



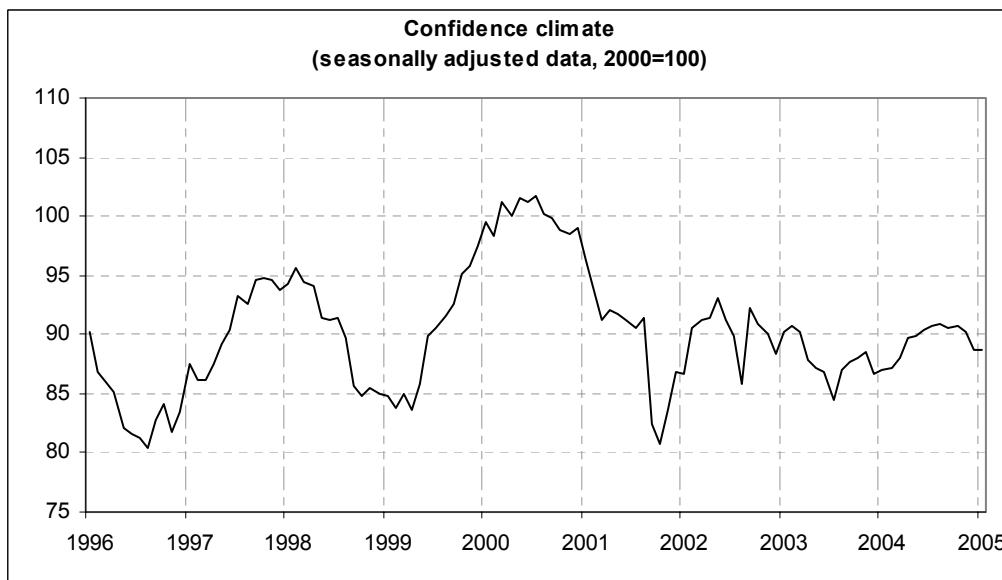
Date: January 27, 2005  
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## THE MANUFACTURING FIRMS' CONFIDENCE MODERATELY RECOVERS IN JANUARY

- In January, the seasonally adjusted confidence index (base year 2000 = 100) grows from 88.9 in December to 89.2. Inventories diminish and assessments on the present order-book level slightly recover within a substantial stability of short-term expectations on production
- Among non confidence-building variables, employment expectations considerably improve, while expectations on order books, on the general economic trend and on selling prices stabilise
- However, signals are rather dishomogeneous in the various sectors. Confidence continues to improve in investment goods (the index passing from 84.1 to 86.3, which is close to the October 2004 figures); signals of recovery emerge in intermediate goods (the index increasing from 87.6 to 88.5), while confidence deteriorates in consumer goods (the indicator decreasing from 93.4 to 92.1)

## THE ENSURED PRODUCTION LENGTH AND THE PLANT UTILISATION DEGREE SLIGHTLY DIMINISH IN Q4

- According to the traditional quarterly survey, the ensured production length on the basis of the present order-book level shortens from 3.3 to 3.1 months in the face of a slight contraction in new orders and in the expected export volume
- The degree of plant utilisation is slightly decreasing (from 76.6% to 76.5%) and the number of worked hours diminishes accordingly. Even the share of firms considering their present productive capacity level "more than sufficient" is growing
- Rosier indications come from assessments on the existence of constraints to production, which are diminishing compared to the past quarter



Data referring to February shall be diffused on **February 23, 2005**.

