

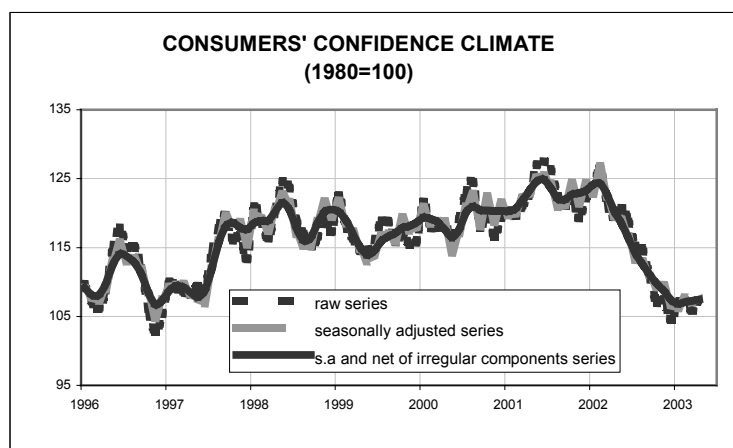


Date: April 22, 2003

## ISAE CONSUMER SURVEY

Reference month: April

- The Italian consumers' confidence climate (raw data) improves again in April, going from 105.8 to 107.6, which is one of the highest values over the past six months. The seasonally adjusted index shows a smaller recovery, rising from 106.9 in March to 107.7 in April. The indicator adjusted for the seasonal and irregular component improves – though to a lesser extent – for the fourth month in a row and grows from 107.3 in March to 107.4 in April
- Favourable indications come in particular from the replies concerning the general economic framework, which is probably influenced by the rapid development of the Iraqi war. Also assessments and expectations on the respondents' own situations show signals of recovery
- Both in the euro area and in the United States, the consumers' confidence climate worsened in March on the minimum values of the past few years. However, according to the early April indications, the positive evolution of the war favoured a strong recovery of American consumers' confidence climate, which reached again levels higher than those observed in January 2003
- However, for the time being, the Iraqi war seems to have had a modest impact on the Italian consumers' confidence trend. Indeed, also in the past, the effects of wars – such as the 1991 Gulf War or the 1999 Kosovo War, as well as the terrorist attacks of September 11 – were rather weak and concerned almost exclusively assessments and forecasts on the general economic situation and not those on the households' own situations. Besides, the length of the negative effects on the indicators were generally modest and the confidence came back at the pre-war levels within twelve months
- Looking at the effects of the shocks caused by past wars, one might expect that – through the gradual overcoming of international tensions – the Italian consumers' confidence climate might continue to improve also in the next few months, gradually overcoming the brusque fall registered in 2002



Data referring to May shall be diffused on May 21, 2003.

Next ISAE surveys are scheduled as follows:

April 24, 2003: ISAE Monthly Business Survey on Manufacturing and Extractive Firms (Reference month: April)

April 30, 2003: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: March and ISAE Monthly Business Service Survey (Reference month: April))

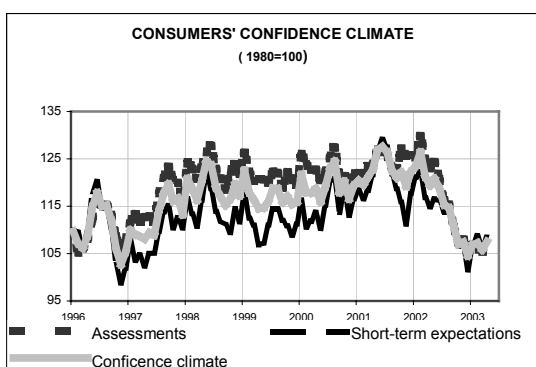
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site [www.isae.it](http://www.isae.it))

## I – ISAE CONSUMER SURVEY FOR ITALY

April 2003

According to the Survey carried out by ISAE between April 1 and 14 on a sample of 2,000 respondents, the Italian consumers' confidence climate (raw data) improves again, after the contraction registered in March, rising from 105.8 to 107.6, highest peak over the past six months. The seasonally adjusted index increases - though to a lesser extent - from 106.9 to 107.7, going back to the February levels. The indicator adjusted for the seasonal and irregular component marks a further improvement for the third month in a row, rising from 107.3 to 107.4, getting close to the figures of December 2002.

