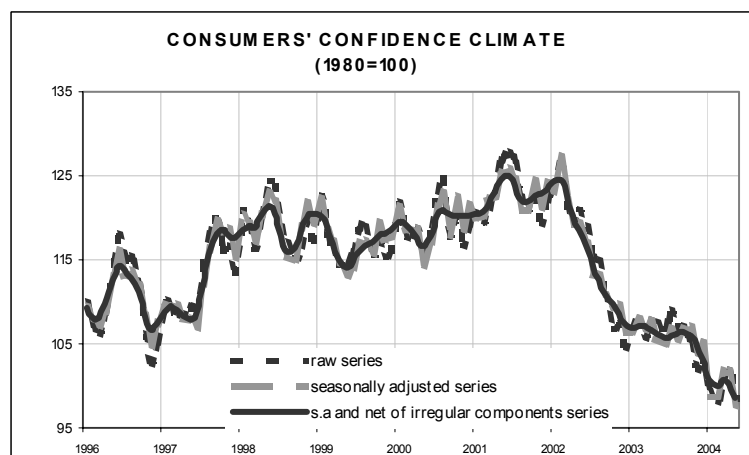




DATA/Date: **May 20, 2004**
TEL.: 06/444821

THE INTERNATIONAL CRISIS HARSHENING AFFECTS THE CONSUMERS' CONFIDENCE IN MAY

- The seasonally adjusted indicator falls from 101.6 to 97.1, while the indicator adjusted for the seasonal and irregular component decreases from 100.3 to 98.6. Even the raw index is diminishing compared to April (from 101.7 to 98.6)
- The contraction is particularly evident in short-term forecasts and in assessments on the overall situation, probably negatively affected by the international framework worsening
- Indeed, evaluations on the current situation and on the respondents' own situations are relatively less dark
- Among confidence-building variables, expectations on the labour market evolution and on saving opportunities considerably worsen; also assessments on the convenience to purchase durables fall again. The only favourable signals come from prices, thanks to a consolidation of evaluations on the current and expected inflationary dynamics
- In the euro area, after the signals of recovery emerging in late-2003 and in early-2004, confidence remains stable in April for the third month in a row on levels which are above the average figures of the past 12 months. The index has been clearly improving for some months in Spain and is stable in France. Conversely, the German consumers' confidence trend is still negative
- In the USA, according to the early Michigan University data, in May the American consumers' confidence should remain unchanged



Data referring to June shall be diffused on **June 22, 2004**.

Next ISAE surveys are scheduled as follows:

May 26, 2004: ISAE Monthly Business Survey on Manufacturing and Extractive Firms (Reference month: May)

May 28, 2004: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: April) and ISAE Monthly Business Service Survey (Reference month: May)

June 1, 2004: Comparative Business Surveys for Italy, Germany and France (Reference Month: May)

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

I – ISAE CONSUMER SURVEY FOR ITALY

May 2004

According to the Consumer Survey carried out by ISAE between May 3 and 14 on a sample of 2,000 respondents, the Italian consumers' indicator clearly deteriorates, as the seasonally adjusted indicator falls from 101.6 to 97.1, which is close to the minimum figures ever observed since November 1993. The raw index is diminishing compared to April (from 101.7 to 98.6), while the indicator adjusted for the seasonal and irregular component - which is more affected by the past trend of the historical series – decreases as well, passing from 100.3 to 98.6.

The international crisis harshening seems to have negatively affected forecasts (on the country's and on the respondents' situations), as well as assessments on the overall situation. Indeed the index concerning expectations alone falls from 101.5 to 94.4, while the one on the country's overall situation goes from 89.8 to 82.9, thus getting close to the minimum figures ever seen since April 1997. Looking at single variables, the strongest worsening seems to emerge from expectations on the labour market evolution and on the saving opportunities. After the April improvement, also the convenience to purchase durables fall again.

Conversely, assessments on the current situation and on the respondents' personal situations are relatively rosier. The sub-indexes go from 101.3 and 107.4 to 100.3 and 104.9 respectively.

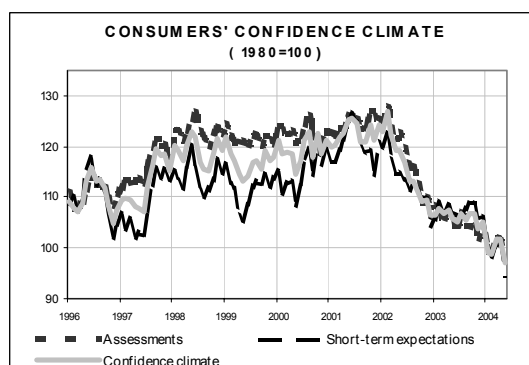
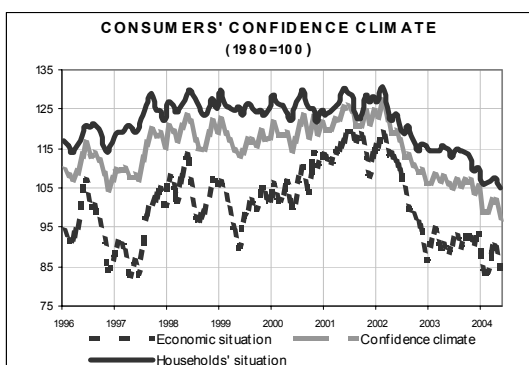
The only favourable signals come from prices, as the inflationary dynamics is perceived as decreasing and is expected to stabilise in the next 12 months.

Overall Situation

In May, the seasonally adjusted confidence index on the overall situation alone falls by almost 7 points and decreases from 89.8 to 82.9, thus getting close to the minimum figures ever registered since April 1997.

