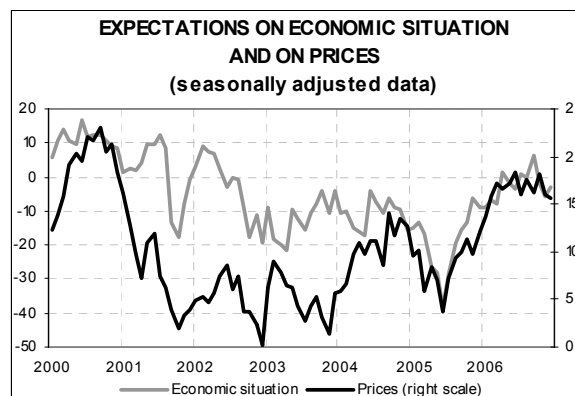
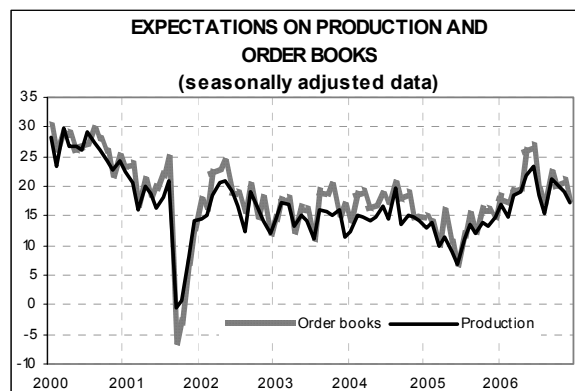
Outlook for the following three months

Surveyed firms gave contrasting indications regarding prospects for main company variables: forecasts for orders and production worsened, but those for liquidity improved; prospects for prices and for employment developments remained instead unchanged, and those for the country's economic situation improved. The balance for orders and production lowered to 18 and 17 (from 21 and 19, respectively). The balance of expectations referring to the Italian economic trend and to liquidity moved instead, in the order, from -6 to -3 and from 1 to 3.

Forecasts were generally favourable for investment goods and more cautious, instead, for consumer and intermediate goods. In the investment goods sector, prospects rose to 18 (from 16) for production, to -1 (from -5) for the Italian economic trend, to 3 (from 0) for liquidity, to 7 (from 6) for employment, and bettered to 13 (from 15) for prices. For consumer goods, a strong improvement characterized expectations for the overall economic situation (from -9 to 1) and company liquidity (from 0 to 5). Forecasts became instead more negative regarding orders (from 26 to 20), production (from 21 to 20), employment (from 0 to -1) and selling prices (from 13 to 17). Likewise, for intermediate goods, the improvement in prospects for the general economic situation (from -10 to -9) and for prices (from 22 to 20) came along with a worsening in order and production expectations (both lowered from 20 to 17). Lastly, in this sector prospects for liquidity and employment stabilized (the balance stayed at 0 and 4, respectively).

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

	Confidence climate	Order-book level	Inventories	Expectations on production
September	97.1	0	4	21
October	97.0	2	5	20
November	96.7	3	7	19
December	96.7	5	6	17