Favourable indications come in particular from the answers concerning the general economic framework, which are probably positively influenced by the rapid evolution of the Iraqi war. A considerable improvement is observed both in assessments and in expectations on the country's economic situation, and the impression is spreading that the labour market is getting more stable, while the inflationary dynamics is expected to slow down. Also confidence in the households' own situations is slightly increasing: the intentions and the convenience to purchase durables are both growing, while assessments on the households' situations and on the convenience to save are recovering. Forecasts on the saving opportunities remain generally stable, while evaluations and forecasts on the households' financial situations are worsening.

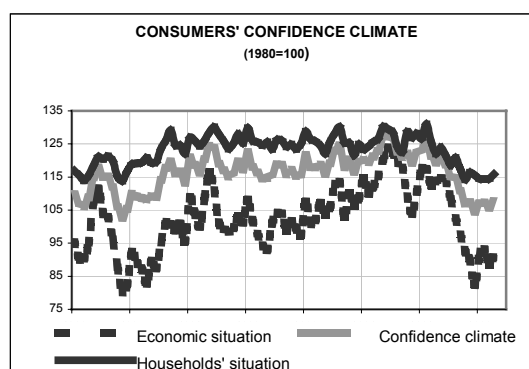


## Overall situation

In April, the confidence climate raw index on the general economic situation alone marks a recovery, growing from 88.5 in March to 91.2, though it does not reach the levels of February 2002.

The improvement is observed in particular in all the indicator's components: the balances of assessments and expectations on the country's economic situation recover from -70 and from -27 to -67 and -23 respectively. More favourable prospects also emerge in the short-term labour market evolution: the percentage of those expecting an unemployment stabilisation goes from 40 to 44%, while the share of those expecting a rise in the number of unemployed diminishes from 42% in March to 38% in April.

Finally, there are signals that the present price dynamics is slowing down: the (high) number of respondents deeming prices rose "very much" or "enough" passes from 89% to 87%. Indeed, the number of those expecting prices to rise more or in the same amount as in next year slightly decreases, passing from 25% in March to 24% in April, which confirms the decreasing trend observed in February. Conversely, the share of respondents expecting a substantial price stability in the next twelve months remains high (49%, from 50% in March).



## Households' situation

The raw confidence index referring to the respondents' own situations rises in April, passing from 114.5 to 115.8 - i.e. on higher figures than those of last December -, as the result of diverging trends of the various phenomena. The improvement is mainly due to rosier assessments on the convenience to purchase durables: indeed, the share of those considering the present situation as "unfavourable" for purchases falls from 57% to 54%, getting close to the February levels. Also evaluations on the households' own situations are rosier in April (the balance passing from -37 to 35), while a greater convenience to save is emerging, as affirmed by 45% of respondents (39% in the previous survey). Forecasts on the opportunity to save in the next twelve months remain substantially stable (the share of those deeming their future saving "certain" or "likely" remains at 40%, as in March). Conversely, the percentage of those really saving is decreasing (from 26% to 24%), which brings about a balance worsening (from 13 to 11). Also forecasts on the households' own situations in the next twelve months are slightly more pessimistic (the balance going from -2 to -3).

General intentions to purchase durables show signals of recovery: the percentage of those expecting not to make major purchases in the next twelve months diminishes from 66 to 59%, getting close to the January levels, after two months of strong pessimism. Turning to details, consumers' evaluations are rather cautious: the number of respondents declaring their intentions to purchase a house in the next twelve months goes from 4 to 3%, and the share of those intending to spend for home maintenance and improvement in the next twelve months remains at 10%. Finally, the number of consumers considering it probable or certain to buy a car next year slightly increases from 10 to 11%.

## II - THE EUROPEAN COMMISSION CONSUMER SURVEY AND AMERICAN CONSUMER SURVEYS

### *March and early-April 2003*

In March, the consumers' confidence climate worsens both in the euro area and in the United States. However, according to the early data available for April, the American consumers' confidence registers a strong improvement as the development of the situation in Iraq is getting better.

According to the European Commission Consumer Survey, the confidence climate indicator for the euro area falls in March to -21 from -19 in February, which is close to the minimum registered in the early-1994. Short-term prospects on the general economic prospect and on the households' own situations are more pessimistic (the balances decreasing from -5 to -6 and from -23 to -26), while the number of those expecting a growth in the number of unemployed is increasing (the balance passing from 39 to 42). Indeed, expectations on the future saving opportunities remain stable (the balance equalling -9).

Among non confidence-building series, opinions on the households' own situations are becoming less critical (the balance going from -20 to -19). Conversely, assessments on the general economic trend are worsening (from -47 to -49), alongside with the perception of an inflation rekindling for the next twelve months (from 12 to 16), probably due to the fears for price rises of raw energy materials due to the ongoing situation in Iraq. With regard to durables, the number of households still perceiving the present moment as favourable for immediate major purchases is decreasing (the balance falls from -25 to -28), while prospects for future expenses remain unchanged (-20).

