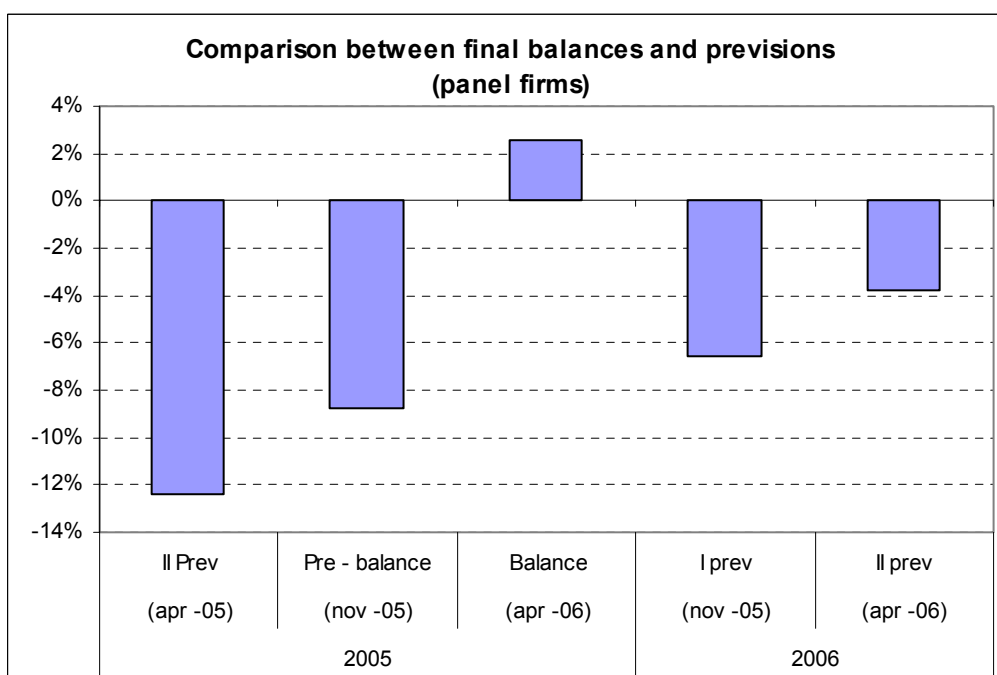




Date: May 25, 2006
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MANUFACTURING FIRMS DISCLOSE AN ACTUAL RISE OF INVESTMENTS IN 2005 AND FORECAST VIRTUAL STABILITY FOR 2006

- The bi-annual ISAE survey, which was carried out in March-April 2006 and covered only firms which implemented or planned investments in the 2004-2006 three-year period, pointed to a final nominal increase of 1% in 2005 for investments of manufacturing and mining firms. Capital expenditures, instead, were expected to edge down in 2006 (by -0.5%)
- The analysis of the replies of the firms, which participated to the three surveys conducted in the last twelve months, showed a strong upward revision to their estimates for both 2005 and 2006. The improvement in the final data for 2005 was widespread among size groups and sectors, while the rise forecast for 2006 characterized essentially medium and large-sized firms and producers of intermediate goods
- For 2007, the largest share of the panel (62%) anticipated a stability or an increase in capital expenditures, but expectations of stability prevailed (45% of the sample)
- Both in 2005 and 2006, most investments were made with the purpose of replacing worn-out plant and equipment and expanding production capacity. Furthermore, in order of decreasing importance, rationalization, environmental protection and "other investment objectives" were mentioned
- Traditional annual questions on the utilization of leasing for financing capital spending showed that, in 2005, 45% of the respondents resorted to this financial instrument. The share of total investments financed through leasing increased, reaching 21.3% (compared to 17.6% in 2004)



The next Investment Survey on Manufacturing and Extractive Firms will be released in December 2006

The next ISAE surveys are scheduled as follows:

May 29, 2006: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: April), ISAE Monthly Business Services Survey (reference period: May)

May 30, 2006: ISAE Monthly Survey on Construction (reference period: April)

June 8, 2006: ISAE International Comparison of Consumer and Business Surveys (reference period: May)

