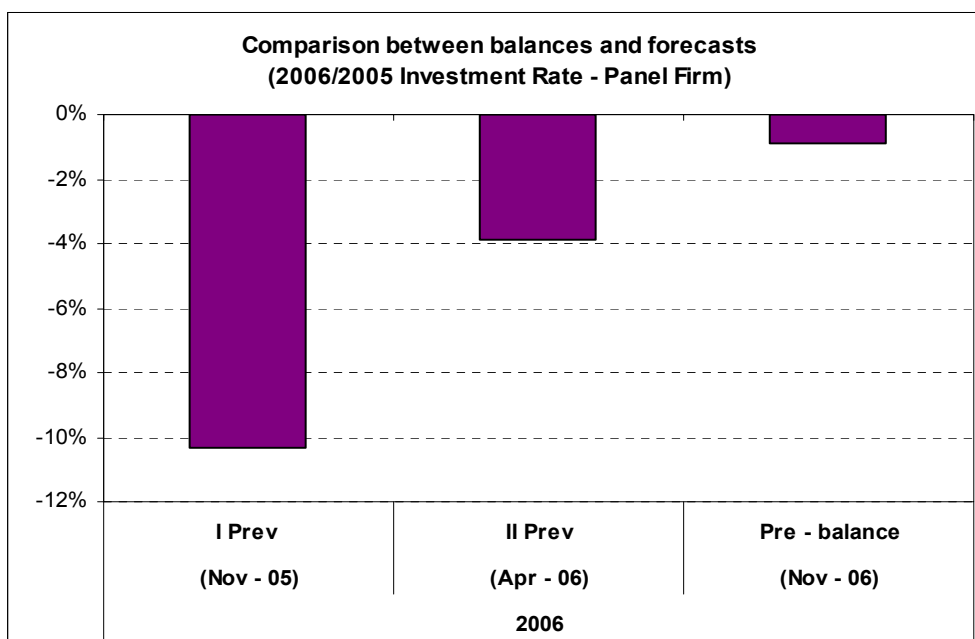




Date: December 22, 2006  
TEL.: 06/444821

### DURING THE YEAR 2006, MANUFACTURING FIRMS UPGRADED THEIR INVESTMENT PLANS WHICH REMAINED HOWEVER NEGATIVE FOR BOTH 2006 AND 2007

- The ISAE bi-annual survey, which was carried out in October-November 2006 and covered only firms which implemented or planned investments in the 2005-2007 three-year period, pointed to a decrease of 2.3% in 2006 for investments of manufacturing and mining firms. Capital expenditures were expected to lower also in 2007 (by -2%)
- The analysis of the replies of the firms which participated to the three surveys conducted in the last twelve months showed, nevertheless, an upward revision of estimates for 2006. The improvement was widespread among size groups and sectors, and characterized mostly medium-sized firms and producers of consumer goods
- In accordance with the results of the panel analysis, 25% of the firms stated that they upgraded their investment plans prepared at the start of 2006, as against a 20% share that declared to have trimmed them down. The change in the structure of demand and other unspecified factors were among the main reasons that led firms to revise their plans
- Among the factors affecting investment spending, firms stated that demand developments, expected profits, availability of financial resources and technical factors were particularly important both for the year 2006 and for future decisions
- For 2007, the panel anticipated a marked increase in the share of expenditures aimed at expanding productive capacity. Furthermore, the percentage of firms investing with the purpose of introducing new production techniques and extending the product range was expected to rise



The next Investment Survey on Manufacturing and Extractive Firms will be released in May 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](http://www.isae.it))