The wide-spread and marked worsening of assessments and forecasts on the country's general economic situation and the strong concerns on the labour market do contribute to the index deterioration. Assessments on the country's general economic situation (seasonally adjusted balances) pass from -103 to -110, while expectations fall from -32 to -42 and expectations on the unemployment rise grow from 33 to 48.

With regard to the inflation dynamics, the favourable signals emerged in April are confirmed. The share of respondents considering prices rose "very much", "enough" or "not much" over the past few months stabilises at 32, 50 and 7% respectively (as in the previous Survey). Indeed, the number of respondents considering prices remained stable slightly rises from 10 to 11%. With reference to expectations for the next 12 months, consumers express substantially unchanged evaluations compared to April: the share of consumers expecting prices to increase "more" than in the past falls from 5 to 3% and the percentage of those expecting prices to rise "as much as" or "less than" in the past few months slightly grows (from 11 and 21 to 12 and 23% respectively). Finally, the number of those expecting an inflation stability for the next 12 months remains close to the all-time high (57% of respondents, as against 58 in April), while the number of consumers expecting a price contraction falls from 2 to 1%.



Personal situations

In May, the seasonally adjusted confidence index referring to the respondents' personal situations alone marks a smaller deterioration compared to the overall frame and falls from 107.4 in April to 104.9 in May. The unchanged assessments on the households' financial situations (the seasonally adjusted weighted balance equalling 7) and the improved assessments on the households' economic situations (the weighted balance passing from -51 to -48) contribute to reduce the contraction. However, the balance of expectations on the households' economic situations in the next 12 months decreases from -7 to -10.

With regard to saving, assessments on the present convenience to save remain very cautious: maybe they are still affected by the recent financial scandals and the balance passes from 63 to 62, which is close to the minimum figures ever reached since September 2001. Conversely, prospects on the future saving opportunities markedly worsen (the weighted balance diminishing from -75 to -92).

Finally, after the April recovery, also assessments on the convenience to purchase durables immediately falls again: the (weighted and seasonally adjusted) balance decreases from -96 in April to -107 in May. ISAE respondents also reduce their intentions to purchase durables in the next 12 months: the share of those declaring they want to make more purchases, less purchases or as many purchases as in the past (raw data) falls from 42 to 38%, while the number of those declaring they wish to make no purchase at all falls from 61 to 58% of the sample (which is however below the average figures of 2003).

With regard to major purchases, forecasts on the number of car buyers slightly decrease (from 9 to 8%), while the share of households "definitely" excluding they will buy a new car in the next 12 months remains at 74%.

With reference to the home market, forecasts concerning both the opportunity to buy a new house

and those forecasting home maintenance initiatives remain stable. With reference to the former, in May 2% of consumers are "certainly" or "probably" bound to buy a house (as in April), while the number of those "definitely" excluding they will ever spend on this item rises by one percentage point (86%). With regard to the latter item, the share of respondents expressing their will to spend for home maintenance or improvement grows from 5 to 6%, while the percentage of those "certainly" excluding any purchase in this sector remains stable at 81%.

II - THE EUROPEAN COMMISSION CONSUMER SURVEY AND AMERICAN CONSUMER SURVEYS

April and early-May data

In April, the average values for the euro area remain unchanged and above the average figures of 2003¹ for the third month in a row. Significant improvements were registered in Spain and stable figures were observed in France, while unfavourable signals come from Germany, Portugal and Luxembourg. According to the early Michigan University data on May, also the American consumers' confidence should remain unchanged compared to the previous month.

Turning to details, the average euro area indicator remains at -14 (as in March and April): expectations on the households' own situations improve (from -4 to -3 in terms of balance) as do future saving opportunities. Conversely, expectations on the country's general economic situation (slightly) worsen. With reference to the labour market, the share of those expecting an unemployment rise grows (the balance passing from 30 to 31, which is however below the 2003 figures).

Among the non confidence-building indicators (according to the Commission), assessments on the

¹ In January 2004, France reviewed its questionnaire for a better harmonisation of its Survey, which caused a structural break in the series. Thus, French data are neither seasonally adjusted, nor fully comparable with those of other countries, all of which has an impact on the average figure of the euro area.

present convenience to purchase durables stabilise, while purchasing prospects for the next few months, worsen. Looking at prices, a marked inflation dynamics slowdown is signalled.

Among the major countries, the German confidence climate slightly worsens in April (from -16 to -17), thus getting close to the October 2003 levels. Unfavourable indications come from almost all confidence-building components, with the exception of the prospects of households' own situations (passing from -8 to -6). In particular, the number of those expecting an unemployment growth is increasing from 38 to 40 in terms of balance. With regard to prices, inflationary tensions are easing (the balance falling from 10 to 8).

With regard to France, the confidence climate remains at -15 (as in March), while French consumers' prospects on the general economic situation become darker (from -13 to -19), even though all other confidence-building components are improving. With regard to prices, inflationary tensions are easing in France too (as it happens in Germany and in all other euro area countries) and the balance passes from 13 in March to 7 in April.

The Spanish confidence climate considerably recovers in April and rises from -11 to -8, which is near the highest figures ever observed since December 2001. Indeed, favourable signals come from all confidence-building components: in particular, an improvement is observed in expectations on the country's general economic situation (the balance proving positive again for the first time since February 2001). As for prices, the share of those expecting an inflation rise in the next few months falls from 7 to 4.

According to the Conference Board, the confidence indicator in the United States equals 92.9, which marks a strong recovery compared to March (88.5), thanks to an improvement of both the sub-index concerning the present situation (growing from 84.4 to 90.6) and of the one referring to expectations alone (from 91.3 to

94.5). According to the early data of the Michigan University for May, confidence is expected to stabilise at 93.2 (after the slight April contraction) particularly due to the growing concerns of American consumers for the expected interest rate and inflation rises.