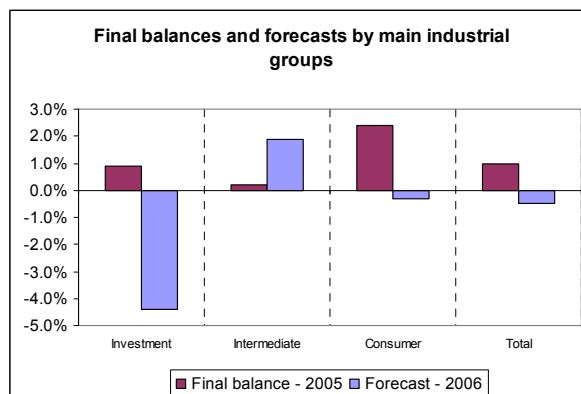
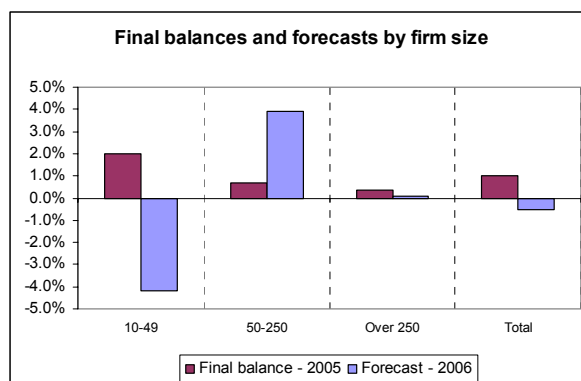
The full text of ISAE Surveys (either hardcopy or electronic format) is available for sale (for further information see the web site www.isae.it)

Investments in 2005 and forecasts for 2006

In March-April 2006, ISAE carried out its traditional twice-yearly investment survey on manufacturing and extractive firms. The survey covered only firms which actually conducted investment activity in the 2004-2006 three-year period. Replies were obtained from 2,000 out of the 4,000 firms participating to the monthly survey.

Final data for 2005 showed that investments in the manufacturing and extractive firms sectors grew by 1%. The same firms forecast for 2006 a minor reduction in expenditures (-0.5%). The sorting out of data according to firm size indicated that the expansion in 2005 was particularly marked for small firms, which estimated a 2% growth rate. Large and medium-sized firms showed instead a more moderate rise equal to 0.3% and 0.7%, respectively. For 2006, small firms' forecasts were notably pessimistic: they anticipated a fall in investment of 4.2%. Large firms planned to maintain capital expenditures virtually unchanged (the expected growth rate was equal to 0.1%), while medium-sized firms anticipated an increase of 3.9%.

The classification by sectors indicated that in 2005 the increase in investment was concentrated in the consumer goods segment (+2.4%). For investment goods and intermediate goods, growth in capital expenditures was estimated at 0.9% and 0.2%, respectively. Expectations for 2006 were not homogeneous across sectors: consumer and mainly investment goods firms anticipated a fall in expenditures (-0.3% and -4.4%, respectively), while intermediate goods firms were more optimistic (+1.9%).



Comparison between results and forecasts in the 2005-2006 period

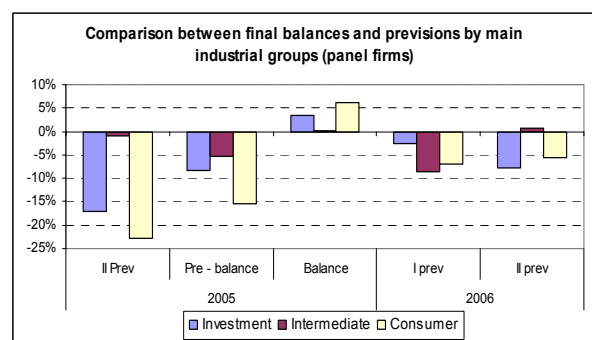
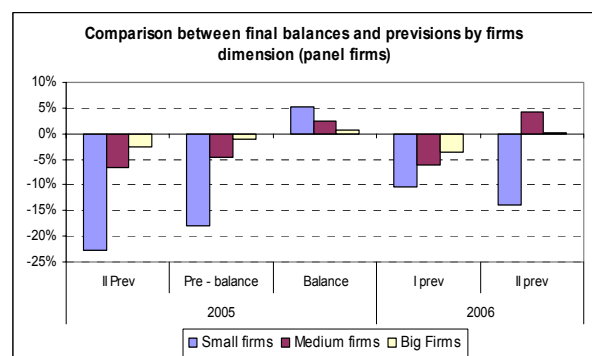
Out of the 2,000 firms that in the April-March 2006 period replied to the ISAE survey, about 900 also responded to the April and November 2005 surveys. The examination of these replies allowed to carry out a deep analysis on the evolution of the assessments and expectations of manufacturing firms over the last year.

