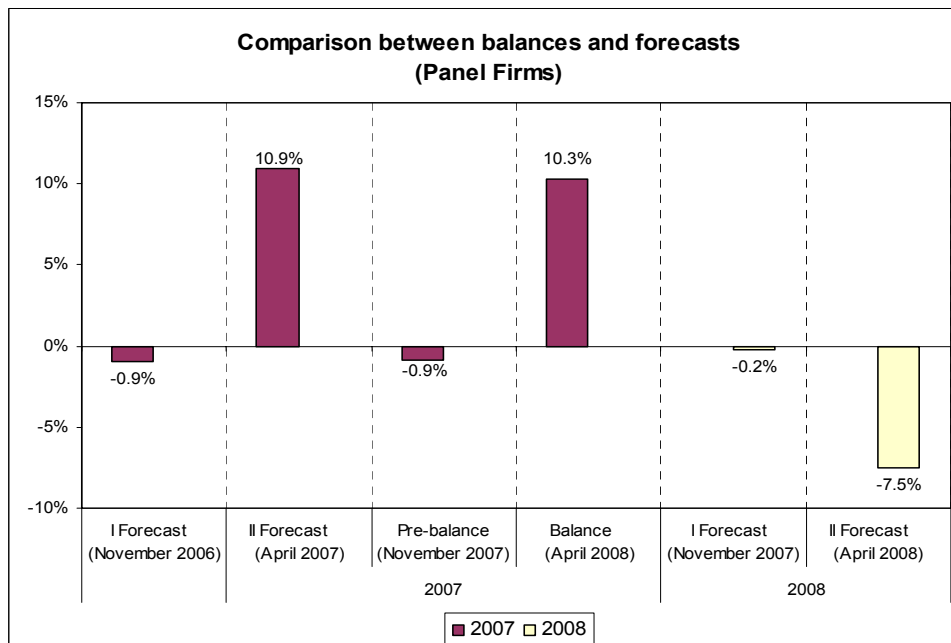




Date: May 27, 2008
TEL.: 06/444821

MANUFACTURING FIRMS FINALLY REPORT CAPITAL SPENDING GROWTH FOR 2007, BUT REMAIN CAUTIOUS ABOUT THEIR 2008 FORECASTS

- The ISAE Investment Survey in manufacturing and extractive firms recorded a final estimate of 9.1% growth for capital spending in 2007, showing an important upgrade with respect to the indications given last November (+1.2%). The same firms forecast however a cut in expenditures (-6.7%) for 2008
- Such data refer to the nominal amount of capital expenditures and comprise all investments carried out both within and outside national borders. Furthermore, firms are generally very cautious in indicating preliminary estimates for investment spending plans during the year
- Evaluations for 2007 of firms participating in all the surveys conducted in the last 18 months wavered, and a major upward revision occurred in the last survey. Forecasts for 2008 were instead downgraded with respect to last November
- For 2009, 90% of the panel anticipated stability (39%) or decline (51%) in capital spending
- Both in 2007 and 2008, most investments were implemented or planned with the purpose of replacing worn-out plant and equipment. Furthermore, in order of decreasing importance, rationalization, extension of production capacity, environmental protection, and “other investment objectives” were mentioned
- Traditional annual questions on the utilization of leasing showed that 32% of the respondents resorted to this financial instrument in 2007 (compared to 35% in the previous year). Accordingly, the share of total investments financed through leasing amounted to 13% (17% in 2006)



The next Investment Survey on Manufacturing and Extractive Firms will be released in December 2008

The next ISAE surveys are scheduled as follows:

May 28, 2008: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (reference period: May), ISAE Monthly Business Services Survey (reference period: May), and ISAE Monthly Survey on Construction (reference period: April)

June 5, 2008: 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 2007 and forecasts for 2008

In March-April 2008, ISAE carried out its traditional twice-yearly investment survey on manufacturing and extractive firms. The survey covered only firms which actually implemented or planned investment activity in the 2006-2008 three-year period. Replies were obtained from about 1,660 out of the 4,000 firms participating in the monthly ISAE survey.

Final data for 2007 showed that capital spending of manufacturing and extractive firms grew 9.1%. However, the same firms forecast for 2008 a cut in expenditures of 6.7%. Such data refer to the nominal amount of expenditures and comprise all investments carried out by firms both within and outside national borders. Furthermore, firms are generally very cautious in giving preliminary estimates for investment spending plans during the year.

