



## Isae-Assolombarda Quarterly Survey on the Manufacturing and Business Services Sectors



Reference period: Third Quarter 2009  
*released on 5 November, 2009*

In the third quarter of 2009 business confidence registered strong signs of recovery in the whole Euro Area; Italian firms showed greater optimism about prospects for the next months, both in terms of expectations on the general economic situation and in terms of forecasts on the main business variables. The recovery consolidated also in the Milan Area, where the indicators improved for the third consecutive quarter, reaching the values of the second quarter of 2008.

More specifically, in the Euro Area the confidence of the manufacturing sector increased for the second consecutive period, growing from -36 to -33, on the levels of the fourth quarter of 2008. Stocks reduced, so production increased (in terms both of assessment and of expectations), reacting to early signs of demand recovery. Confidence rose also in Italy, increasing from 74 to 68, on higher levels than at the end of 2008. In line with the European trend, Italian firms seemed to have finished the reduction of stocks, starting the production, even if the relative balance remained on extremely low levels. On the contrary, the recovery of demand was stronger than in the whole Euro Area, supporting the rise in production expectations. In the Milan Area business confidence soared from 82 to 89, as a result of a strong improvement in demand assessments and in production forecasts, even if in both cases the relative balances remained slightly negative; in addition, stocks continued to reduce.

In the business services sectors, the confidence increased both at the national level and in the Milan Area. In Italy confidence index rose to -4 from -12, near the values of the third quarter of the previous year. As a matter of fact, positive signals arrived from assessments on orders, expectation on demand and employment. On the contrary, signals still negative emerged from assessment on employment. In the Milan Area the confidence index grew to -9 from -26, below the value of the third quarter of 2008. The result was due to the rise of expectations on orders and on economic situation, whilst current orders worsened. Firms indicated a deterioration of employment both in the third quarter and in the forecast for the last quarter of 2009.

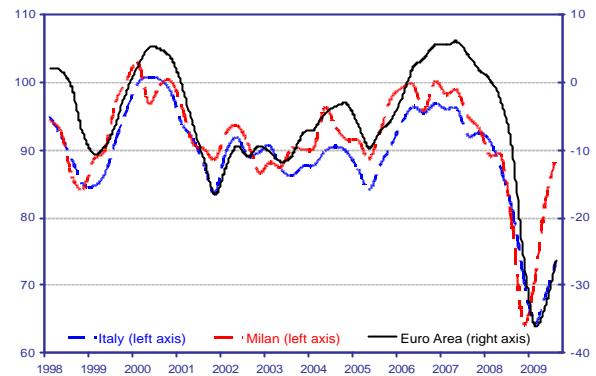
*The next survey, related to the fourth Quarter of 2009, shall be released in February 2010.*

## Manufacturing sector

- Confidence Climate<sup>1</sup>**

In the third quarter of 2009 manufacturing confidence grew again, rising from -33 to -26 in the whole Euro Area. In terms of countries, the recovery was remarkable and widespread: the index rose from -39 to -30 in Germany, from -31 to -26 in France and from 68 to 74 in Italy. In the Milan Area the increase was even stronger: business confidence sank from 82 to 89, reaching the level of the second quarter of 2008.

Confidence Climate – Manufacturing Sector



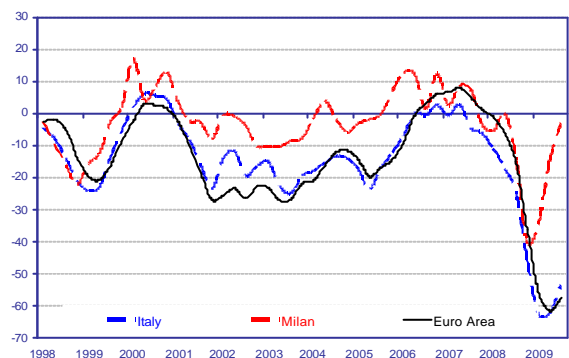
Confidence climate (seasonally adjusted data)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2008	-25	-27	-30	72	64
first quarter 2008	-36	-40	-37	64	70
second quarter 2009	-33	-39	-31	68	82
third quarter 2009	-26	-30	-26	74	89

### ASSESSMENTS:

- Orders Assessment**

Entrepreneurs' assessments on current demand improved: the relative balances showed signs of recovery both in the whole Euro Area and in the main European countries, in particular in Italy, even if they remained on extremely low levels. Demand increased also in the Milan Area, where the balance reached value only slightly negative.