The evaluation of investments made in 2005 gradually improved over the last twelve months. In fact, in April of last year firms making up the smaller ISAE sample expected a slump in expenditures (-12.4%). The same firms upgraded once their advance estimate last November (to -8.8%), and again in this survey, where the final estimate for growth turned positive (+2.6%).

The revisions characterized all size groups: small firms initially made a highly negative forecast (-22.8%), they revised the growth rate upwards only marginally in November (to -18%), but upgraded it markedly in the spring survey (to +5.2%). Likewise, medium-sized enterprises started by making a negative forecast of -6.7% (upgraded it to -4.6% in November) and brought the final estimate to +2.4% in the current survey. The revision for large firms was less marked but went in the same direction: firms initially anticipated a fall in capital expenditures of -2.5% (-1% in November), while the final estimate posted virtual stability (+0.1%). The upward revision of estimates was rather homogeneous across sectors: producers of final demand goods (consumer and investment goods) made highly negative forecasts twelve months ago (-17% and -22%, respectively), and still unfavourable advance estimates in November (-8.4% and -15.3%), while the final estimates showed an upgrade, with the growth rate turning positive (+3.5% for the former and +6.1% for the latter). Developments for intermediate goods were slightly dissimilar: firms started by forecasting a fall (-0.9%), which was accentuated in the November advance estimate (to -5.2%). They subsequently revised it to virtual stability in the last survey (+0.1%).

Likewise, forecasts for 2006 have improved since November: the overall panel of 900 firms firstly anticipated a fall of 6.6% in investment expenditures for the current year, and subsequently improved the estimate in the spring survey, leaving nevertheless the growth rate in negative territory, at -3.8%. The upward revision was mainly due to medium and large firms. In fact, small firms remained pessimistic: firstly they forecast a fall of -10.3% in November which was enlarged to -13.9% in the latest survey. On the contrary, medium-sized firms, which started with a forecast of -6% in November, later estimated a rise of +4.3% for the current year. Finally, large firms initially anticipated a reduction of 3.5% in investment spending, and subsequently turned it into virtual stability (-0.1%).

The industry classification of data shows that the revisions were mainly due to greater optimism in the intermediate goods sector. Expectations of consumer and investment goods firms in fact remained negative (-7% and -2.5%, respectively, in November, and -5.7% and -7.9% in the spring survey). For intermediate goods, the first estimate was highly negative (-8.7%), but it was decisively upgraded (to +0.6%) in the last survey.



Forecasts for 2007

Moderately favourable indications characterized qualitative forecasts for the investment trend in 2007: most surveyed firms (62% of the sample) planned the same (45%) or a larger amount (17%) of investment spending compared to the previous year. Instead, 38% of the sample expected to cut capital expenditures. The breakdown of data by size groups showed though some dissimilarities. Among large firms, 41% planned a reduction in expenditures with respect to the previous year, 32% expected stability, while only 27% forecast a rise. Among medium-sized firms, instead, the percentage of those expecting to keep investment spending unchanged prevailed (56%), whereas only 12% and 32% planned respectively a rise and a

reduction in expenditures in 2007. Finally, only 10% of small firms expected an increase in capital expenditures, 40% anticipated a fall and the remaining 50% considered that investment would remain unchanged.

Purposes of investment

According to the surveyed firms, both in 2005 and 2006, the main aims of investment expenditures were the replacement of worn-out plant and equipment (34% of the replies in 2005 and 30% in 2006) and the extension of production capacity (30% and 33% in the same two years). Furthermore, in order of decreasing importance, rationalization (22% and 25%), environmental protection (6% and 7%) and other investment objectives (8% and 5%) were mentioned. The analysis of size groups showed that for firms with 0-50 employees, the percentage of those that wanted to expand production capacity was higher than the national average (34% in 2005 and 38% in 2006), whereas the proportion of those that planned to invest for streamlining production processes was below average (15% in 2005 and 20% in 2006).