### Investments in 2006 and forecasts for 2007

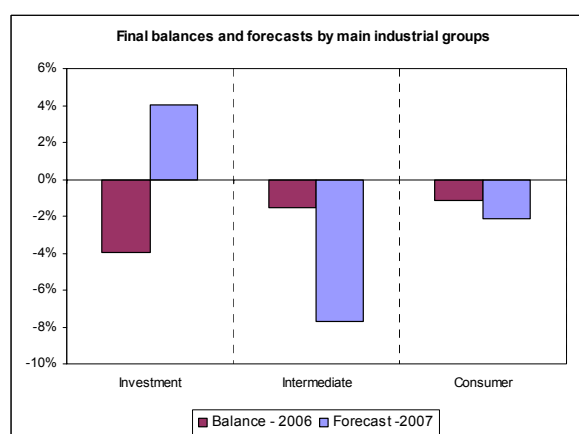
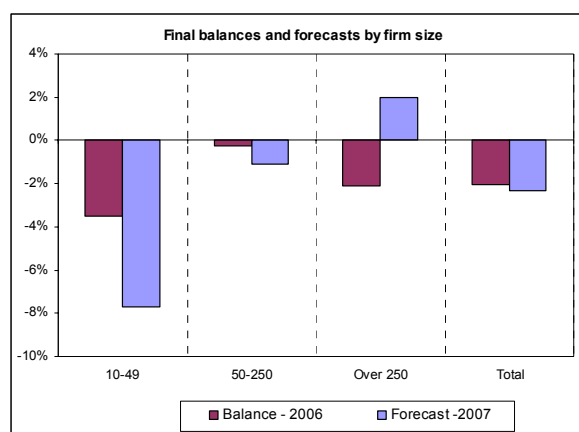
In October-November 2006, ISAE carried out its traditional twice-yearly investment survey on manufacturing and extractive firms. The survey covered only firms which actually conducted or planned investment activity in the 2005-2007 three-year period. Replies were obtained from about 1,900 out of the 4,000 firms participating to the monthly survey.

Preliminary data for 2006 showed that capital spending in the manufacturing and extractive sectors declined by 2.3%. The same firms forecast for 2007 a cut in expenditures of 2%. The sorting out of data according to firm size indicated that reduction in spending was particularly marked for firms with fewer than 50 employees (-3.5%) and for large firms (-2%). Firms employing 50-250 people recorded, instead, virtual stability (-0.3%). For 2007, small firms' forecasts were notably pessimistic: the expected fall in spending was equal to 7.7%. Medium-sized firms planned a reduction of 1.1% and large ones, instead, anticipated an increase of 2%.

The classification by sectors indicated that in 2006 the nominal decrease in spending characterized mainly producers of investment goods (-4%) and, to a lesser extent, the consumer (-1.5%) and intermediate goods (-1.2%) segments. Expectations for 2007 were not homogeneous across sectors: intermediate and, primarily, consumer goods firms anticipated a fall in expenditures (-2.1% and -7.7%, respectively), while producers of investment goods were more optimistic (+4%).

### Comparison between results and forecasts for 2006

Out of the 1,900 firms that in the October-November 2006 period replied to the ISAE survey, more than 1,400 also responded to the November 2005 and the April 2006 ones. The examination of these replies allowed ISAE to carry out a deep analysis on the evolution of assessments and expectations of manufacturing firms over the last year.

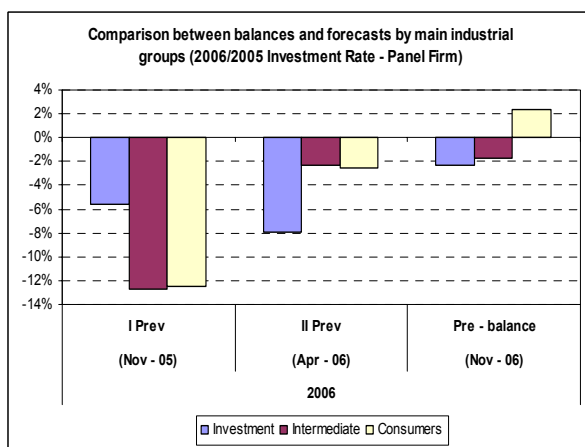
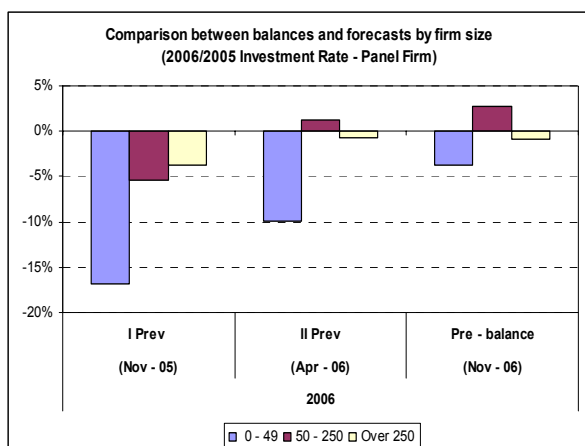


The evaluation of investments for 2006 gradually improved over the last twelve months. In fact, in November 2005 firms expected a slump in expenditures (-10.3%). The same firms incrementally upgraded their advance estimates, first last April (to -3.9%) and then in the last survey (to -0.9%). The analysis thus suggested that the reduction in capital spending was probably ascribable above all to the firms that entered the sample during the last survey (equal to 24% of the respondents).