In March, the confidence climate deterioration is diffused in almost all countries considered, with the exception of Ireland, Portugal and Finland, where a substantial stability is registered. The deterioration is particularly marked in Austria, Belgium and France,

while it is more moderate in Greece, Sweden, Germany, Spain, Italy and the Netherlands.

Among the major countries, Germany shows a confidence contraction, from -19 to -21. The result mirrors a worsening of all the indicator's components: German consumers express growing concerns on the general economic prospects (the balance going from -27 to -29) and on the possibility to save part of their incomes for the next twelve months (the balance falls from -2 to -5). Unfavourable signals also come from the labour market: in March, the share of those expecting an unemployment rise is increasing (the balance rises from 37 to 39).

The French confidence indicator strongly deteriorates, passing from -26 to -30. This figure mirrors in particular a pessimistic approach on the general economic prospects (the balance falls from -25 to -31) and on the labour market (from 57 to 64). Caution is growing in immediate purchases of durables (the balance passing from -16 to -26), while growing concerns emerge on a possible inflation rekindling (from 15 to 28). Also assessments on the general economic trend show a considerable fall, while the balance deteriorates from -38 to -45.

In Spain, the confidence climate slightly worsens and goes to -18 (from -17), mainly because of the decreasing expectations on the general economic situation (from -15 to -18). Conversely, all other confidence-building components remain stable, with the exception of the saving opportunities in the next future (the balance recovers from -27 to -25). Among other indicators, a decreasing balance mirroring the price dynamics is emerging (from 27 to 25), while negative signals come from respondents considering the present situation as non favourable to immediate major purchases (from -23 to -28).

In the United States, the Conference Board index registers a further contraction, though less marked than in the previous month, and equals 62.5 in March, as against 64.8 in February. The figure mirrors the

worsening of expectations on the current business trend (the balance referring expectations alone falls from 65.7 to 62.5), on the current labour trend.

The worsening is also confirmed by the University of Michigan confidence indicator, which equals 77.6 in March (from 79.9 in February), probably because of the growing fears on the evolution of both the international situation and - on the domestic market - of the labour market. Unlike what happened in the previous months, also the opportunity to purchase durables is diminishing.

According to the early University of Michigan data on April, however, the American consumers' confidence climate should be positively affected by the military operations in Iraq and by the consequently diminishing uncertainty on the short-term prospects of the international framework. Thus, the indicator should equal 83.2, which is above the figures of January 2003.

### **III - THE IMPACT OF WAR ON CONSUMERS' CONFIDENCE**

The outbreak and developments of the war in Iraq did not affect so much the April consumers' confidence indicator. The general indicator (raw data) rose by about two points compared to March, thanks to the rise in the balance concerning the respondents' own situations and, in particular, to the rise of the indicator referring to the general economic situation.

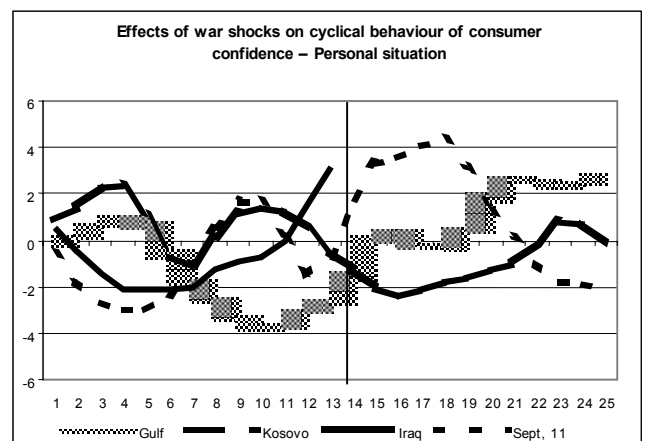
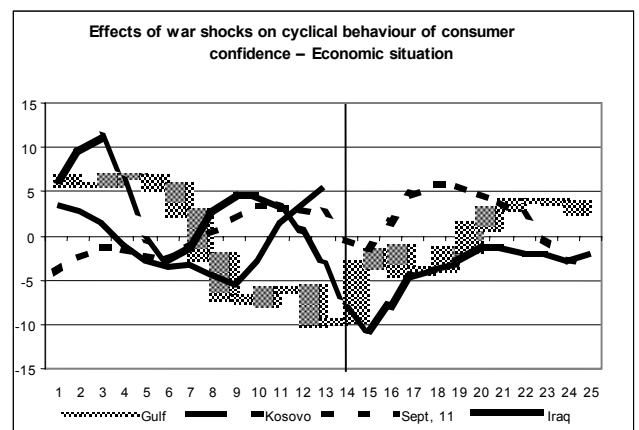
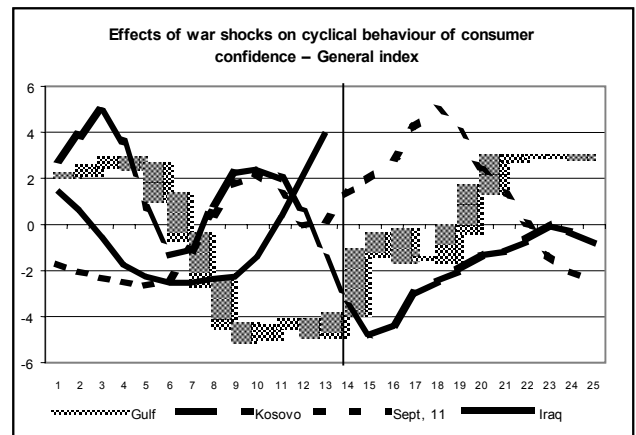
Thus, for the time being, the Iraq war seems to have had smaller effects than those experienced in similar situations in the past. To draw a comparison, an examination was made of the effects of the shocks caused by the first Gulf war (January 1991), by the Kosovo war (March 1999) and by the terrorist attacks of September 11, 2001. In order to better identify the shocks on the cyclical behaviour of confidence indexes, a choice was made to adopt the indicators adjusted for the cyclical and irregular components (with Tramo-Seats methods) and for longer-term