For medium and large firms, expenditures for the replacement of worn-out plant and equipment and for the extension of production capacity were in line with the overall data, while the share of firms that confirmed having implemented or planned expenditures for rationalizing production was higher than the national average (24% for medium-sized firms and 27% for large ones in 2005, and 25% and 28%, respectively, in 2006).

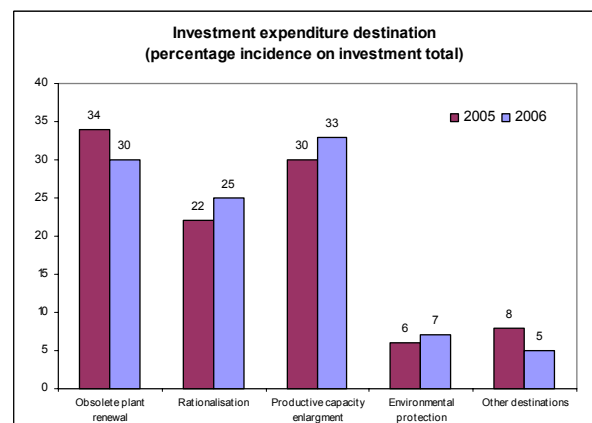
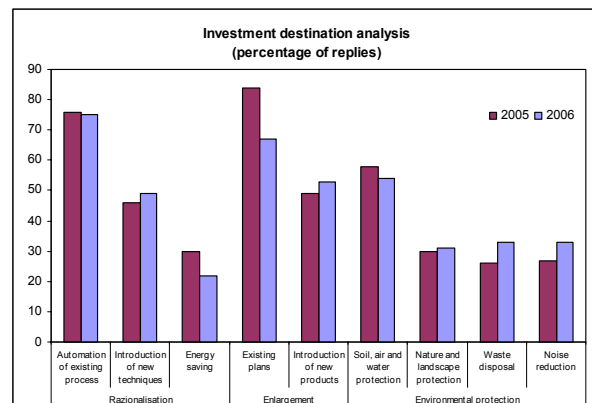
Expenditures for rationalization, extension of production capacity and environmental protection

Also in the first half of this year, expenditures for rationalization were mainly oriented towards automation and mechanization of existing producing processes (76% of the replies in 2005, and 75% in 2006), followed, in the order, by expenditures for the introduction of new production techniques (observed for 46% and 49% of the sample in the two years) and

by investments designed to save energy (30% in 2005 and 22% in 2006).

As for the extension of production capacity, investments were mainly implemented within the existing production programmes (84% of the firms in 2005 and 67% in 2006), while those designed to extend the product range regarded only 49% and 53% of the respondents in the two years.

Finally, among the expenditures for environmental protection, both in 2005 and 2006 the larger share is intended for the protection of soil, air and water (58% of firms made such expenses in 2005 and 54% in 2006). Also investments for the protection of nature and the landscape acquired an important role (30% of the replies in 2005 and 31% in 2006), followed by waste management and the reduction of noise, for which the percentage of respondents was equal to 26% and 27% respectively in 2005, rising further to 33% for both categories in 2006.



Leasing

Traditional annual questions on the utilization of leasing for financing capital spending showed that, in 2005, 45% of the respondents resorted to this financial instrument. Its use recovered from the previous year when the percentage lowered to 43%. Firms that increased leasing utilization were mainly those with fewer than 50 employees: 60% of small firms utilized this instrument (compared to 33% for medium-sized enterprises and 36% for large ones).

The share of total investments financed through leasing increased, reaching 21.3% (with respect to 17.6% in 2004). This form of financing was important mainly for small firms (the share increased over the year, attaining 39.6%), while it had a lower incidence for medium and large enterprises (12.4% and 6.8%).

Particularly, according to the surveyed firms, leasing was mainly used for purchasing machinery and equipment (63% of respondents), industrial warehouses (45%) and transportation equipment (31%).

The classification by firm size showed that small firms resorted to leasing mainly to finance the purchase of both machinery and warehouses (57% of the answers), while leasing had a lower than average role in the purchase of transportation equipment (14%). Instead, 75% of the firms employing 50-249 people used leasing to purchase machinery, 38% transportation equipment and 29% new warehouses. Finally, large firms resorted to leasing for investments in producing equipment (64%) and transportation equipment (59%), warehouses (33%) and, to a higher than average extent, for purchasing machinery and equipment for office automation (25% of the replies).