Revisions characterized all size groups. Small firms initially made a highly negative forecast (-16.8%); they upgraded it markedly both in April (-9.9%) and in this last survey (-3.7%). Likewise, enterprises with more than 250 employees put investment growth at -3.8% in November 2005, and successively revised it upwards both in April 2006 and in the current survey (to -0.8% and -0.9%, respectively). Lastly, medium-sized firms sent favourable signals: twelve months ago they anticipated a fall in capital expenditures of -5.5%, but thereafter indicated a recovery in capital spending both

in the second revision and in the final estimate (+1.2% and +2.7%).

At the sector level, an upward revision of estimates mainly characterized producers of consumer goods: they indicated sharply negative forecasts in 2005 (-12.5%), improved their advance estimate in April 2006 (-2.5%), and decidedly upgraded their final estimate, with the growth rate turning positive (+2.3%). Producers of intermediate goods revised upwards the forecasts made in the previous surveys: the estimated growth rate rose to -1.8%, compared to -12.8% in November 2005 and -2.3% last April. On the contrary, in the investment goods sector, the negative forecast made in autumn 2005 was further accentuated in April 2006 (from -5.6% to -7.9%), whereas the final estimate recorded an upgrade (to -2.3%).



### Forecasts for 2008

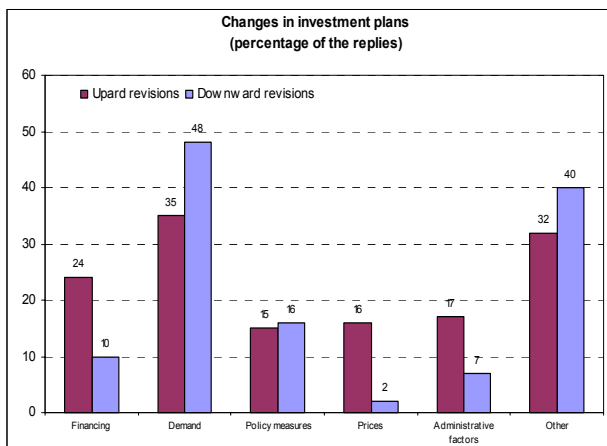
With regard to the qualitative forecasts for the investment trend in 2008, most surveyed firms (57% of the sample) planned the same (45%) or a larger amount (12%) of capital spending compared to the previous year. Instead, 42% of the respondents expected to cut capital expenditures. The breakdown of data by size groups showed, nevertheless, some important dissimilarities: 47% of firms with more than 250 employees planned a reduction in expenditures with respect to 2007, 39% expected stability, and only 14% forecast a rise. Among medium-sized firms (employing 50-250 people) the percentage of those expecting to keep investment spending unchanged prevailed (54%), whereas 11% and 35%, respectively, planned a rise and a reduction in expenditures for 2007. Finally, among firms with fewer than 50 employees, 12% forecast an increase in capital expenditures, 44% anticipated a fall, and the remaining 44% considered that investment would remain unchanged.

### Changes in investment plans for 2006

According to the ISAE survey, during 2006, 45% of manufacturing firms revised their investment plans, with upgrades (25%) outnumbering downgrades (20%). Among the firms that corrected upwards the forecasts made in April 2006, 35% stated that the main factor that led them to modify their plans was the change in the structure of demand, while 32% mentioned other reasons. Furthermore, 24% of the firms attributed the improvement to better financing conditions, 17% to administrative factors, 16% to the price of investment goods and 15% to economic policy measures. The trend in demand was, instead, the main cause of the downgrade in initial plans (48% of the replies), followed by other factors (40%). A lesser role was played, instead, by economic policy measures (16%), financial factors (10%) and the price of investment goods (2%).

Among small firms, 36% of the respondents stated that they revised upwards their capital expenditure plans with respect to last April. The decision was

mainly influenced by an improvement in demand conditions (31%), by other factors (31%) and by the change in investment goods prices (23%). Nevertheless, 29% of small firms stated that the downgrading of their investment plans was mainly due to financing difficulties (48%) and economic policy measures (42%). Both in medium and large-sized enterprises, upward revisions prevailed (41% and 43%, respectively) over downgrades (33% and 34%). For large firms, the revisions in spending plans were mainly driven by changes in demand conditions (for 45% of those that increased expenditures, and for 74% of those that cut them down), and, subsequently, by financial conditions for firms upgrading investment (33%) and by other factors for those downgrading them (27%). For medium-sized firms, instead, the decision to increase spending was affected by the other factors (36% of the replies), demand (33%) and financial factors (30%). The reduction instead was due to changes in demand conditions (for 38% of surveyed firms), financial factors (34%), administrative factors (23%) and economic policy measures (22%).



