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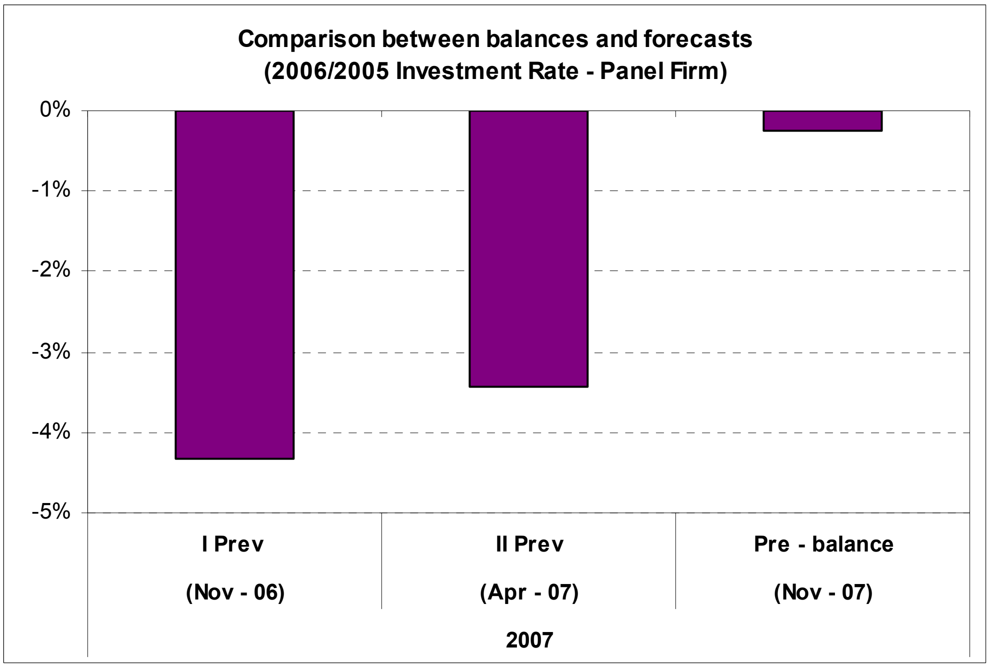
DURING THE YEAR 2007 MANUFACTURING FIRMS UPGRADED THEIR INVESTMENT PLANS

- **The ISAE bi-annual investment survey, which was conducted in October-November 2007 and covered only firms which implemented or planned capital spending in the 2006-2008 three-year period, pointed in 2007 to an increase of 1.2% for investments of manufacturing and mining firms (compared to last April's advance estimate of -4.4%)**
- **However, forecasts for 2008 and 2009 were unfavourable: for 2008 entrepreneurs projected a fall of 1.7% in capital expenditures, and more than 90% of the respondents forecast for 2009 equal or lower investments than in the previous year. However, at year end firms are usually very cautions in stating their investment forecasts for the following years**
- **Both the analysis of the replies of the firms which participated to the three surveys carried out in the last twelve months and the revisions of investment plans confirmed that firms upgraded their capex plans during the year 2007**
- **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 declared that demand developments, expected profits, availability of financial resources and technical factors were particularly important for both the year 2007 and future decisions**
- **For 2007 and 2008, firms stated that the largest share of expenditure was aimed at the replacement of worn-out plant or equipment (35% and 37% respectively), the expansion of productive capacity (32% and 33%) and the streamlining of production (20%)**



The next Investment Survey on Manufacturing and Extractive Firms will be released in May 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)

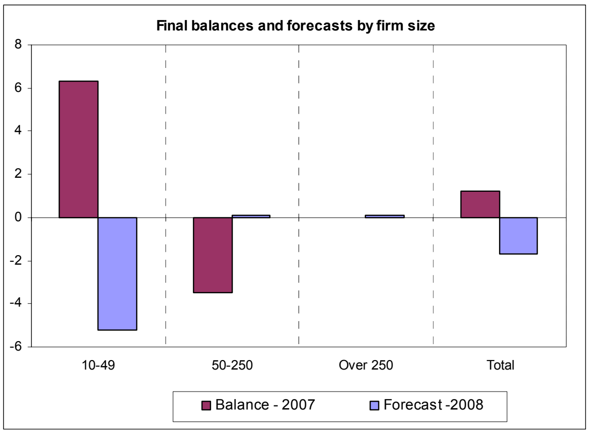
Investments in 2007 and forecasts for 2008

