



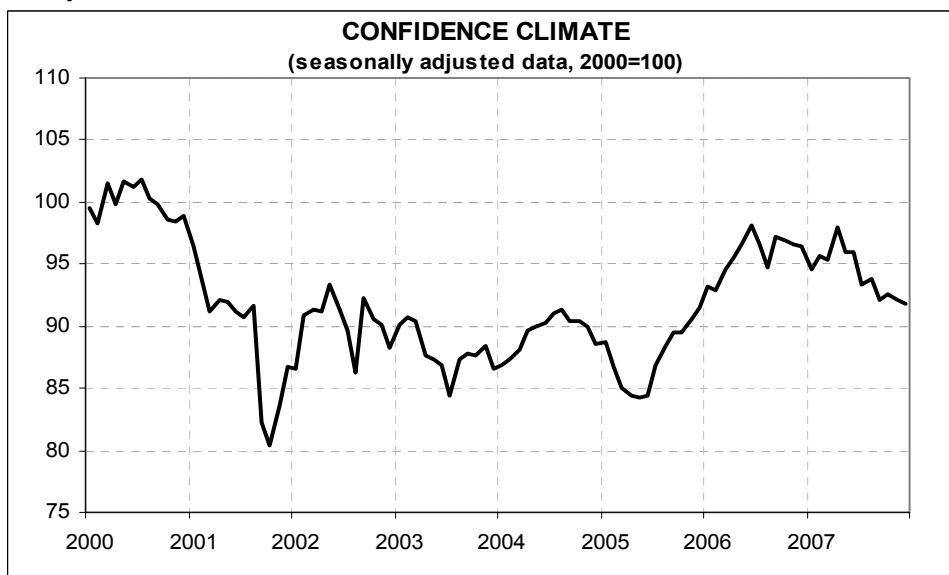
Date: December 21, 2007
TEL.: 06/444821

IN DECEMBER MANUFACTURING FIRMS' CONFIDENCE EDGES DOWN SLIGHTLY

- The seasonally adjusted confidence index (2000=100) lowered to 91.8 from 92.1 in the previous month, hitting a two-year low
- The fall was mainly due to the deterioration in production expectations. The opinions on the current level of demand and orders showed, instead, some moderate signs of recovery, and inventories continued to decrease
- However, the breakdown of data by sector pointed to marked disparities: the index increased for investment and consumer goods (from 94.7 to 95.7 and from 93.5 to 94.4), whereas it diminished for intermediate goods (from 89.4 to 88.1)
- The decline recorded at the national level was the result of differing trends across the country: the index worsened in the North (from 93.6 to 93 in the North West and from 89 to 88.5 in the North East) and the *Mezzogiorno* (from 94.9 to 94.3), while, instead, it improved in the Centre (from 92.2 to 93.3)

IN THE 4Q 2007, FIRMS INDICATE A MODERATE DECLINE IN EXPORT TURNOVER, BUT FORECAST AN IMPROVEMENT FOR THE FOLLOWING THREE MONTHS

- Consistently, foreign sales as a percentage of total turnover declined, and the ratio between export and domestic prices also diminished slightly
- According to the respondents, new constraints, which were mentioned in the "other factors" item of the ISAE Survey and were probably related to the exchange rate trend, limited export activity
- With regard to export destinations, the proportion of exports going to Germany, Belgium and the Netherlands increased once more, while those headed for the non-European countries, apart from the United States, diminished
- Competitive pressures from Chinese products continued to rise, reaching the highest level in the last two years



Data on January, 2008 shall be released on January 29, 2008

The next ISAE surveys are scheduled as follows:

December 27, 2007: 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, 2008: 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

