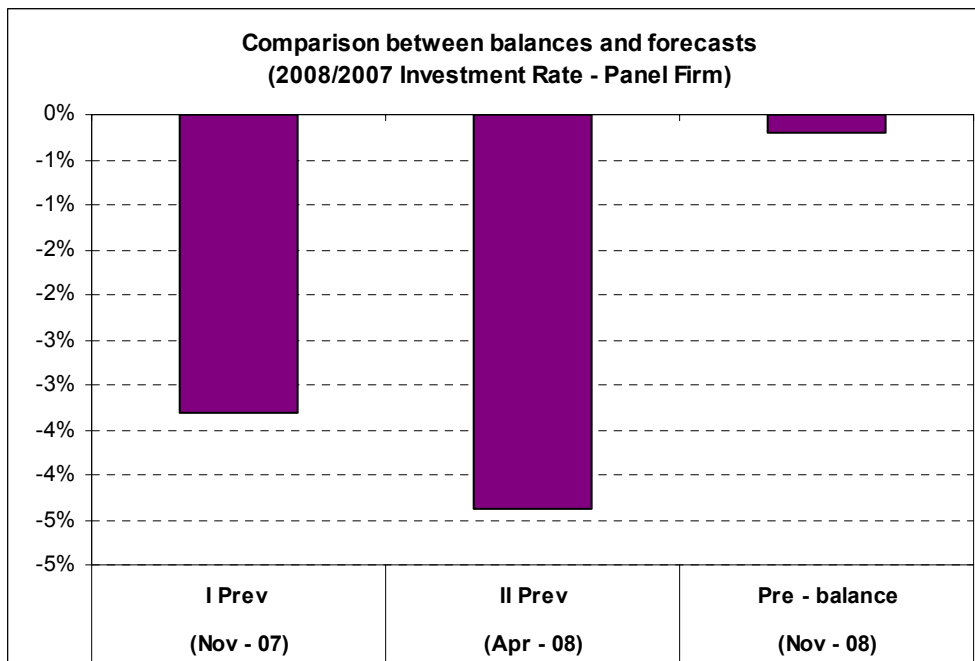




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MANUFACTURING FIRMS ESTIMATE BASIC STABILITY FOR INVESTMENT IN 2008, BUT PLAN DOWNSIZING FOR 2009

- Investment is expected to increase by 0.6% in nominal terms in 2008. Forecasts are however unfavourable for 2009, when capital spending is predicted to diminish by 6.3%
- According only to the replies of the panel of firms which answered to all surveys carried out in the last twelve months, capital expenditures should decline this year by 0.2%, posting an upgrade with respect to the April forecast (-4.4%)
- However the survey showed marked uncertainty. Firms noticeably revised their estimates in the three surveys which took place in November 2007, April 2008 and November 2008. More in detail, the upward revision of April's forecasts mainly characterized small-sized firms, but was evenly spread across sectors
- Both in 2008 and 2009, the largest share of expenditures was aimed at the replacement of worn-out plant or equipment (35% and 36% respectively), the expansion of production capacity (33% and 34%) and the streamlining of output (20% and 19%)
- Rationalization expenditures were largely designed to automate and mechanize existing production processes. As for the expansion of production capacity, in 2009 the share of expenditures oriented towards the introduction of new products was projected to increase, to the detriment of spending for existing production processes



The next Investment Survey on Manufacturing and Extractive Firms will be released in spring 2009

The next ISAE surveys are scheduled as follows:

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

December 5: ISAE International Comparison of Consumer and Business Surveys (reference period: November)

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)

Investment in 2008 and forecasts for 2009

In October-November 2008, ISAE carried out its traditional twice-yearly investment survey on manufacturing and extractive firms. The survey covered only firms which actually made or planned investment activity in the 2007-2009 three-year period. Replies were obtained from about 2,000 out of the 4,000 firms participating to the ISAE manufacturing firms' monthly survey.

