



ISTITUTO DI STUDI E ANALISI ECONOMICA  
Piazza dell'Indipendenza, 4 00185 Roma tel.: + 39-0644482.1 fax: + 39-0644482325

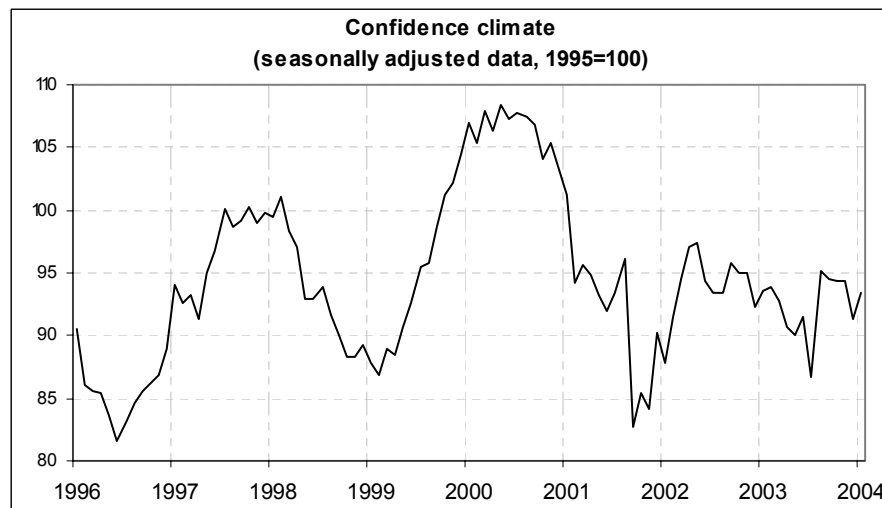
Date: **January 28, 2004**  
TEL.: **06444821**

## THE CONFIDENCE CLIMATE OF MANUFACTURING AND EXTRACTIVE FIRMS GROWS IN JANUARY

- The seasonally adjusted confidence climate of manufacturing and extractive firms rises from 91.3 to 93.4. Confidence homogeneously grows in all the main industrial groups: the indices pass from 95.3 to 96.1 in consumer goods, from 89.9 to 90 in investment goods and from 87.3 to 93 in intermediate goods respectively
- Among assessments on the current situation, evaluations on the present order-book level slightly worsen, while inventories fall again below what are considered as “Normal” levels
- A marked improvement is emerging in short-term forecasts on production, which generally anticipate the industrial cycle, and in forecasts on employment; indeed, expectations on the general economic situation are again unfavourable, being probably affected by the recent financial scandals

## THE TRADITIONAL QUARTELY SURVEY REFERRING TO THE IVQ 2003 SHOWS SIGNALS OF RECOVERY IN THE INDUSTRIAL CYCLE

- The degree of plant utilisation grows again, passing from 75.8 in the IIIQ to 76.8 in the IVQ
- The share of firms considering their productive capacity “More than Sufficient” compared to the present needs falls from 36 to 33%: this may imply a further growth in the degree of plant utilisation in the next few months
- With reference to demand, according to ISAE respondents the flow of new orders is growing and expectations on the export trend in the next 3-4 months are improving



Data referring to February shall be diffused on **February 25, 2004**.

Next ISAE surveys are scheduled as follows:

**January 29, 2004:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: December) and ISAE Monthly Business Service Survey (Reference period: January)

**February 3, 2004:** Comparative Business Surveys for Italy, Germany and France (Reference month: January)

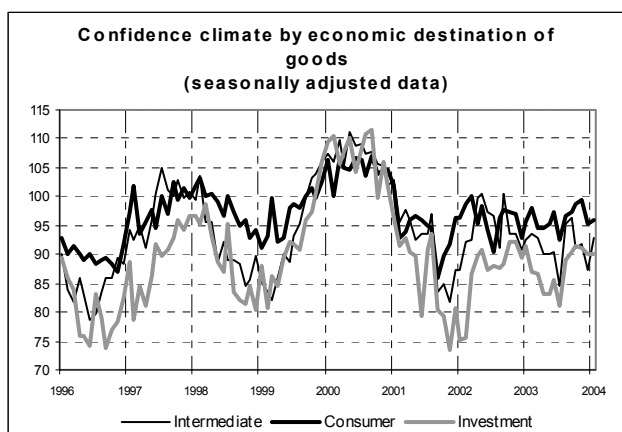
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site [www.isae.it](http://www.isae.it))

## General Results

According to the ISAE Monthly Survey carried out between January 7 and 22 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) grows in January from 91.3 to 93.4. The confidence growth (which is particularly marked in intermediate goods from 87.3 to 93) is homogeneously diffused in all the main industrial groups: the indices pass from 95.3 to 96.1 in consumer goods and from 89.9 to 90 in investment goods respectively.

Among assessments on the current situation, evaluations on the present order-book level slightly worsen, while inventories fall again below what are considered as "Normal" levels. A marked improvement is emerging in short-term forecasts on production - generally anticipating the industrial cycle - and in forecasts on employment. Indeed, expectations on the general economic situation are unfavourable again, being probably affected by the recent financial scandals.

The traditional ISAE Quarterly Survey referring to the IVQ 2003 shows signals of recovery in terms of both productive capacity and demand. Indeed, the degree of plant utilisation rises again, the share of firms considering their productive capacity "More than Sufficient" compared to the present needs falls and the number of worked hours increases. On the demand side, assessments on the order-book trend recover, while short-term expectations on exports grow.

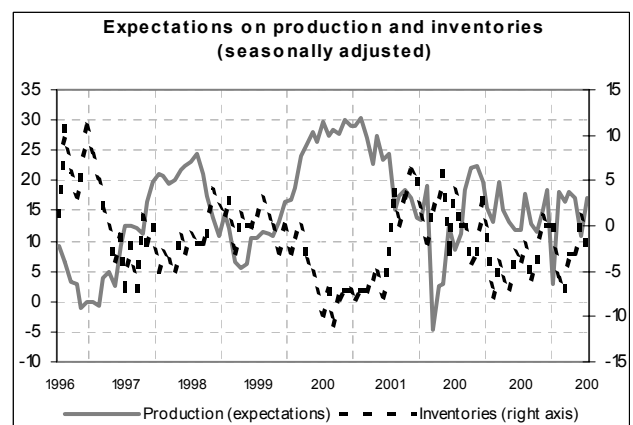


## Situation in the reference period (January 2003)

In January, assessments on the current order-book trend and on production slightly worsen, while inventories diminish again.

The balance of order books equals  $-18$  ( $-15$  in December), which is close to the average figures of the second half of 2003. The foreign component is diminishing (from  $-17$  to  $-18$  in terms of balance), and even more so the domestic component (from  $-16$  to  $-19$  in terms of seasonally adjusted balance). Firms also signal a slight worsening in the production level and variation: the balances equal  $-9$  and  $1$  respectively (from  $-6$  and  $5$  in December). Inventories diminish again (the balance passing from  $1$  to  $-3$ ), which in the past has often paved the way for an industrial cycle recovery.

Turning to single sectors, unfavourable indications on the current production trend come from all sectors, while intermediate goods producers express above-average indications on their order-book level. In particular, the balance of order-book assessments slightly recovers in intermediate goods (from  $-22$  to  $-21$ ), while it considerably falls in final goods (from  $-10$  to  $-15$  in investment goods, from  $-6$  to  $-14$  in consumer goods). Favourable indications in intermediate goods are due in particular to a marked foreign demand recovery (from  $-27$  to  $-18$  in terms of balance).



## Forecasts for the next quarter

In January, firms surveyed by ISAE express favourable opinions on production, order books and employment; however, tensions and uncertainties due to the ongoing financial scandals negatively affect expectations on the general economic trend.

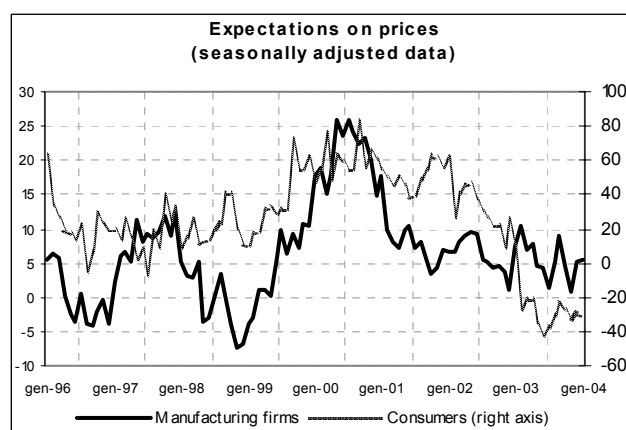
Expectations on production and employment witness a marked recovery and the balances pass from 11 and -10 to 17 and -2 respectively (the latter is expressed in raw data). Expectations on order books rise from 18 to 19 (seasonally adjusted data). Conversely, entrepreneurs feel that short-term prospects of the Italian economic situation are worsening (the balance falling from -1 to -5). Those evaluations – as already happened in the ISAE Consumer Survey of January 22 – may be significantly influenced by the uncertainty raised by the financial scandals involving major Italian firms. With regard to prices, the signals of inflationary tensions are confirmed: indeed the balance stabilises on high levels (5, as in December).

Turning to single sectors, intermediate goods producers express definitely favourable expectations on the main firm variables, as do – though to a lesser extent – investment goods producers, while consumer goods firms show stable expectations. With regard to production, the balance bounces from 3 to 20 in intermediate goods, from 11 to 15 in investment goods and remains stable (at 15) in consumer goods. Expectations on order books (seasonally adjusted data) pass from 16 to 21 in intermediate goods, from 15 to 16 in investment goods and remain stable (at 23) in consumer goods. Conversely, with reference to employment, the improvement is much more evident in consumer goods (the raw balance goes from -13 to -2), but it also involves investment goods (from -9 to -6) and intermediate goods (from -7 to -2).

The least favourable indications – coming from the price side and from the general expectations on the country's economic situation – are not common to all sectors. Tensions on prices are harsh in consumers goods (the balance rising to 15, which is close to the maximum figures ever reached since April 2003), while softer tensions emerge in investment (the balance passing from -3 to -1) and in intermediate goods (from 0 to 2). Finally, forecasts on the general economic situation are worsening in consumer goods (from 6 to 4) and in intermediate goods (from -8 to -11), while they are stable in investment goods (the balance equalling 5).

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

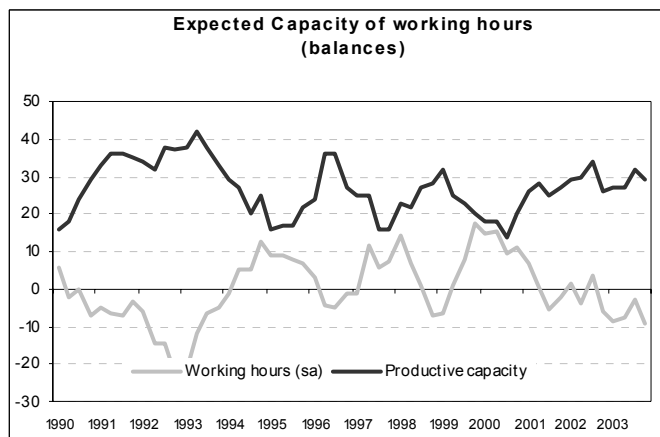
	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Oct. 2003	94.3	-16	-3	18
Nov. 2003	94.3	-15	-3	17
Dec. 2003	91.3	-15	1	11
Jan. 2004	93.4	-18	-3	17



### The main quarterly results (IVQ 2003)

The replies to the quarterly questions ISAE usually poses to firms show signals of industrial cycle recovery, both in terms of capacity utilisation, and with reference to demand. The degree of plant utilisation rises to 76.8 from 75.8%. Besides, a growing share of firms (33% of the sample, as against 36% in the previous quarter) consider their degrees of productive capacity utilisation “More than Sufficient”, and this might pave the way to further capacity rises in the next few months. Favourable signals also come from assessments on production constraints, which are considered important by a decreasing number of respondents (35% of the sample, compared to 37% of the previous quarter). In particular, the share of firms feeling constraints derive from “insufficient demand” diminishes from 62 to 61% of respondents, while the share of firms deeming their main constraints come from “insufficient plants” grows from 4 to 5% of the sample. Indeed, the percentage of entrepreneurs feeling their main constraints come from “other reasons” – which might be connected to the euro appreciation on the international markets - remains high. Slightly rosier indications come from the number of worked hours, which – seasonally adjusted balance – fall compared to the previous quarter.

With reference to demand, ISAE respondents signal an improvement of their flows of new order books (the balance rising from -2 to 4, thus becoming positive again for the first time since the IIIQ 2001). Also expectations on exports for the next 3-4 months become rosier and the balance grows from 15 to 18, close to the highest peaks ever registered since IVQ 2002. Finally, inventories of finished and semi-finished products continue to diminish (from -2 to -3), which might point to a better-than-foreseen trend of production and of the degree of plant utilisation.



### Obstacles to production