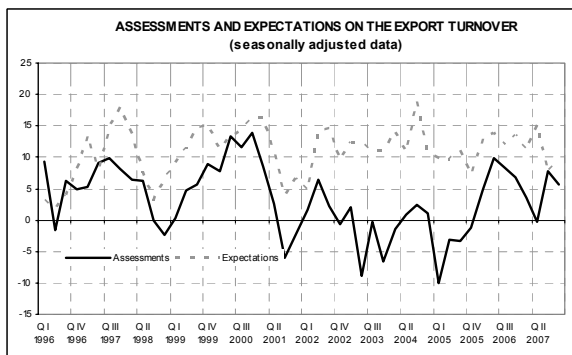
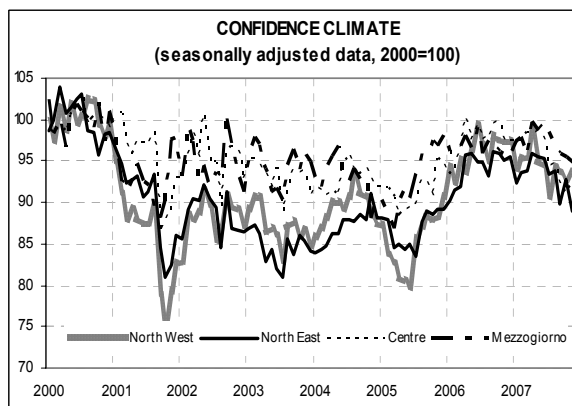
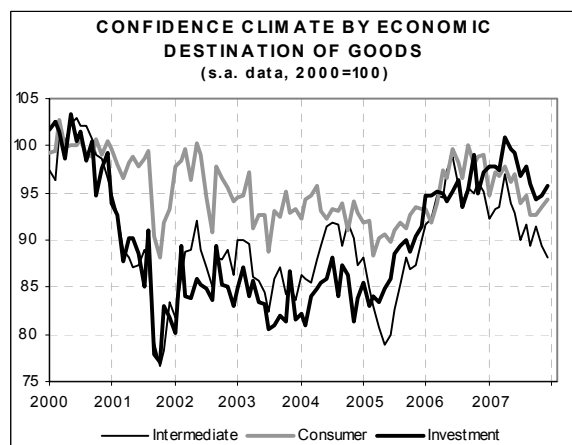
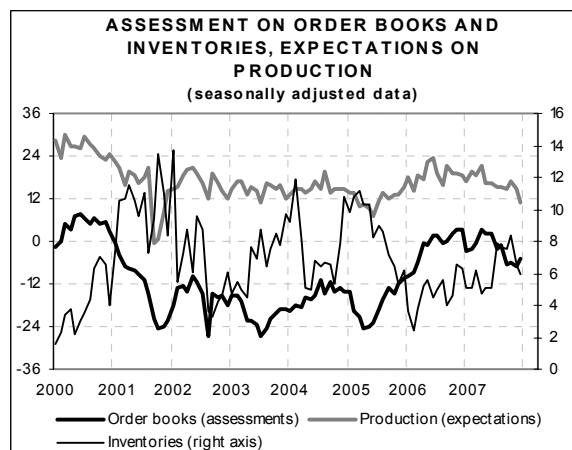
The ISAE Survey, carried out on a panel of about 4000 firms between December 3 and December 18, pointed to a decline in the seasonally adjusted confidence index of manufacturing and mining firms. In December, the indicator diminished to 91.8 from 92.1 in the previous month, hitting a two-year low.

The fall was mainly due to the deterioration in production expectations. The opinions on the current level of demand and orders showed, instead, some moderate signs of recovery, and inventories continued to decrease.

However, the breakdown of data by sector showed marked disparities: the index increased for investment and consumer goods (from 94.7 to 95.7 and from 93.5 to 94.4), whereas it declined for intermediate goods (from 89.4 to 88.1).

According to the traditional ISAE quarterly survey among exporting firms, export turnover diminished somewhat in the fourth quarter, but firms forecast a recovery in the following three months. Consistently, foreign sales as a percentage of total turnover declined, and the ratio between export and domestic prices also lowered slightly. According to the respondents, new constraints, which were mentioned in the “other factors” item of the ISAE Survey and were probably related to the exchange rate trend, limited export activity. With regard to export destinations, the proportion of exports going to Germany, Belgium and the Netherlands increased once more, while those headed for the non-European countries, apart from the United States, diminished. Lastly, competitive pressures from Chinese products continued to rise, reaching the highest level in the last two years.

