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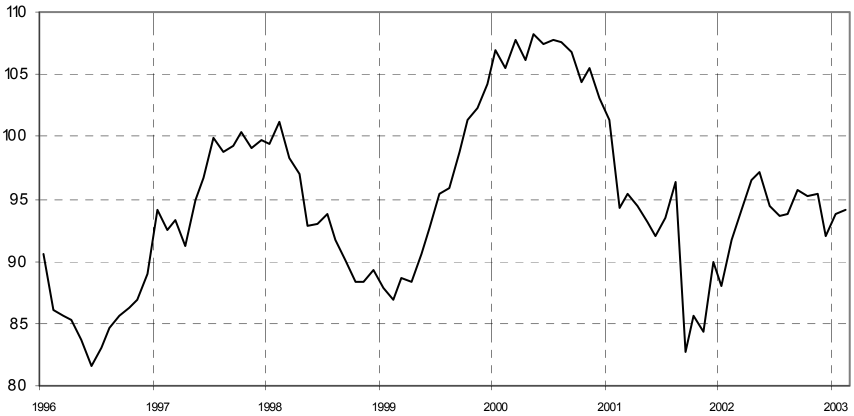
MONTHLY ISAE BUSINESS SURVEY
ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: February 2003

- **According to the ISAE Monthly Survey carried out between February 8 and 20, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) improves in February for the second month in a row, passing from 93.8 in January to 94.2 in February, thus getting close to the November 2002 levels**
- **The improvement is due to rosier expectations on the short-term evolution of production; conversely, assessments on the current level of order books slightly deteriorate compared to January, and finished products inventories - which however remain below what are considered "Normal" levels for the eight month in a row - rise again**
- **For the next quarter, also expectations on order book rise again, while those on the general economic situation are worsening, within a framework characterised by new price tensions probably connected to the ongoing price rise and to the fear for a possible future oil price growth**
- **Breaking up data by sector, the confidence markedly improves in consumer goods and - to a smaller extent - in intermediate goods. Negative signals instead from investment goods producers, whose confidence brusquely falls compared to January and comes back to the low figures of last summer**

Confidence climate
(seasonally adjusted data), 1995=100)



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 March shall be diffused on ***March 25, 2003****.*
Next ISAE surveys are scheduled as follows:
February 26, 2003: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: January)*
February 27, 2003: *ISAE Monthly Business Service Survey (Reference period: February)*
March 3, 2003: *Comparative Business Surveys for Italy, Germany and France (Reference month: February)*
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.

According to the ISAE Monthly Survey carried out between February 8 and 20 on a panel of about 4,000 manufacturing and extractive firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) improves in February for the second month in a row, passing from 93.8 in January to 94.2, thus getting close to the November 2002 levels.

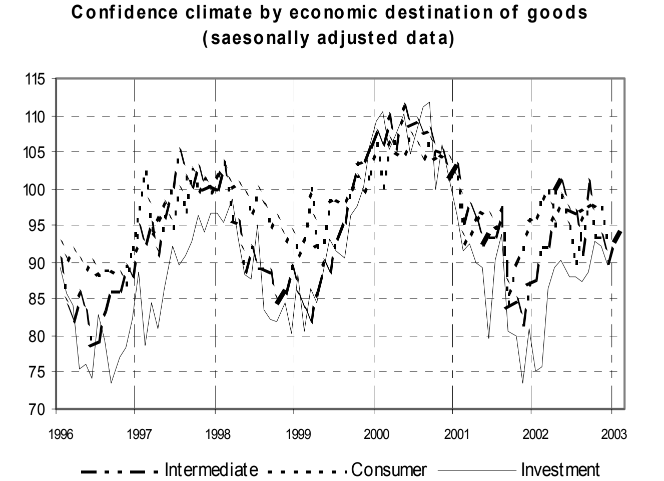
The improvement is due to rosier expectations on the short-term evolution of production; conversely, assessments on the current level of order books slightly deteriorate compared to January, and finished products inventories - which however remain below what are considered "Normal" levels for the eight month in a row - rise again.

For the next quarter, also expectations on order book rise again, while those on the general economic situation are worsening, within a framework characterised by new price tensions probably connected to the ongoing price rise and to the fear for a possible future oil price growth.

Confidence definitely improves in consumer goods (the index equalling 97.8 from 95.1 in January) and - though to a smaller extent - in intermediate goods (from 92.7 to 93.7), while the indicator drastically falls in investment goods (from 91.4 to 87.4, which is close to the minimum levels of August 2002).

Situation in the reference period (February 2003)

ISAE respondents indicate that their February order books worsen again: their seasonally adjusted balance decreases from -14 in January to -16. The worsening mainly concerns foreign orders (the balance of which falls from -17 to -18), while the domestic market balance remains stable (-14). The worsening hits all sectors: the seasonally adjusted balance goes from -10 to -14 in consumer goods, from -9 to -16 in investment goods and from -15 to -17 in intermediate goods. Signals of recovery emerge on the domestic market in consumer goods, where the seasonally adjusted balance recovers from -13 in January to -10 in February. Assessments markedly worsen in investment goods (from -10 to -21, which is close to the August 2002 levels) and in intermediate goods (from -14 to -19). Conversely, on foreign markets, negative indications come from consumer' (whose seasonally adjusted balance passes from -19 to -26) and intermediate goods producers (from -12 to -13). Producers of machinery and equipment signal a substantial stability (the balance equalling -20). The current production level is diminishing: the seasonally adjusted balance equals -12 (-9 in January), which is close to the minimum figures of August 2002, alongside with a worsening in final goods (the balance of investment goods goes from -6 to -12, while that of consumer goods from -8 to -16) and stable intermediate goods (the balance being -11, as in January). Finished products inventories remain



below what are considered "Normal" levels for the eighth month in a row: their seasonally adjusted balance slightly recovers passing from -4 to -2. Signals of inventories' growth emerge from investment goods (the seasonally adjusted balance remaining negative and passing from -10 to -4), while inventories are considered stable in intermediate goods (-2) and are reducing again in consumer goods (from -1 to -4).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Oct. 2002	95.2	-15	-6	16
Nov. 2002	95.3	-13	-7	14
Dec. 2002	92.0	-16	-3	11
Jan. 2003	93.8	-14	-4	13
Feb. 2003	94.2	-16	-2	19

Forecasts for the next quarter

In February, ISAE respondents are generally more optimistic on the short term evolution of their firms, though they signal some concerns on the country's general economic situation, probably due to the growing uncertainty on the recovery possibilities of the international situation. Expectations on production improve again for the second month in a row and their seasonally adjusted balance rises to 16 (11 in January), which is the highest figure since October 2002. Also expectations on the order-book trend in the next quarter are rosier, and the balance grows from 15 to 20.

The improvement of expectations on production is particularly evident in consumer goods, where the seasonally adjusted balance doubles, passing from 10 to 20, and reaches its peak since September 2002. Also intermediate goods producers are more optimistic (the seasonally adjusted balance passing from 11 to 16), while in investment goods expectations on production - though remaining positive - slightly diminish compared to the previous month (the seasonally adjusted balance passing from 15 to 14). With regard to order-books, favourable indications come from consumer goods producers (whose seasonally adjusted balance passes from 20 to 21) and, particularly from intermediate goods (the seasonally adjusted balance rising from 15 to 20). Conversely, in investment goods a more pessimistic approach is shown compared to the previous month and the seasonally adjusted balance falls from 21 to 8.

ISAE respondents expect a substantial employment stability for the next quarter (raw data only, given the short monthly historical series). