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MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

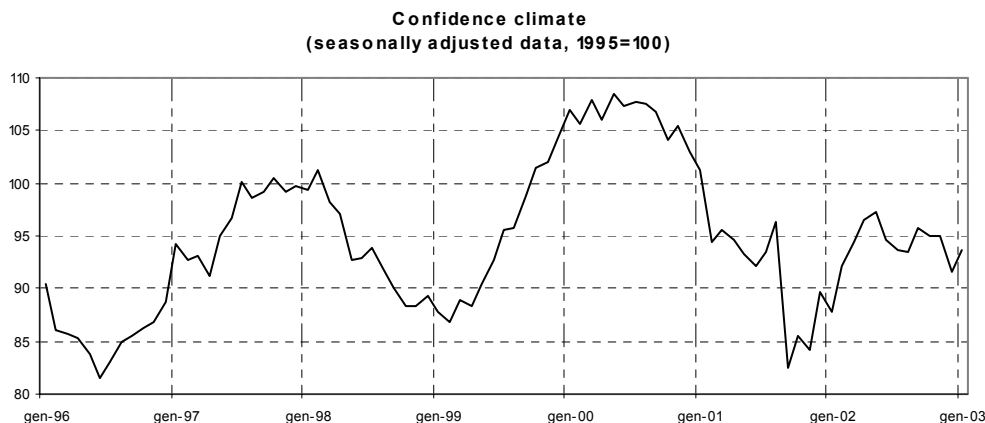
Reference period: January 2003

- According to the ISAE Monthly Survey carried out between January 8 and 20, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) shows clearly signals of improvement in January, gaining two points from 91.6 in December to 93.6 in January
- Assessments on order books are recovering and inventories decrease again and remain on figures below what are considered "Normal" levels for the seventh month in a row. Also expectations on production are rosier compared to the previous survey
- For the next quarter, also expectations on order book rise again as do those on the general economic situation: positive signals come from expectations on employment. Please notice that, up to December 2002, ISAE was diffusing data on employment on a quarterly basis, while, starting from January 2003, the diffusion will take place on a monthly basis. Signals of tensions come from selling prices, probably due to the oil price rise emerging on international markets

QUARTERLY SURVEY

Reference period: IV quarter 2002

- According to the quarterly surveys, in IV quarter 2002 few signals of recovery are emerging on the demand side; for the time being, they are stronger on foreign markets. The new order flow stabilises after the fall registered in III quarter 2002, a rise is observed in ensured production on the basis of the current order-book level and short-term expectations on the export trend are increasing. Raw materials and semi-finished products inventories further decrease and go below what are considered "Normal" levels
- For the moment, those signals seem to lead to a more intense utilisation of the existing labour force and into more favourable assessments on production capacity. The balance concerning the number of worked hours is recovering, while the share of firms considering their capacity level "more than sufficient" compared to their needs is decreasing. The degree of plant utilisation remains however on low levels, below the average figures registered in the latest cyclical phase
- Finally, the percentage of firms deeming that there are constraints hampering production growth remains over 30%. Indeed, the share of those who feel those constraints be mainly connected to scarce demand is increasing, while those reporting difficulties in collecting manpower as well as insufficient plants is diminishing



The present survey provides qualitative information directly surveyed from firms on the trend of the main firm variables and on entrepreneurs' confidence. The qualitative data anticipate by months the official ISTAT data and provide complementary information as against the official quantitative ISTAT data.

Data referring to February shall be diffused on **February 25, 2003**.

Next ISAE surveys are scheduled as follows:

January 28, 2003: ISAE Monthly Business Service Survey (Reference period: IV quarter 2002 and January 2003)

January 29, 2003: ISAE Monthly Survey of Traditional retail Trade and Large Distribution (reference month: December 2002)

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

General Results

The Survey carried out by ISAE between January 8 and 20 on a sample of about 4,000 manufacturing and extractive firms shows that in January the seasonally adjusted confidence climate is clearly improving and gains two points passing from 91.6 in December to 93.6.

Assessments on order books are recovering and inventories decrease again, remaining below what are considered "Normal" levels for the seventh month in a row. Also expectations on production are rosier compared to the past survey.

For the next quarter, also expectations on order books rise again, as do those on the general economic trend. Positive signals also come from expectations on the employment trend, which ISAE used to diffuse on a quarterly basis but which shall be disseminated monthly starting from January 2003. Tensions emerge from selling prices, maybe due to the oil price rise on international markets.

Confidence is homogeneously improving in all the main productive sectors: the index rises by almost three points in consumer goods, passing from 91.4 to 94.8, while in investment goods it goes from 89.8 to 91.8 and in intermediate goods from 90 to 92.6.

Situation in the reference period (January 2003)

ISAE respondents indicate that their January order books show signals of recovery: their seasonally adjusted balance rises from -17 in December to -13 in January. The

improvement concerns both the domestic and the foreign market: for domestic order books, the balance passes from -16 to -14, for foreign ones it goes from -19 to -18.

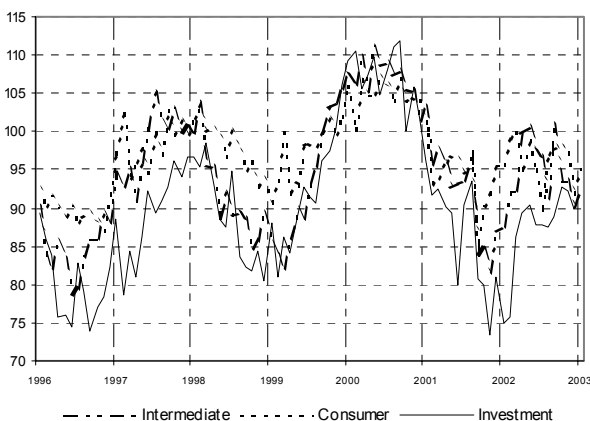
Demand is growing in all the main sectors: indeed, the overall seasonally adjusted balance rises from -15 to -10 in consumer goods; from -11 to -8 in investment goods and from -23 to -15 in intermediate goods. With regard to the domestic component, signals of difficulty come from consumer good producers, who are more pessimistic than they used to be in December. Their seasonally adjusted balance falls from -7 to -14, this getting close to the minimum levels of August 2002. Investment goods balances are improving (from -17 to -10), as do those of intermediate goods (from -22 to -17). On foreign markets, more optimistic (even though still negative) indications come from consumer good producers (whose seasonally adjusted balance passes from -23 to -19), and, particularly, from intermediate goods producers (from -26 to -12).

Conversely, investment goods producers signal a further contraction of foreign order books (the balance falling from -14 to -20, near the minimum figures of January 2002).

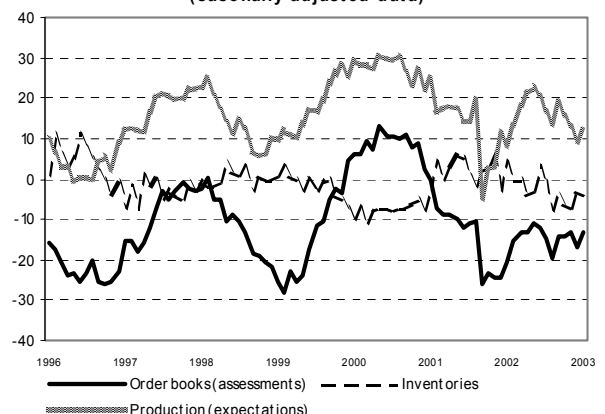
The current production level is considered stable. The seasonally adjusted balance equals -8, as in December, alongside with a worsening in investment goods (from -3 to -6) and in consumer goods (from -4 to -7), and a modest recovery in intermediate goods (from -13 to -11).

Finished products inventories decrease again and remain below what are considered "Normal" levels for the

Confidence climate by economic destination of goods
(seasonally adjusted data)



Assessments on order books, expectations on production and inventories
(seasonally adjusted data)



seventh month in a row. The seasonally adjusted balance goes from -3 to -4, and is particularly low in investment goods (from -12 to -10), remaining negative in intermediate goods (-2 as in December) and going below "Normal" levels in consumer goods (from 3 to -1).

Forecasts for the next quarter

In January, ISAE respondents are generally more optimistic on the short term future of their firms and on the country's general economic situation. Expectations on production improve again and their seasonally adjusted balance is 12 (it was 10 in December), thus showing an optimistic approach on the short-term prospects of production. Also expectations on the order-book trend in the next quarter are rosier, and the balance falls from 11 to 14.

The improvement of expectations on demand and production has homogeneously spread in the main sectors, and it is particularly evident in investment goods, where the balance of expectations on production rises from 9 to 15 and that of order books goes from 2 to 22, thus nearing the maximum figures of June 2002. In consumer goods, the seasonally adjusted balance concerning expectations on production rises from 8 to 9, that on order books from 16 to 18; in intermediate goods the balance of production expectations remains stable (10), while the one concerning demand goes from 13 to 15.

Starting from January 2003, ISAE diffuses data on expectations on employment - which used to be disseminated on a quarterly basis - on a monthly basis. In January, ISAE respondents expect a substantial manpower stability for the next quarter: the number of those intending to reduce employment (13% of respondents: data on this variable are raw) is almost equal to the share of those planning to raise it (12% of the sample). The balance thus recovers from -6 to -1, and gets close to the peaks of 2002.

The more optimistic approach on the firms' situations goes alongside with an improvement in expectations on the general economic situation of Italy. In this case, the seasonally adjusted balance - which had fallen down to -14 in December 2002 - recovers to -10, though remaining

to historically low levels. For the time being, expectations on the country's general economic situation only improve for investment goods producers (their seasonally adjusted balance passing from -20 to -6, thus going back to the September 2002 figures) and for intermediate goods producers (their seasonally adjusted balance going from -15 in December to -8 in January, thus going back to the September 2002 values too). In consumer goods, expectations continue to be unfavourable and the balance stabilises at -11, close to the cyclical values reached in October 2002 (-13).

ISAE respondents expect new price tensions for the next quarter: the balance considerably rises again, equalling 11 (it was 6 in December) and nearing the June 2002 levels, maybe owing to the new price tensions caused by the oil price rise, due to the fears for social conflicts and war hitting some producer countries. In particular, price rise are expected in investment goods (the balance passing from -10 to 10). The balance is positive again also in intermediate goods (from -2 to 4) and rises in consumer goods (from 6 to 11).

Manufacturing firms' confidence climate and balances of indicator-building series

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Sept. 2002	95.7	-14	-4	19
Oct. 2002	95.1	-14	-6	15
Nov. 2002	95.0	-13	-7	13
Dec. 2002	91.6	-17	-3	10
Jan. 2003	93.6	-13	-4	12

The main quarterly results (IV quarter 2002)

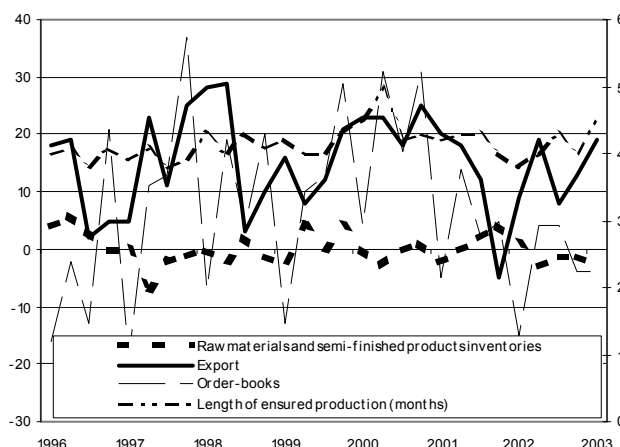
According to the usual quarterly survey, some signals of recovery are emerging on the demand side, though for the time being, they are more evident on foreign markets. The length of ensured production on the basis of the present order books goes from 4 months in July-September to 4.5 months in October-December. The balance concerning the

new order-book flow remains negative, but stabilises on the levels of III quarter 2002 (-4). Conversely, for the next quarter, firms expect a more favourable export trend, the balance of which rise from 13 to 19, thus close to the levels of II quarter 2002. In keeping with those indications, raw materials and semi-finished products inventories are decreasing, the balance passing from -1 to -3.

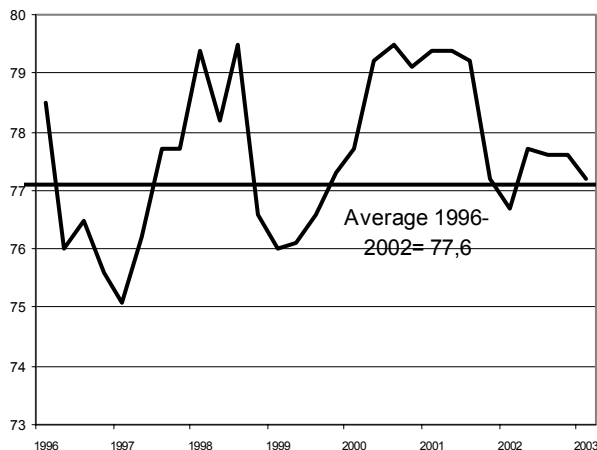
For the time being, those signals seem to lead to a more intense utilisation of the existing manpower and to rosier assessments on productive capacity. The balance concerning worked hours rises from -16 to -2; the share of those considering their own productive capacity "More than Sufficient" compared to one's needs falls from 39% to 29% (conversely, the number of those considering it "Sufficient" rises from 57% to 68%). The degree of plant utilisation stops on levels lower than the average of the latest cyclical phase, slightly decreasing compared to the previous quarter (from 77.6% to 77.2%).

According to a high percentage of respondents (32%), some factors still limit a stronger recovery of productive activity. According to the sample, the most important constraints remain those linked to insufficient demand (a growing share of entrepreneurs - going from 64% to 68% - consider them relevant), while those who report difficulties in collecting manpower or insufficient plants diminish (from 10% to 8% and from 5 to 4% respectively).

Demand indicators (balances of respondents)



Degree of plant utilisation



Obstacles to production