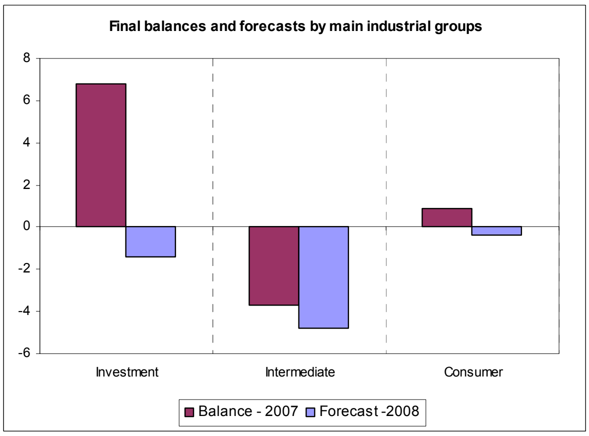
In October-November 2007, ISAE carried out its traditional twice-yearly investment survey on manufacturing and extractive firms. The survey covered only firms which actually made or planned investment activity in the 2006-2008 three-year period. Replies were obtained from about 1,350 out of the 4,000 firms participating to the ISAE monthly survey.

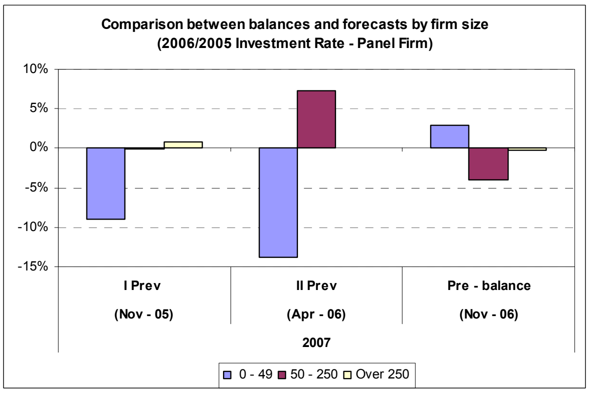
According to the advance estimate for 2007, capital spending of manufacturing and mining firms increased 1.2%. Yet the same firms projected for 2008 a fall of 1.7%. One must however consider that in the December survey firms are usually very cautious in forecasting capital expenditure for the following year.

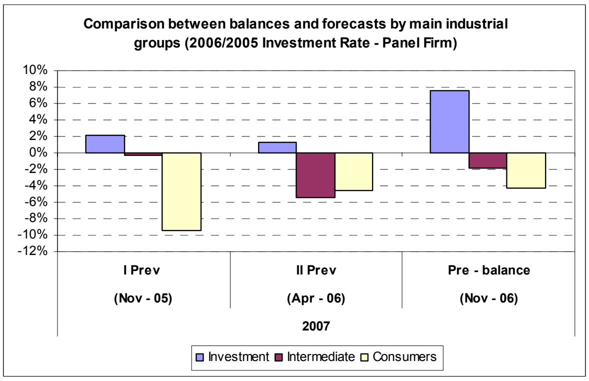
The sorting out of data according to firm size indicated that only small firms posted a clear increase in investment spending (6.3%), while medium-sized firms recorded a sharp reduction (-3.5%). Capital expenditures of firms employing more than 250 people remained unchanged. For 2008, small firms' forecasts were instead notably pessimistic: the expected fall in spending was equal to 5.2%. Medium- and large-sized firms anticipated virtual stability compared to the previous year.

The classification by sectors indicated that in 2007 the nominal increase in spending characterized mainly producers of investment goods (+6.8%) and marginally the intermediate goods segment (+0.9%). For the consumer goods sector, instead, expenditures dropped by 3.7%. Forecasts for 2008 were homogeneous across sectors. All firms expected a decrease in capital spending: the drop was particularly marked for consumer goods (-4.8%), more moderate for investment goods (-1.4%) and mild for intermediate goods (-0.4%).









Comparison between results and forecasts for 2007

About 1,350 firms replied to all three surveys carried out by ISAE in the last twelve months. The examination of these replies confirmed that during the year firms incrementally upgraded their investment estimates for 2007. In November 2006, firms actually expected a fall in capital expenditures of 4.3%, but revised their estimate upwards once in April (to -3.4%) and subsequently again in the present survey (to -0.3%).

Revisions characterized all size groups, though they went in different directions. Small firms initially made a negative forecast (-9%). They downgraded it markedly in April (-13.8%), but revised it upwards in the last survey, when the expected growth rate turned positive (2.9%). Medium-sized firms, which in November 2006 anticipated stability for investments, sharply revised their estimate upwards in April (to +7.3%) and downwards in the current survey (to -4.02%). Lastly, in all three surveys enterprises with more than 250 employees considered investment to remain relatively stable (at 0.8%, 0.1% and 0.3%, respectively).

At the sector level, the upward revision of estimates mainly characterized producers of investment goods: firms made positive forecasts in 2006 (+2.1%), downgraded them in April 2007 (to +1.3%), and revised them markedly higher in their advance estimate and again in their final estimate, when the growth rate reached +7.6%. In the consumer goods sector, the negative forecasts of autumn 2006 (-9.5%) improved in the second survey (-4.5%) and reached -4.3% in November 2007. In April 2007, producers of intermediate goods further trimmed the forecasts made in the first survey (from -0.3% to -5.5%), but the estimated growth rate recovered to -1.8% in the last six months.

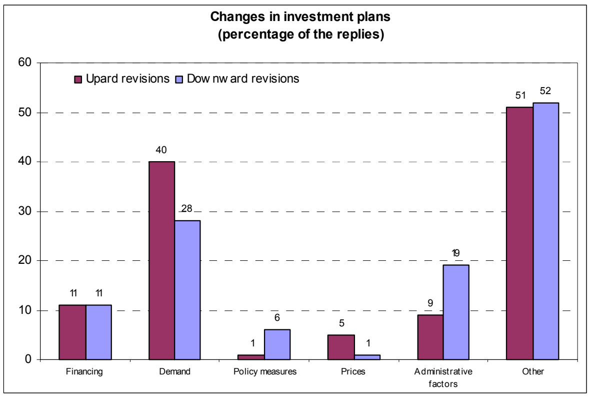
Forecasts for 2009

With regard to qualitative forecasts for the investment trend in 2009, 50% of surveyed firms planned a lower amount of capital expenditures compared to the previous year. A share of 41% did not expect a change in spending, while only 10% planned an increase. The breakdown of data by size groups showed that small- and medium-sized firms mainly expected to keep capex unchanged (47% and 50%, respectively), while 61% of firms with more than 250 employees projected a slowdown in investment. A 46% share of small firms planed to cut investment with respect to 2008, and only the remaining 7% expected a rise in capital spending. The same pattern characterized medium-sized firms, with the related percentages coming in at 41% and 9%, respectively. Lastly, 27% of large firms planned to keep investment spending stable, while only 12% expected an increase.

Changes in investment plans for 2007

According to the ISAE survey, during 2007 51% of manufacturing firms did not revise their investment plans, 28% upgraded them and the remaining 21% corrected them downwards. Among firms that revised upwards the forecasts made in April 2007, 51% mentioned “other reasons” as the decisive factor that led them to modify their plans, while 40% indicated the change in the structure of demand. Furthermore, 11% of the firms attributed the improvement to better financing conditions, 9% to internal administrative factors, 5% to the price of investment goods and 1% to economic policy measures. Likewise, “other reasons” (52% of the replies), the change in demand (28%) and financial difficulties (11%) were the major causes of the downgrade in initial plans, followed by internal administrative factors (19%). The remaining factors had a minor role.