Next ISAE surveys are scheduled as follows:

**January 31, 2005:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: December) and ISAE Monthly Business Service Survey (Reference month: January)

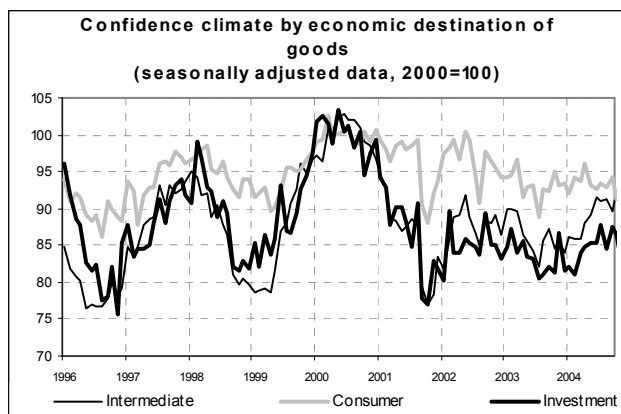
**February 1, 2005:** Comparative Business Surveys for Italy, Germany and France (Reference month: January)

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 3 and 20 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) slightly grows in January from 88.9 in December to 89.2. Inventories diminish and assessments on the present order-book level slightly recover within a substantial stability of short-term expectations on production. Among non confidence-building variables, employment expectations considerably improve, while expectations on order books, the general economic trend and selling prices stabilise. Signals are however dishomogeneous in the different sectors. Confidence continues to improve in investment goods (the index passing from 84.1 to 86.3, which is close to the October 2004 figures); signals of recovery emerge in intermediate goods (the index increasing from 87.6 to 88.5) and confidence deteriorates in consumer goods (the indicator decreasing from 93.4 to 92.1).

Generally unfavourable indications come from the traditional quarterly survey, whereby the ensured production length shortens in the face of a slight contraction in new orders and in the expected export volume. The degree of plant utilisation is also slightly decreasing and the number of worked hours diminishes accordingly. Conversely, the share of firms considering their present productive capacity level "more than sufficient" is growing.



## Situation in the reference month (January)

In January, manufacturing firms' assessments on order books and demand are generally stable, though discrepancies emerge in different sectors. After a two months' growth, inventories diminish again, while negative signals come from the current production trend.

The seasonally adjusted order-book balance slightly recovers from -14 to -13: it falls from -16 to -17 on the domestic market and remains stable at -17 on the foreign markets. However, the trend strongly differs in the various sectors. Strong recovery signals come from investment goods, where the overall balance grows from -23 to -16, alongside with a marked rise on foreign markets (the balance passing from -23 to -13). Conversely, negative indications come from intermediate and consumer good producers. In the former case, the overall balance passes from -9 to -10 (with a slight contraction from -11 to -13 on the domestic market and an equally small growth from -21 to -20 on the foreign markets). In the latter case, the overall order-book balance deteriorates from -15 to -17 (with a fall both on the domestic market – from -17 to -21 – and on the foreign ones – from -15 to -19 -).

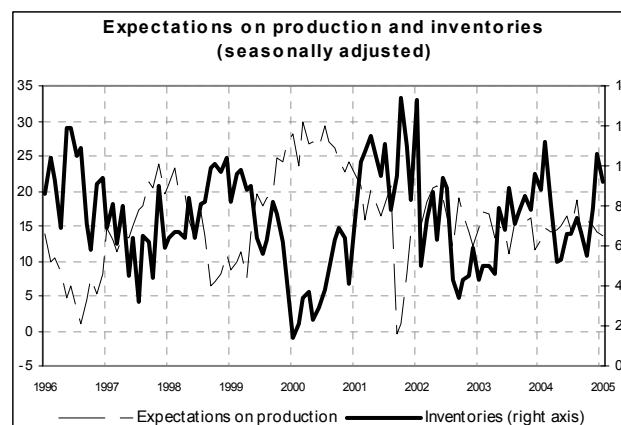
With regard to inventories, the growth registered in the past two months comes to a halt and the balance falls from 11 to 9. In this case the trend is rather homogeneous in the different sectors, as investment goods undergo a contraction from 13 to 10 and intermediate goods decrease from 12 to 11, while the balance of stocks in consumer goods remains at 7. Finally, most firms signal a contraction both in their production levels and in their current production variation. Indeed, the overall balances decrease from -6 and 5 to -10 and 3 respectively: the deterioration is rather homogenous, as the balance goes from -5 to -8 and (the only rising one) from 5 to 7 in investment goods, from -10 to -14 and from 6 to 3 in consumer goods and from -6 to -8 and from 5 to -1 in intermediate goods.