trends, identified through the estimation of a simple deterministic local trend. The cyclical component was approximated by the residual of a regression of the confidence climate on a "local" trend component of linear and quadratic type, made on an interval of 49 months (that is between the two years preceding and following the shock). Then the (adjusted) series' were observed in a period comprised between one year before and one year after the military-political shock.

The analysis shows that the impact of similar shocks were modest even in the past, and almost exclusively concerned assessments and forecasts on the general economic trend, and not those on the households' own situations. Besides, the length of the negative effect on the indicators was generally short and, within the twelve months following the shock, confidence reached again its pre-war levels.

The first Gulf war broke out in January 1991, following upon the Iraqi invasion of Kuwait, which took place in August 1990. The invasion had contributed to the confidence fall of Italian consumers, even though in the months just before the war the indicator was stable on the low levels reached in Autumn 1990. In January 1991, as the war broke out, confidence fell again, owing in particular to the drastic worsening of the indicator concerning the general economic situation. However, the negative effect was rather short, and - in the following months - the index grew again (though there were few short-term oscillations), thanks to a rise in optimism both on the evolution of the general economic framework of Italy and, in particular, on the households' own situations. One year after the war, the cyclical component of confidence had fully recovered the deterioration due to the Kuwait invasion and to the subsequent Gulf war.

The Kosovo war broke out in March 1999 and last about three months, up to June 1999. Its effects on the



consumers' confidence were more negative than those of the Gulf war, probably because of its longer length, of its geographical closeness and of the more direct involvement in military operations. The confidence climate was already getting through a negative cyclical phase, which was made harsher by the war outbreak. Unlike what happened in the Gulf war, the deterioration concerned the households' own situations as well as the general economic situations. In the war aftermath, confidence grew again, though it remained for a long time below the pre-war figures (in terms of cyclical component).

Before the attacks to the Twin Towers of New York (September 2001), the cyclical component of Italian consumers' confidence was slightly decreasing, mainly because of a gradual deterioration of assessments and forecasts concerning the respondents' own situations. The terrorist attacks had a major impact on the indicator concerning the general economic framework, while they had no impact (as happened for the Gulf War) on the households' own situations. The negative effect finished in a few months, with the end of the military campaign in Afghanistan, and confidence reached its peak five months after the attacks. The contraction which was registered afterwards is not due to the shocks, but to a general worsening of the domestic and international climate which took place during 2002.

Turning to the present crisis, and looking at the cyclical component of confidence in the twelve months before the Iraqi war, a strong fall of indicators, is observed followed by a stabilisation on low levels and by a subsequent recovery over the past 3-4 months as against the generally negative trend registered in 2002. Those trends seem to have been significantly influenced neither by the pre-war uncertainty, nor by the war outbreak or by the favourable military campaign in April. On the basis of what happened in the past, one might expect that - with the gradual overcoming of the international tension - Italian consumers' confidence might improve again in the next

few months, and that the brusque deterioration registered in 2002 might gradually be overcome.