Orders Assessment - Manufacturing Sector



Orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2008	-36	-30	-41	-46	-40
first quarter 2008	-56	-54	-59	-63	-35
second quarter 2009	-62	-62	-65	-62	-15
third quarter 2009	-58	-58	-61	-53	-3

<sup>1</sup> The manufacturing confidence indicator is the arithmetic average of the seasonally adjusted data on production expectations, order books and stocks of finished products (with inverted sign).

Data referring to the Euro Area, Germany and France are seasonally adjusted using the Dainties method. The European Commission performs the Euro Area aggregation using gross value added at constant prices.

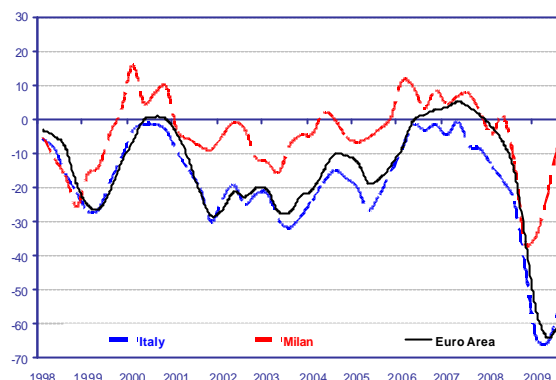
Data referring to Italy and the Milan Area are seasonally adjusted by ISAE and Assolombarda using the Tramo-Seats method and the index base is 2000=100.

In spite of statistical differences, historical series are homogenous and comparable.

**Foreign Orders Assessment**

In the Euro Area foreign demand grew but it remained on strongly negative value in terms of balances. The increase was steeper in Italy and, above all, in the Milan Area.

Foreign Orders Assessment– Manufacturing Sector

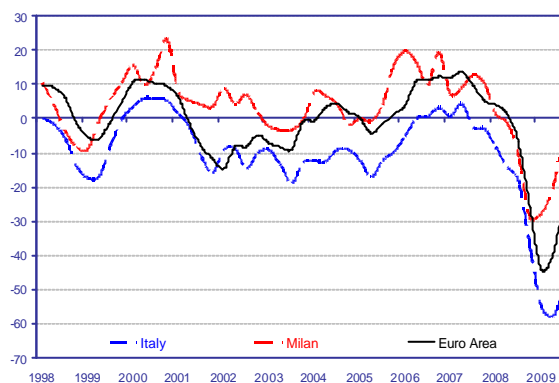


foreign orders (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2008	-36	-30	-44	-44	-36
first quarter 2008	-57	-51	-68	-64	-34
second quarter 2009	-64	-62	-72	-66	-21
third quarter 2009	-60	-60	-70	-56	-5

**Production Assessment**

In the whole Euro Area production levels showed a neat increase compared with their lowest values registered in the two previous quarters: the balance sank in France, in Germany and in the Milan Area and, even if in a milder way, also in Italy.