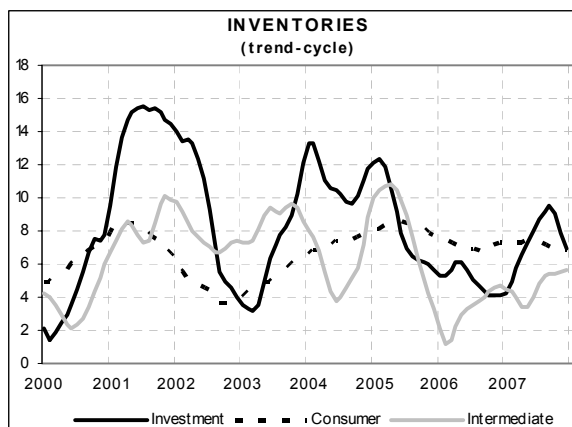
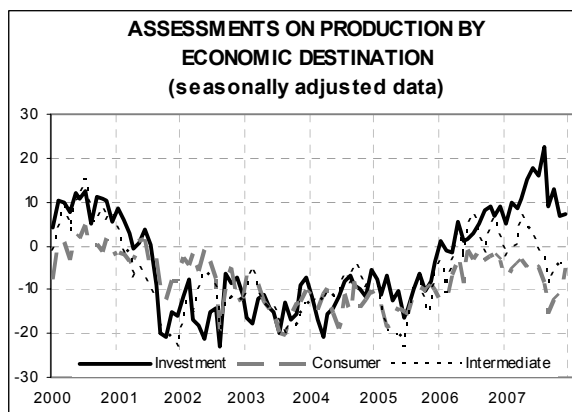
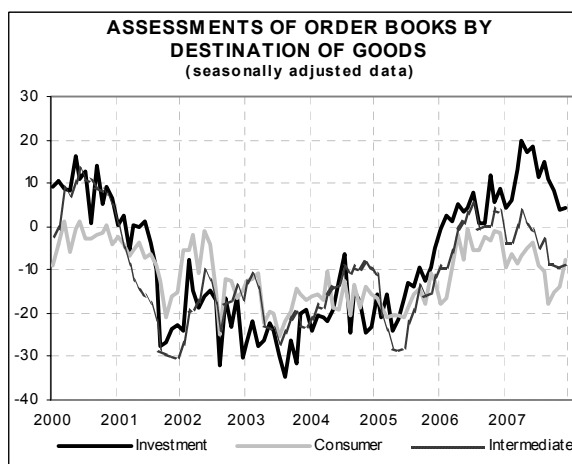
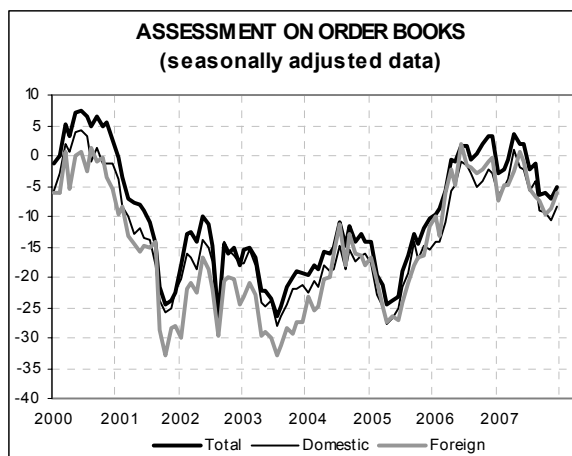
The decline recorded at the national level was the result of differing trends across the country: the index worsened in the North (from 93.6 to 93 in the North West and from 89 to 88.5 in the North East) and the *Mezzogiorno* (from 94.9 to 94.3), while it improved instead in the Centre (from 92.2 to 93.3).