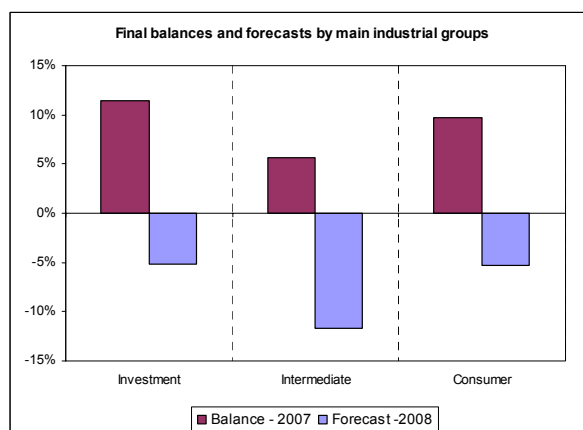
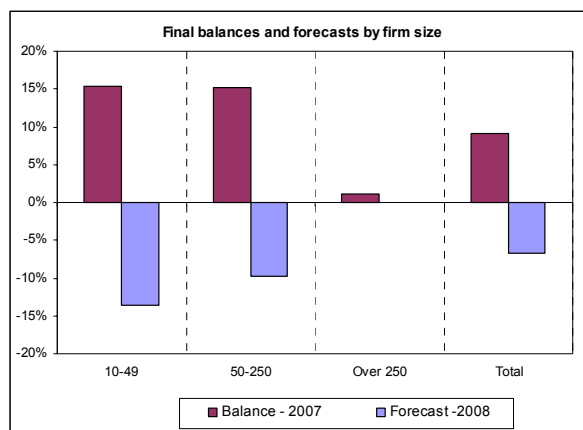
The sorting out of data according to firm size indicated that the expansion in investment in 2007 was particularly marked for medium-sized (15.2%) and small firms (15.4%). However, the same firms forecast for 2008 a fall in investment spending of 13.6% and 9.8%, respectively. Large firms, instead, did not expect significant changes for investment expenditures in both 2007 final estimates and 2008 forecasts (1.2% and 0.04%, respectively).

The classification by sectors showed that in 2007 the increase in capital spending was particularly sharp in the investment goods segment (11.4%). For intermediate and consumer goods, growth in capital expenditures came in at 9.7% and 5.6%, respectively. On the other hand, gloom over expectations for 2008 pervaded all sectors and, in particular, consumer goods firms. Producers of intermediate (-5.3%) and investment goods (-5.2%) were instead less pessimistic.

Comparison between forecasts and results for 2007

Out of the 1,660 firms that replied to the spring 2008 ISAE survey, about 900 responded to all the surveys conducted since November 2006, providing information on capital spending developments in 2007. The examination of these replies allowed making an analysis of the time evolution of investment forecasts.

Over the last 18 months, firms gave significantly changing evaluations of investment spending carried out in 2007, moving from negative expectations to decidedly positive final estimates. In November 2006 firms started by expecting a decline in capital expenditures of -0.9%, but they revised their forecast up to +10.9% in April 2007. Thereafter, following a new negative forecast of -0.9% given in November 2007, they upgraded their prediction, which finally reached +10.3% in today's final estimate.



These changes characterized all size groups, though at different rates. Small firms, which initially made a negative forecast (-0.9%), clearly revised it upwards in April 2007 (to 23.8%), but, after cutting it back again (-0.9%), ended by making a final estimate of 13.6% in April 2008. Medium-sized firms first started by making negative forecasts (-1.6% in November 2006 and -3.4% one year later), but the forecast turned positive later on (to 2.4% in April 2007 and 18.5% in April 2008). Lastly, large firms did not significantly change their predictions during the four surveys (they came in at -0.4% and 0.3% and at -0.7 and 0.6%, respectively).

At the sector level, the upgrading was particularly marked for producers of investment goods: in this sector, the negative forecasts of November 2006 (-6.3%) were gradually revised up to +15% in the last six months. Producers of intermediate goods revised their forecast from 0.5% in November 2006 to 13.7% in April 2007, and to 5% in November 2007 and 10.6% in April 2008. Likewise, in the consumer goods sector, the initial positive forecast (+1.6%) was raised to +5.4% in the final estimate of April 2008.

Comparison between forecasts for 2008

More widespread pessimism distinguished forecasts for 2008, according to the panel of about 1.000 firms which responded also to the previous survey. On the whole, firms anticipated a fall of 2.3% in investment expenditures in November 2007 and revised it further down to -7.5% in the last survey. The result largely stemmed from the negative indications of small enterprises (-6.2% in November and -16% at present). Medium-sized firms, which at first anticipated a fall in expenditures of 0.1%, scaled down their forecast to -16.1% last April. Large firms did not make significant changes: their growth forecasts, which were close to zero, came in at +0.4 and -0.3, respectively.

The industry breakdown of data showed that downgrading mainly characterized producers of investment and consumer goods (their forecast moved from 0% to -5.3% and from -7.4% to -12.1%, respectively). Producers of intermediate goods, instead,

became less pessimistic over the last six months: they upgraded their 2008 forecast from -9.6% to -1.3%.

Qualitative forecasts for 2009

With regard to the qualitative forecasts for the investment trend in 2009, 51% of surveyed firms planned a smaller amount of investment spending compared to the previous year, 39% did not expect any change, and only 9% predicted an increase. However, the sorting out of data by size group showed some important differences. Only 10% of small firms forecast an increase in expenditures, 44% planned a cut, and 46% expected stability. Among medium-sized firms, most entrepreneurs (54%) planned to maintain capital expenditures unchanged, 40% expected a slowdown, and 7% forecast an increase. Finally, as in the previous six months, the majority of large firms (61%) anticipated a fall in capital spending, 29% considered investments to remain unchanged, and 10% predicted an increase.