Production Assessment - Manufacturing sector

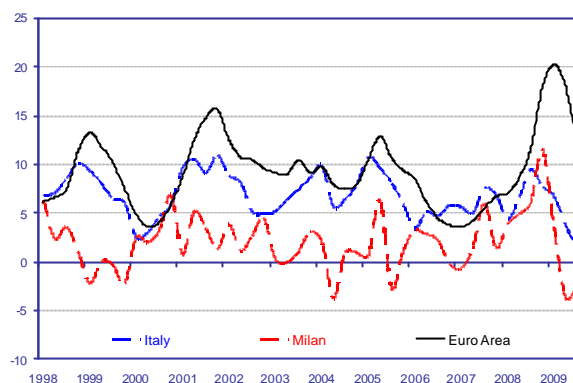


Production (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2008	-26	-28	-18	-37	-29
first quarter 2008	-44	-45	-44	-55	-28
second quarter 2009	-40	-37	-38	-58	-21
third quarter 2009	-24	-16	-18	-50	-6

**Inventories**

Stocks continued to drop in the Euro Area. The reduction was deeper in Germany, where stocks had increased in the three previous quarter, while the decrease was milder in France and in Italy. In the Milan Area stocks continued to fall for the second consecutive quarter.

Inventories - Manufacturing Sector



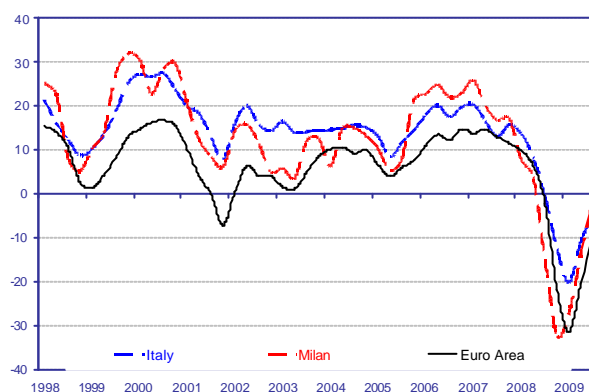
Inventories (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2008	18	20	23	8	12
first quarter 2008	20	26	22	7	4
second quarter 2009	18	28	10	4	-4
third quarter 2009	12	21	6	1	-3

**SHORT-TERM EXPECTATIONS:**

**Production Expectations**

In line with the improvement in entrepreneurs' assessments on orders, production forecasts recovered: the relative balances soared in the whole Euro Area, in all the European main countries and also in the Milan Area.

Production Expectations - Manufacturing Sector

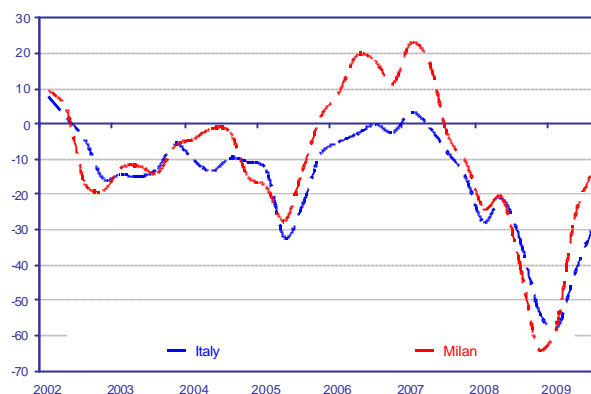


Production expectation (seasonally adjusted balances)	Euro Area	Germany	France	Italy	Milan
fourth quarter 2008	-22	-29	-25	-12	-32
first quarter 2008	-31	-40	-30	-20	-27
second quarter 2009	-21	-27	-19	-11	-14
third quarter 2009	-9	-12	-11	-5	-2

- Expectations Regarding the Economic Situation<sup>2</sup>**

In Italy and in the Milan Area entrepreneurs were less pessimist about the general economic situation for the next months. In Italy the balance grew from -43 to -29, reaching the value of the beginning of 2008; in the Milan Area the balance increased from -27 to -13, on the levels of the end of 2007.