Among small- and medium-sized firms, 48% of the respondents revised upwards their capital expenditure plans with respect to the previous survey. For small firms, the decision was mainly influenced by an improvement in demand conditions (33%), by the change in investment goods prices (18%), and also by “other factors” (56%). For firms with 50-250 employees, investment decisions were largely affected by demand developments (50%), but also in this case “other reasons” played an important role (46% of the respondents). However, for 37% of both small- and medium-sized firms the downward revision was mainly attributed to the change in the structure of demand (for 60% and 48% of the respondents, respectively), followed by financing difficulties (21% an 22%) and economic policy measures (18% and 22%). Also for large firms upward revisions of initial plans (34%) outnumbered downgrades (26%). Revisions were mainly driven by changes in demand conditions (for 37% of the firms that increased expenditures, and for 43% of those that cut them down), and by internal administrative factors for firms downgrading investments (42%) and “other reasons” for those upgrading them (52%).



Factors influencing investment

Among the factors influencing capital spending plans, current and expected demand developments played a major role both for the implementation of investment in 2007 and for its planning for 2008. In 2007, 59% of the firms judged demand stimulating, while 25% considered it very important. For 2008, these percentages recorded a slight change in the first case (to 57%) and remained stable (at 25%) in the second case. As for the availability of financial resources and expected profits, in 2007 60% of surveyed firms considered factors related to the availability of financial resources challenging and 9% very important. In 2008 such factors were regarded as very important or stimulating by 65% of the firms (8% and 57%, respectively). Technical factors, concerning technological developments, availability of labour force and its ability to adapt to new technology, were challenging for 62% of the respondents in 2007 and for 76% of them in 2008, and very important for 21% in 2007 and 8% in 2008.

Purposes of investment

According to surveyed firms, in 2007 and 2008 the replacement of worn-out plant or equipment and the extension of productive capacity were the main objectives of investment expenditures (35% and 32% of the responses respectively in 2007, and 37% and 33% in 2008). Furthermore, in order of decreasing importance, rationalization (20% in both cases), other investment objectives (8% and 6%) and environmental protection (5% and 4%) were mentioned.

The analysis of size groups showed that in 2007 small firms employed 42% of expenditures to replace worn-out plant or equipment, 31% for extending productive capacity, 16% for rationalization, 9% for other purposes and 3% for environmental protection. In 2008, the order of these proportions remained the same, coming in at 46%, 33%, 14%, 4% and 2%, respectively. In 2007 and 2008, medium-sized enterprises channelled capital expenditures into replacing worn-out plant or equipment (39% in 2007 and 35% in 2008) and expanding productive capacity (29% and 30%). In 2008, the share of expenditures for rationalization and other purposes rose slightly (from 23% to 24% and from 6% to 8% respectively). Lastly, large firms did not post significant changes in spending plans: the share for capacity expansion remained unchanged at 36%, and the one for the replacement of worn-our plant or equipment inched up (to 26% in 2007 and 28% in 2008). In contrast, expenditures for environmental protection and other purposes declined slightly (from 8% to 6% and from 8% to 7%, respectively).

Expenditures for rationalization, extension of productive capacity and environmental protection

Also in the second half of 2007, expenditures for rationalization were mainly designed to implement automation and mechanization of existing producing processes (77% of the replies for 2007 and 70% for 2008), followed, in decreasing order, by expenditures for the introduction of new production techniques (49% and 50% of the sample in the two years) and by investments intended to save energy (35%). As for the extension of productive capacity, in 2007 capital spending was mainly implemented within the existing production programmes (81% of the firms) and to expand the product range (49%). In 2008, the share of firms that wanted to implement existing production programmes was expected to decline to 73%, while the proportion of those oriented towards extending the product range was instead forecast to hit 54%.

Finally, among expenditures for environmental protection, both in 2007 and 2008 the larger share was intended for the protection of soil, air and water (42% in both years). Also investments for waste management acquired a significant importance (20% in 2007 and 22% in 2008), followed by expenditures for the reduction of noise (18% and 20%). Lastly, the percentage of firms which used or intended to use their resources for the protection of nature and landscape increased (from 12% to 16%).