## Factors influencing investment

Among the factors influencing investment plans, current and expected demand played a major role both for the implementation of investment in 2006 and for its planning for 2007. In 2006, 49% of the firms judged demand stimulating, while 21% considered it very important. For 2007, demand was considered challenging by 50% of the respondents and very important by 25% of them. The availability of financial resources, expected profits and technical factors had a similar role. In detail, in 2006, 61% of the firms considered factors related to the availability of financial resources very important or stimulating (12% and 49%, respectively). In 2007, such factors were regarded as very important by 11% of the firms and challenging by 51% of them. Technical factors, concerning technological developments, availability of labour and its attitude toward new technology, were very important or stimulating for 65% of the respondents in 2006 (14% considered them very important and 51% stimulating) and for 64% of them in 2007 (16% very important and 48% stimulating).

## Purposes of investment

According to surveyed firms, in 2006 the replacement of worn-out plant and equipment and the extension of productive capacity were the main objectives of investment expenditures (34% and 32%, respectively). Furthermore, in order of decreasing importance, rationalization (23%), environmental protection (5%) and other investment objectives (6%) were mentioned. For 2007, the share of expenditures for replacement and rationalization were expected to decline to 31% and 22%, respectively, largely surpassed by the share of investment for the extension of productive capacity (36%). The proportions referring to environmental protection (5%) and to other objectives (6%) were expected to remain unchanged.

The analysis of size groups showed that in 2006 small firms employed 38% of expenditures to replace worn-out plant and equipment, 23% for rationalization, 30% for extending productive capacity, 3% for

environmental protection and 6% for other purposes. In 2007, these proportions were forecast to move, in the order, to 34%, 19%, 38%, 3% and 6%, showing a clear improvement in the share of capital expenditures designed to expand productive capacity. In line with the national average, for medium and large enterprises, in 2006 expenditures for the replacement of worn-out plant and equipment and for the increase in productive capacity prevailed (35% and 34% respectively for medium-sized firms, and 30% and 31% for large ones), followed by expenditures for rationalization (22% and 26%). For 2007, medium-sized firms signalled the intention to leave the share of expenditures for replacement of worn-out plant and equipment unchanged (35%), to reduce the proportion for extending productive capacity (31%) and to increase, at the same time, the share for rationalization (23%, compared to 22% in 2006), environmental protection (to 5% from 4%) and other destinations (to 6% from 5%). Finally, firms with more than 250 employees intended to reduce the share for both replacement (25%) and rationalization (24%). On the contrary, the proportion of firms that intended to increase productive capacity was expected to reach 38%. The shares related to environmental protection and other destinations were planned to remain practically unchanged. The former was forecast to stabilize at 7%, and the latter to decrease slightly from 6% in 2006 to 5% in 2007.

### Expenditures for rationalization, extension of productive capacity and environmental protection

Also in the second half of 2006, expenditures for rationalization were mainly designed to implement automation and mechanization of existing producing processes (69% of the replies for 2006, and 65% for 2007), followed, in the order, by expenditures for the introduction of new production techniques (observed for 46% and 51% of the replies in the two years) and by investments intended to save energy (27% in 2006 and 36% in 2007).

As for the extension of productive capacity, in 2006 capital spending was mainly implemented within the existing production programmes (75% of the firms) and, to a lesser extent, to expand the product range (54%). In 2007, the share of firms that wanted to implement existing production programmes was expected to decline to 56%, while the proportion of those oriented towards extending the product range was forecast to hit 59%.

Finally, among the expenditures for environmental protection, both in 2006 and 2007 the larger share was intended for the protection of soil, air and water (46% of firms implemented such expenses in 2006 and 41% planned to make them in 2007). Also investments for waste management acquired a significant importance (37% in 2006 and 24% in 2007), followed by expenditures for the reduction of noise (21% in 2006 and 27% in 2007). Lastly, the percentage of firms which used or intended to use their resources for the protection of nature and the landscape declined (17% in 2006 and 2007, compared to an estimate of 31% in the April survey).