Economic Situation Expectations - Manufacturing Sector



Expectation on the economic situation (seasonally adjusted balances)	Italy	Milan
<b>fourth quarter 2008</b>	-52	-64
<b>first quarter 2008</b>	-58	-58
<b>second quarter 2009</b>	-43	-27
<b>third quarter 2009</b>	-29	-13

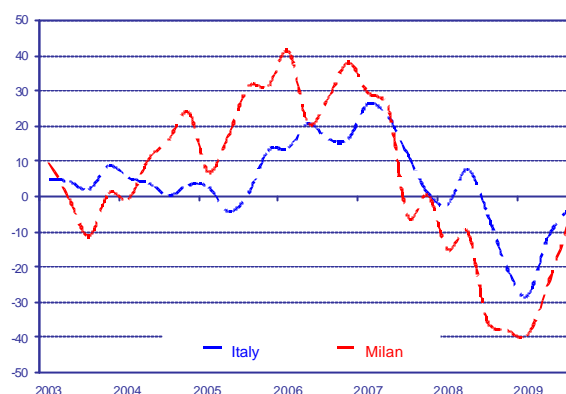
<sup>2</sup> The variable is not collected at the European level.

## BUSINESS SERVICES<sup>3</sup>

- Confidence Climate<sup>4</sup>**

The confidence improvement extended also in the Business Services Sectors both in Italy and in the Milan Area. At the national level the index rose to -4 from -12 and returned on a level near the one of the end of 2008. In the Milan Area the index moved to -9 from -26, turning back to the value of the third quarter of 2008.

Confidence Climate – Business Services



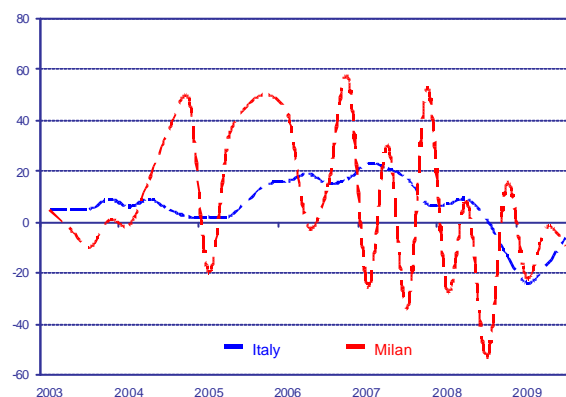
Confidence Climate	Italy (seasonally adjusted data)	Milan (raw data)
fourth quarter 2008	-20.7	-38.1
first quarter 2009	-28.3	-39.4
second quarter 2009	-12.0	-25.6
third quarter 2009	-4.0	-8.7

### ASSESSMENT S:

- Orders Assessment**

At the national level orders assessments showed a considerable growth. On the contrary, in the Milan Area firms indicated a new deterioration of orders after the jump of the last quarter.

Orders Assessment - Business Services



Orders	Italy (seasonally adjusted balances)	Milan (raw balances)
fourth quarter 2008	-13	15
first quarter 2009	-24	-22
second quarter 2009	-17	-2
third quarter 2009	-6	-10

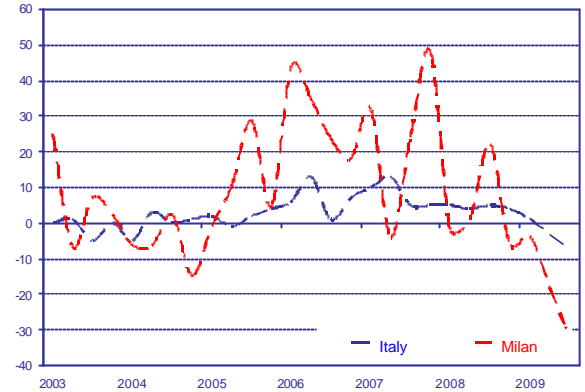
<sup>3</sup> The sector includes: information technology, engineering, marketing and advertising, administrative and executive consulting.

<sup>4</sup> The confidence climate is the arithmetic average with the balances of the following variables: assessment and expectation of orders, expectation about the economic situation.

- Employment Assessment**

The assessments on employment worsened again in Italy and in the Milan Area. In both cases, balance dropped on its lowest values since the first quarter of 2003.