Situation in the reference period (December 2007)

In December, firms' evaluation of the trend in main company variables showed signs of recovery: the balance for the opinions on orders increased from -7 to -5, supported by the improvement in both domestic and foreign demand (the related balances increased from -11 to -8 and from -9 to -6, respectively). Also assessments on the current levels of production and on company liquidity bettered (from -4 to -1 and from 32 to 34). Inventories continued to edge down slightly (from 7 to 6), hitting the lowest reading since last June.

The improvement in the current situation mainly characterized consumer goods: in this sector the evaluation of demand surged from -14 to -8, thanks to the recovery in both the domestic and foreign components (from -18 to -11 and from -18 to -10, respectively). The level of production and company liquidity also recuperated (from -11 to -5 and from 26 to 27) and inventories diminished (from 7 to 6). In the investment goods sector, inventories continued to decline as in the previous month: the related balance lowered from 6 in November to 3, coming close to the minimum recorded during the year. At the same time, the level of production and total demand stabilized (at 4 and 7, respectively), even if a slight recovery distinguished both domestic and foreign demand (from -1 to 0 and from -1 to 2). However, in this sector company liquidity declined slightly (from 41 to 38). Finally, in the intermediate goods sector, total demand marginally recovered (from -9 to -8), though firms separately indicated a slight decline in both the domestic and foreign components (from -10 to -11 and from -10 to -13). The level of production and inventories stabilized instead (at -4 and 6, respectively) and the balance for company liquidity increased (from 33 to 37).

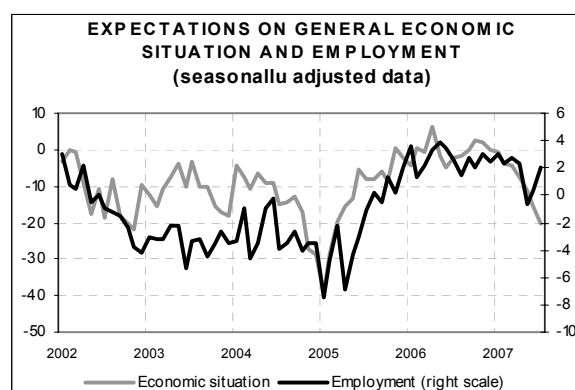
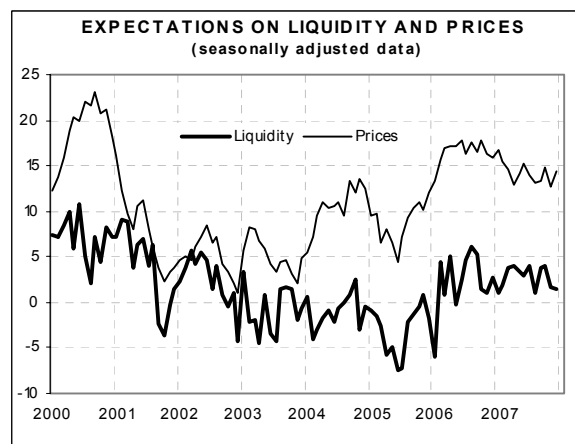
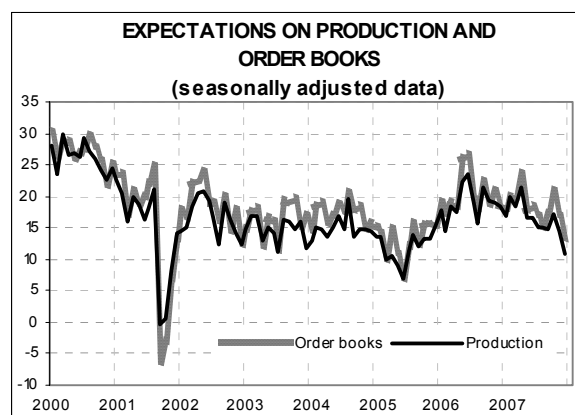