## Forecasts for next quarter

In January, the ISAE respondents' short-term expectations are substantially stable compared to December, with the only exception of employment expectations, registering a clear improvement m/m in raw terms and a substantial stability y/y.

The balance of order-book expectations stops at 15 and the one on production equals 14; the general economic expectations slightly recover from -15 to -14 and those on selling prices diminish from 12 to 10 (which is one of the lowest figures over the past five months). The employment balance (raw data) recovers from -6 to -1, thus getting close to the January 2004 levels.

Also forecasts by sector are dishomogeneous and not fully consistent with the signals emerging from the current situation: in investment goods, where the evaluations point to an improvement, expectations on order books diminish (the balance passing from 15 to 11), as do those on production (from 18 to 16). Conversely, forecasts on the general economic trend on employment and on selling prices definitely improve (from -16, -10 and 18 to -9, -2 and 10 respectively). Consumer goods show a completely different situation: forecasts on order books and production are stable (the order-book balance remains unchanged at 18, while the one concerning production falls from 16 to 15), the employment prospects improve (the raw balance passing from -5 to 0), while those on the general economic situation and on prices are worsening (from -16 and 6 to -17 and 10 – which is one of the peaks since September 2001 - respectively). Finally, the situation is expected to develop even more in intermediate goods. The order-book balance grows from 12 to 14, the one referring to production goes up from 11 to 13, the employment balance rises from -5 to 0 and the one of the general economic trend passes from -17 to -13. Finally, selling price tensions are easing, at least partially: the balance in this area falls from 17 to 10 (generally speaking, after a few months, the price dynamics shifts over onto sectors producing for the final demand), which is one of the smallest figure ever registered since March 2004.



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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Oct. 2004	90.8	-14	5	16
Nov. 2004	90.0	-13	8	15
Dec. 2004	88.9	-14	11	14
Jan. 2005	89.2	-13	9	14

## The main quarterly Survey results

### (Q4 2004)

According to the traditional quarterly survey referring to Q4 2004, the ISAE respondents signal a contraction in their ensured production length, in the face of a fall in new order books and in the expected export volume. Turning to plant utilisation, the current production level and the number of worked hours diminish, while the share of firms considering their present productive capacity level “more than sufficient” is growing, which usually means there will be further plant utilisation contractions in the next few months.

Going in detail, the balance of new order books decreases from 4 to 3, while the one concerning the expected export volume decreases from 10 to 9. Indeed, the ensured production length (based on the present order books) diminishes from 3.3 to 3.1 months, which is the lowest level of the past few years. The degree of plant utilisation (seasonally adjusted data) slightly falls from 76.6 to 76.5, as does the balance of worked hours (from 0 to -3). The balance expressing inadequate productive capacity rises from 26 to 30, thus signalling a rise in the number of firms considering the present productive level “more than sufficient” as against the needs.

All that goes alongside with a reduction in constraints to production (which is relevant for 41% of respondents as against 44% in Q3), due to a fall in the incidence of options such as “lack of manpower” and “insufficient plants”, apart from “financial constraints” and “other reasons”. However, the number of those considering their production hampered by “lack of demand” remains high (26% of respondents, as in Q3).

Furthermore, inventories of raw materials and semi-finished goods recover (from -9 to -6 in seasonally adjusted terms), while the (raw) balance referring to one’s competitiveness worsen: the deterioration is particularly marked in non-EU countries (from -6 to -9 in raw terms), probably more affected by the weak dollar-euro exchange rate. Competitiveness also worsens on domestic markets (the raw balance passing from 0 to -1), while it slightly improves on the EU markets (from -3 to -2).