Employment Assessment - Business Services



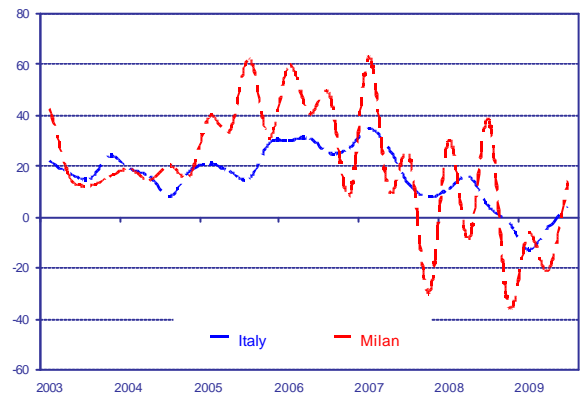
Employment	Italy (seasonally adjusted balances)	Milan (raw balances)
fourth quarter 2008	4	-24
first quarter 2009	1	-4
second quarter 2009	-3	-18
third quarter 2009	-7	-32

**SHORT-TERM EXPECTATIONS:**

- Orders Expectations**

Also expectations on orders recovered both in Italy and in the Milan Area, showing positive balances in line with the levels of the third quarter of 2008.

Orders Expectations - Business Services

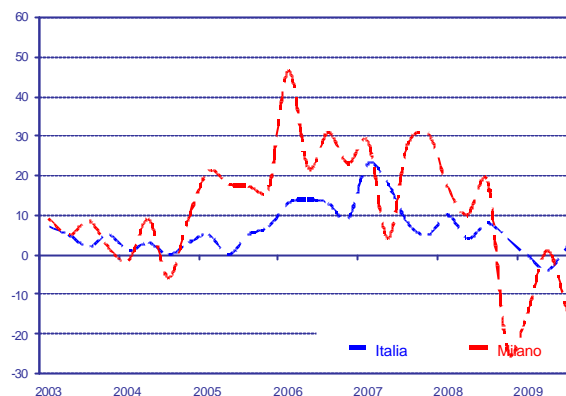


Expectation on Orders	Italy (seasonally adjusted balances)	Milan (raw balances)
fourth quarter 2008	-2	-35
first quarter 2009	-13	-7
second quarter 2009	-4	-21
third quarter 2009	4	14

- Employment Expectations**

In Italy, some positive signal arrived from expectations on employment: the balance became positive again after two negative quarters, but it was below the average of 2008. In the Milan Area, instead, employment forecasts were again negative after the improvement of the previous quarter.

Employment Expectations - Business Services

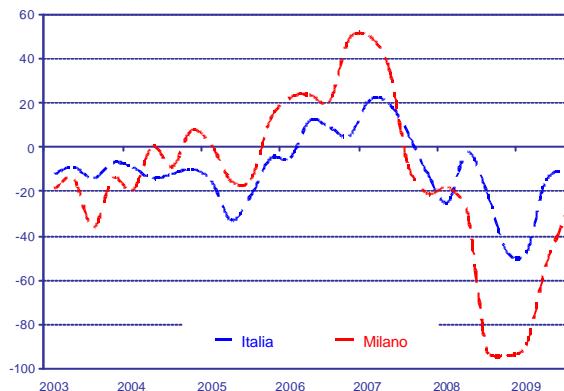


Expectations on Employment	Italy (seasonally adjusted balances)	Milan (raw balances)
fourth quarter 2008	4	-24
first quarter 2009	-0	-15
second quarter 2009	-4	1
third quarter 2009	2	-14

- Expectations Regarding the Economic Situation**

Finally, in Italy and in the Milan Area entrepreneurs expected an improvement of economic situation, moving away from their minimum level of the beginning of the year. At the national level, the balance moved to -10 from -15 and in the Milan Area it rose to -31 from -54.

Economic Situation Expectations – Business Services



Expectations on the Economic Situation	Italy (seasonally adjusted balances)	Milan (raw balances)
fourth quarter 2008	-47	-94
first quarter 2009	-48	-90
second quarter 2009	-15	-54
third quarter 2009	-10	-31

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