According to the advance estimate for 2008, capital spending of manufacturing and mining firms slightly increased in nominal terms (+0.6%). Yet the same firms projected for 2009 a fall of 6.3%. One must however consider that in December surveyed firms are usually very cautious in forecasting capital expenditures for the following year. The expected increase for 2008 was due solely to the positive trend in small businesses (3.3%). Medium-sized firms estimated instead a fall (-2.4%), while large ones (with more than 250 employees) expected virtual stability. For 2009, however, small and midsize companies were particularly pessimistic, forecasting a decline in capital expenditures of 13.6% and 4.4%, respectively. Large firms, instead, continued to predict basic stability over the previous year (-0.2%).

The classification by sectors indicated that in 2008 spending increased in nominal terms according to producers of investment goods (+7.4%), while it declined in the intermediate and consumer goods segments (-1.4% in both). Forecasts for 2009 were homogeneous across sectors. All firms expected a decrease in capital spending. The drop was particularly marked for consumer goods (-10.6%), and slightly more moderate for investment and intermediate goods (-4% and -5.6% respectively).

Comparison between results and forecasts for 2008

About 1,350 firms replied to all three surveys carried out by ISAE in the last twelve months. The examination of these replies showed that during this year firms were particularly uncertain about their investment spending in 2008. In November 2007, entrepreneurs actually expected a fall in capital expenditures of 3.3%, revised their estimate downwards in April (to -4.4%) and subsequently upwards in the present survey (to -0.2%).

Uncertainty mainly characterized small and medium-sized firms. Small firms initially made a negative forecast (-7.6%). They downgraded it in April (-12.5%), but corrected it upwards in the last survey (+1.9%). Medium-sized firms, which in November 2007 anticipated a decline in investment (-2.6%), revised their estimate up in April (to +4.7%) and again down in the current survey (to -3%). In all three surveys, estimates of enterprises with more than 250 employees were instead more stable (1.4%, 0.3% and 0.2%, respectively).

The upward revision of estimates in the current survey distinguished instead all sectors. In the investment goods sector, in April 2008 firms downgraded (to +0.8%) the forecast they made in November 2007 (which amounted to +6.7%), but subsequently revised it upwards in November 2008 (+5.2%). In the consumer goods sector, the negative forecast of November 2007 (-11.3%) was improved in both April and November 2008 (to -6.4% and -0.5%). Lastly, producers of intermediate goods further worsened in April 2008 the forecast they made in November 2007 (from -2.8% to -6%), but upgraded it in the last survey (to -0.6%).

Among the factors affecting investment spending, demand developments played a major role in determining both 2008 results and 2009 plans. Furthermore, firms mentioned, in order of decreasing importance, the accessibility of financial resources and technical factors related to technological developments, the availability of labour force and its ability to adapt to new technologies.

Purposes of investment

According to surveyed firms, in 2008 and 2009 most capital spending was aimed at the replacement of worn-out plant or equipment (35% and 36% of the replies, respectively) and the extension of production capacity (33% and 34%). Furthermore, in order of decreasing importance, rationalization (20% and 19%), “other investment objectives” (7% and 6%), and environmental protection (5% and 4%) were mentioned.

Spending for the replacement of worn-out plant or equipment mainly distinguished investment in small firms (44% of expenditures in 2008 and 47% in 2009). Large firms concentrated instead mainly on spending going to the expansion of production capacity (36% of the respondents), while for medium-sized firms the proportion of spending oriented towards rationalization and the extension of capacity was similar. At the sector level, producers of investment and consumer goods spent mainly for enlarging production capacity, while those in the intermediate goods sector invested above all for replacing worn-out plant or equipment.

Expenditures for rationalization and extension of production capacity

Expenditures for rationalization were mainly designed to implement automation and mechanization of existing production processes (75% of the replies for 2008 and 69% for 2009), followed, in the order, by expenditures for the introduction of new production techniques (48% and 50% of the sample in the two years) and by investment intended to save energy (35%). With regard to the enlargement of production capacity, in 2008 capital spending was mainly implemented within existing production programmes (82% of the firms) and for expanding the product range (50%). In 2009, the share of firms that wanted to implement existing production programmes was expected to decline to 74%, while the proportion of those oriented towards extending the product range was instead forecast to hit 56%.