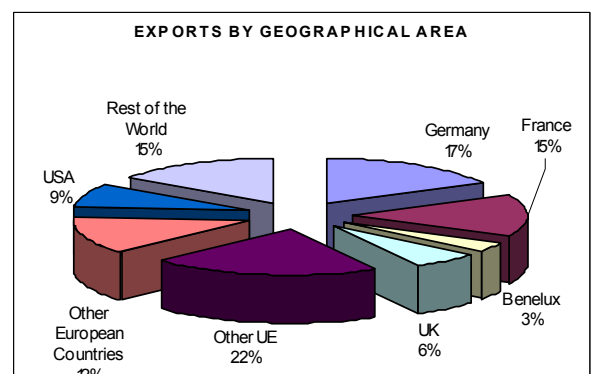
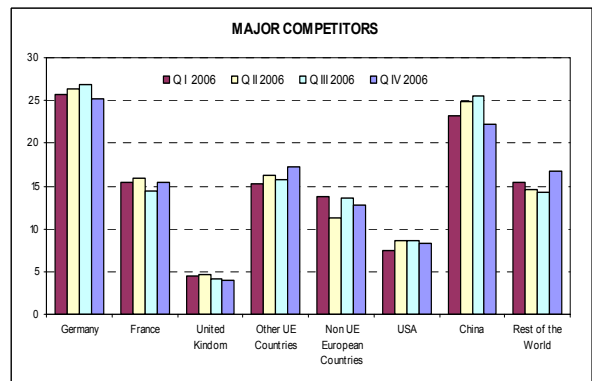
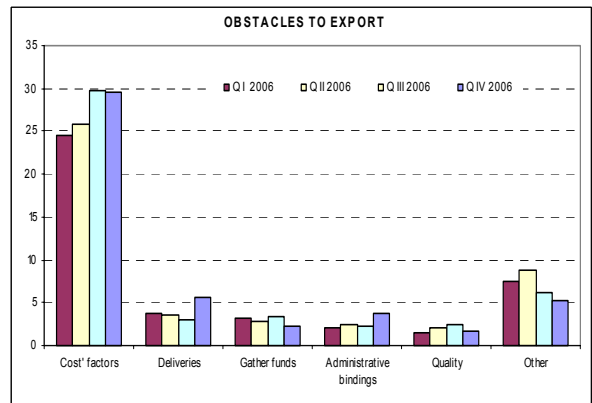
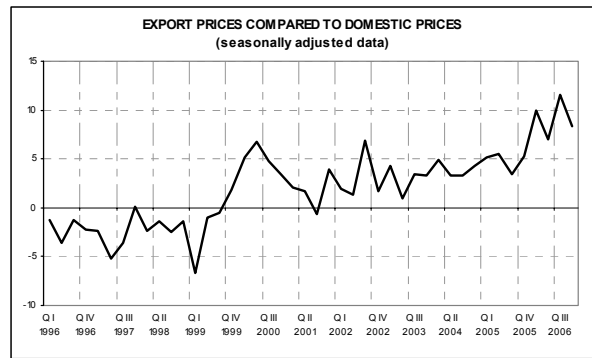
The ISAE quarterly survey on exporting firms

According to the ISAE quarterly survey on exporting firms (for which exports accounted in the fourth quarter for about 36.6% of total sales, a lower percentage than in the previous quarter), in the fourth quarter of 2006 the balance for export turnover declined from 10 to 7. Meanwhile, the ratio between domestic and export prices lowered from 12 to 8.

Nevertheless, encouraging signals characterized the prospects for the following months: the balance for turnover increased from 11 to 13, and the share of firms perceiving the existence of factors limiting export activity declined from 37.5% to 36.6% of the sample. The reduction stemmed mainly from factors connected to goods quality and financing capabilities.

Companies also witnessed lower competition from Germany (identified as an important competitor by 25% of the respondents, as against 27% in the previous survey) and from China (from 25% to 22%). An increase characterized, instead, the share of those considering as competitors France, the other non-EU European countries and the EU countries, excluding France, Germany, the Benelux and the United Kingdom.

The geographical breakdown of export destinations pointed to a slight increase in the proportion of exports going to France, the non-EU countries and the United States, while the share of those headed to Germany and the Benelux declined.



Regional breakdown of ISAE survey results

In December, the virtual stability in confidence recorded at the national level mirrored uneven trends across regions: the seasonally adjusted index remained basically unchanged in the North West (moving from 97.8 to 97.7) and rose only moderately in the North East (from 94.9 to 95.2), while it worsened in the Centre (from 97.4 to 97.1) and the *Mezzogiorno* (from 95.6 to 95). Production expectations declined homogeneously across the country, whereas the assessment on order books was overall optimistic and inventories of finished products sent contrasting signals. Finally, in the Centre-North export turnover showed a generalized decline.

North West

The confidence indicator remained virtually stable: the appraisal of the level of both domestic and foreign demand and production expectations worsened, whereas inventories started to diminish again. The quarterly export survey reported a deterioration in the assessment on turnover, but an improvement in the prospects for the next quarter.

North East

Following the fall recorded in the previous month, entrepreneurs' confidence in this area slowly resumed its upward trend, returning to the level posted in June-July. Recovery was backed by an improvement in the assessment on orders (both domestic and foreign) and by de-stocking of inventories of finished products. Production expectations sent, instead, negative signals. As for export turnover, the appraisal of current developments worsened, but expectations for the following three months improved.

Centre

The confidence indicator lowered to its March 2006 level. The worsening was mainly driven by deterioration in production expectations. Instead, the opinions on orders continued to improve and the related balance turned positive for the first time since February 2001. Finally, the survey pointed to general deterioration in assessments and expectations on export turnover.

Mezzogiorno

The index declined for the fourth month in a row, mirroring negative developments in production expectations, which were not offset by the improvements in the assessment on orders and inventories. Lastly, prospects for export turnover deteriorated, notwithstanding an improvement in the assessment on its current developments.