Purposes of investment

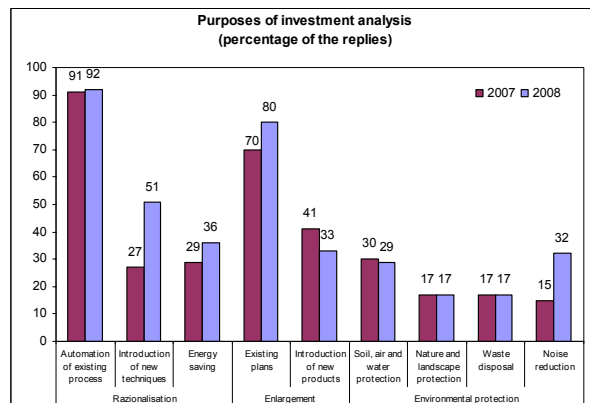
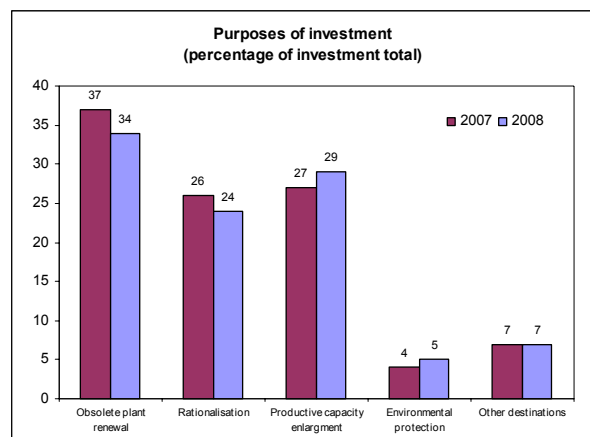
According to surveyed firms, in 2007 and 2008, the main aims for capital spending were the replacement of worn-out plant and equipment (37% of the replies in 2007 and 34% in 2008) and the extension of production capacity (27% and 29%). Furthermore, in order of decreasing importance, rationalization (26% in 2007 and 24% in 2008), "other investment objectives" (7% in both years), and environmental protection (4% and 5%) were mentioned.

The analysis of size groups showed that small and large firms maintained the same share of total spending for the replacement of worn-out plant and equipment (52% and 23%, respectively), whereas for medium-sized firms such percentage declined to 36% from 42% in the previous year. Furthermore, small firms forecast a mild cut in the proportion of spending going to the extension of production capacity (from 20% to 19%), while medium and large firms stated they wanted to increase its share (from 26% to 28% and from 32% to 34%, respectively). Lastly, small and large firms

expressed the intention of decreasing spending designed to streamline production processes (from 33% to 30% and from 33% to 28%), while medium-sized firms maintained the same percentage (23%). The share for “other investment objectives” showed different results: it increased for large firms, declined for small firms, and remained stable for medium-sized ones. Finally, the share of expenditures aimed at environmental protection held steady at 3% for medium-sized firms, but it increased for small and large ones (from 5% to 6% and from 7% to 8%, respectively).

Expenditures for rationalization, extension of production capacity and environmental protection

Expenditures for rationalization were mainly oriented towards automation and mechanization of existing producing processes (91% of the replies in 2007 and 92% in 2008), followed, in decreasing order, by expenditures for the introduction of new production techniques (observed for 51% and 27% of the sample in the two years) and by investments designed to save energy (29% and 26%). As for the extension of production capacity, in 2007, 70% of firms implemented expenditures within the existing production programmes, while 80% of the firms planned such expenditures for 2008. The share of firms which wanted to extend the product range declined instead from 41% to 33%. Among the expenditures for environmental protection, in 2008 a larger share of firms aimed at the reduction of noise (from 15% to 32%), whereas the proportion of those wanting to invest for the protection of soil, air and water diminished slightly (from 30% to 29%). The proportion of firms channelling funds for the protection of nature and landscape and for waste management remained unchanged at 17% in the two years.



Leasing

Traditional annual questions on the utilization of leasing for financing capital spending showed that 32% of the respondents turned to this financial instrument in 2007, a slightly lower share than in 2006 (35%). Firms that forwent its utilization were the small and medium-sized ones (down to 34% from 46% and to 26% from 34%). On the contrary, 35% of large firms used it, as opposed to 25% in the previous survey.

Accordingly, the share of total investments financed through leasing lowered to 13% from 17% in 2006. This form of financing became less important for small firms (the share amounted to 23.7%, compared to 28% in 2006) and also, though to a lesser extent, for medium-sized ones (to 12.3% from 14.8% in the previous survey). The role of leasing remained instead virtually stable for large firms (the share moved to 5.8% from 5.7%).

More in detail, according to surveyed firms, leasing was mainly used for purchasing producing machinery and equipment (76% of respondents), transportation equipment (19%), and industrial warehouses (16%). The classification by firm size showed that all groups mainly resorted to leasing to finance the purchase of machinery (79%, 87% and 70% for small, medium and large firms, respectively). Among the other forms of utilization, small and large firms used leasing mainly for investing in industrial warehouses (17% and 20%, respectively), while medium-sized firm used it mostly for purchasing transportation equipment (34%).

