

Italy: Business confidence continued to deteriorate in March (the ISAE index down to 89)

- In March, business confidence continued to deteriorate in the manufacturing sector, according to the ISAE survey. The overall index fell to 89 from 89.6 in February, reaching its lowest value since August 2005.
- Survey data are clearly pointing to moderating activity. The index decreased 9 times in the last 10 months and lost 9 points since April 2007: moreover, the manufacturing PMI was only marginally above the 50-mark in February. Things are not better among consumers, as confidence drastically deteriorated in March.
- Under these conditions, GDP might stagnate this year.

Business and consumer confidence

	Q4 07	Q1 08	Jan-08	Feb-08	Mar-08
Business Confidence					
Main index	92.2	89.9	91.2	89.6	89
<i>Breakdown</i>					
Total orders	-6.0	-12.3	-8	-13	-16
Foreign orders	92.2	-15.0	-11	-17	-17
Stocks	6.7	4.3	5	5	3
Expected output	14.0	10.3	10	11	10
Selling Price	14.3	14.3	15	15	13
Consumer Confidence					
Main index	107.1	101.3	102.2	102.8	99
<i>Breakdown</i>					
Expected financial situations	-13.3	-17.0	-17	-16	-18
Intentions of buying durables goods	-92.0	-89.0	-83	-87	-97
Unemployment expectations	40.3	43.3	41	43	46

Source: Isae

In March, business confidence continued to deteriorate in the manufacturing sector, according to the ISAE survey. The overall index fell to 89 from 89.6 in February, reaching its lowest value since August 2005. Survey data are clearly pointing to a moderating activity. The index decreased 9 times in the last 10 months and lost 9 points since April 2007. On quarterly basis, the index lost more than 2 points. Total orders continued to decrease and the stocks are decreasing, a clear sign that manufacturers are adjusting their production to lower levels of demand. A moderating activity is helping to reduce price pressures. Despite the increase of commodities prices recorded over last months, selling prices moderated somewhat (down by 2 points in March).

Other survey reported a similar trend. The manufacturing PMI is on a downward trend. In February it was 50.6, slightly above the 50-mark which separates expansion and contraction in activity. Furthermore, new orders, the most forward-looking component of the survey, were below 50 for the second month in a row. A weaker external environment and the strength of the euro are weighing on Italian exports. New export orders were down by more than 3 points in February and according to the ISAE survey, foreign orders were stable at -17, but down by 6 points with respect to January.

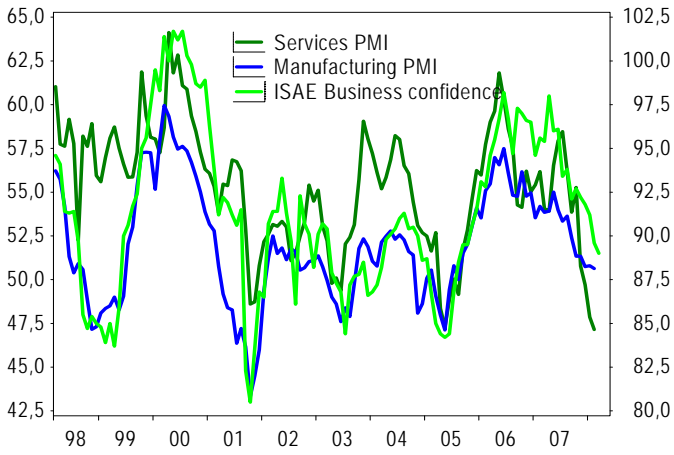
Confidence continued to deteriorate also among consumers. The ISAE consumer confidence indicator, released later last week, plunged to 99 from 102.8 in February, reaching its lowest value since May 04. Uncertainty about economic conditions and lower employment growth rate are inducing consumers to save rather than to buy. Other signs of softer domestic demand came from the services sector. According to the services PMI, activity contracted in the first two months of the year, and as new business, normally a good leading indicator for activity, continued to fall, a weak reading (below 50) is likely to be confirmed in March too (to be released on April 3). Under these conditions, GDP growth should decelerate significantly this year.

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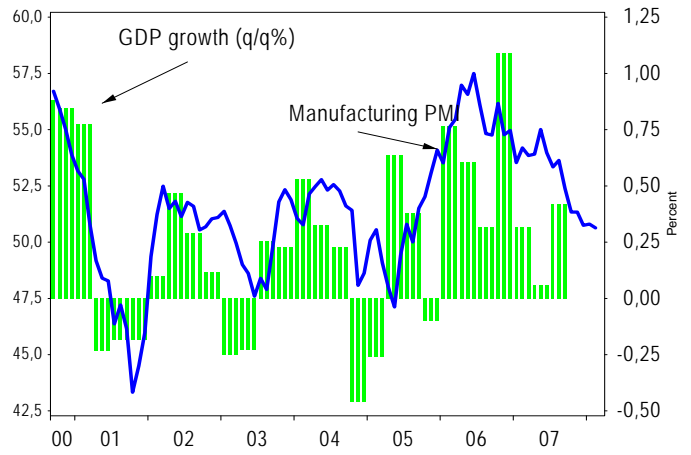
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Business confidence point to moderating activity



Sources : ISAE and NTC

Manufacturing PMI and GDP growth



Sources : ISTAT and NTC

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