Outlook for the following three months

At this stage, short-term prospects probably reflected the downgrading of the consensus forecasts for the international economic trend. In particular, both expectations for demand and production developments as well as company liquidity continued to diminish (moving, in the order, from 17 to 13, from 15 to 11 and from 2 to 1). However, employment expectations started to improve once more (from 0 to 2). Firms continued to indicate selling prices pressures (the balance increased from 13 to 14) and remained pessimistic about short-term prospects for the Italian economy (the balance declined from -15 to -20, the lowest level since August 2005). The sector breakdown showed that producers of consumer goods scaled down their forecasts for both demand (from 20 to 14) and production (from 16 to 12). Prospects for company liquidity held steady (at 1) and production expectations improved (from -3 to -1). In line with the national data, firms expected a further growth in selling prices in the following three months (the balance rose from 13 to 15) and a new worsening in the Italian economic situation (from -19 to -23). In the investment goods sector, expectations were less unfavourable: prospects for orders and liquidity improved (from 16 to 23 and from 1 to 3), while those for employment surged (from 4 to 8). Forecasts for production and the general economic situation, instead, worsened slightly (from 20 to 19 and from -14 to -15, respectively). Also in this case, inflationary pressures increased (the balance rose from 11 to 16). The intermediate goods sector recorded the worst results: expectations for demand, production and the general economic situation clearly slumped (from 14 to 6, from 11 to 6 and from -22 to -26). Prospects for liquidity remained instead stable (at -1) and those for employment improved (from 1 to 2). Also in this sector, inflationary pressures built up (rising from 14 to 16).

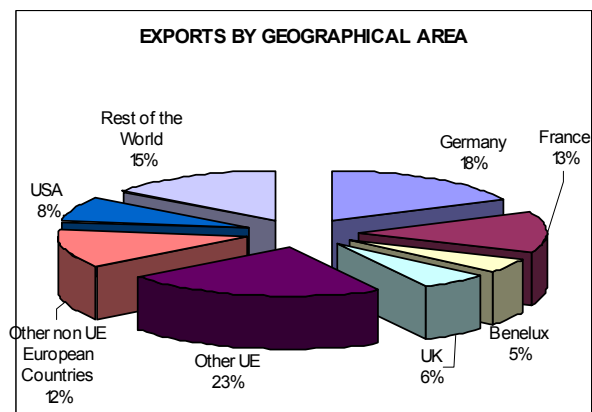
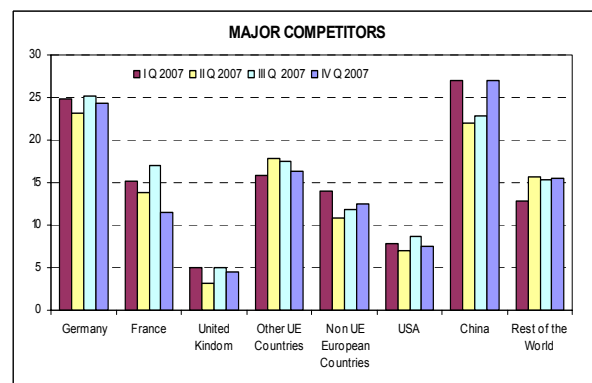
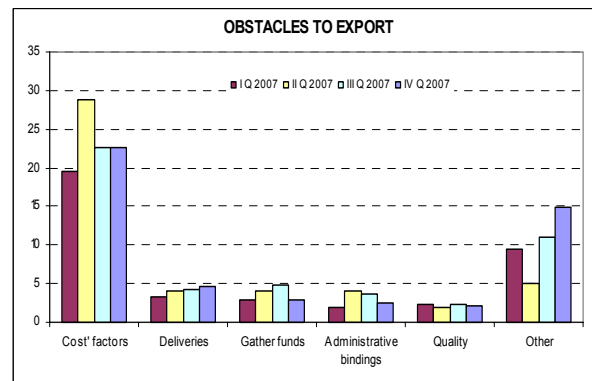
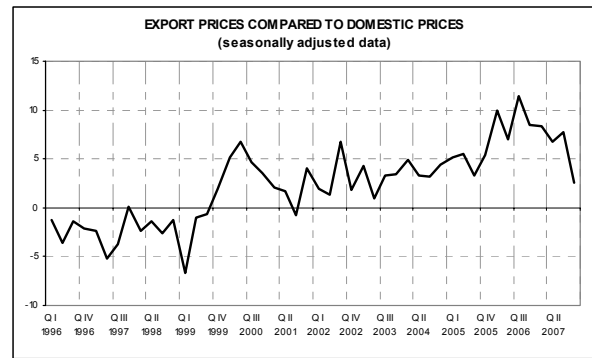
Manufacturing firms' confidence climate and balances of indicator-building series

	Confidence climate	Order-book level	Inventories	Expectations on production
September	92.1	-6	8	15
October	92.6	-6	8	17
November	92.1	-7	7	15
December	91.8	-5	6	11



The ISAE quarterly survey on exporting firms

According to the traditional ISAE quarterly survey on exporting firms (for which exports accounted on average for about 37.5% of total sales, less than in the previous quarter), in the fourth quarter of 2007 respondents worsened their assessments on current export turnover, but improved their prospects for the following three months: the seasonally adjusted balance for the fourth quarter actually declined from 8 to 6, while the one for short-term expectations rose instead from 7 to 10. Moreover, the ratio between export and domestic prices diminished (the balance went down from 8 to 3). With regard to export constraints, the share of respondents reporting considerable obstacles increased (from 37% to 39%). In particular, the proportion of firms signalling that “financial” and “red tape” constraints were significant diminished (from 5% to 3% and from 4% to 3%, respectively), but the percentage of those mentioning “other” constraints, probably related to the exchange rate trend, increased markedly (from 11% to 14%). However, firms perceived lower competitive pressures from Germany, France, the United Kingdom and the United States, but the proportion of firms signalling China as a competitor increased from 23% to 27%, the highest percentage since the fourth quarter of 2005. Lastly, with regard to export destinations, the share of exports going to the United Kingdom declined mainly to the advantage of those directed towards Germany, Belgium, the Netherlands and the other Western European countries.



Regional breakdown of ISAE survey results

The worsening in confidence at the national level was the result of differing trends across areas: the index worsened in the North (from 93.6 to 93 in the North West and from 89 to 88.5 in the North East) and the *Mezzogiorno* (from 94.9 to 94.3) and bettered instead in the Centre (from 92.2 to 93.3). The opinions on demand improved all over, and inventories of finished products diminished. Pessimism distinguished instead production expectations. As for exports, developments were widely divergent across the country.

North West

In December, the confidence indicator dropped more than half a point, coming in slightly below the average of the last three months. The deterioration mainly stemmed from a sharp decline in production expectations. The opinions on orders (mainly domestic ones) and on inventories of finished products sent instead positive signals. Lastly, assessments on turnover declined sharply and export prices diminished. Prospects for turnover in the following quarter also gave slightly negative indications.

North East

In this area confidence deteriorated for the second straight month, reaching the lowest value since August 2005, mainly because of deterioration in production expectations. Also in this case, the opinions on the level of orders (in particular foreign ones) sent positive signals. Foreign markets gave favourable indications: export turnover was considered to have moderately increased in the fourth quarter and was expected to improve further in the following one. The ratio between export and domestic prices diminished.

Centre

Confidence in the Centre bettered for the second consecutive month, thanks to the clear improvement in the opinions on orders (both domestic and foreign) and to the de-stocking of inventories of finished products. Also in this area, production expectations sent negative signals. As for exports, the opinions on turnover markedly improved and the balance for export prices

diminished. Also expectations for turnover in the following three months bettered.

Mezzogiorno

Confidence continued to decline, reaching the lowest value since July 2005. The worsening was mainly prompted by a fall in production expectations, which was not offset by the positive trend in the opinions on both orders (optimism regarded only the domestic market) and inventories of finished products. Lastly, with respect to exports, the evaluation of turnover worsened and the balance for prices increased, while turnover expectations remained virtually stable.

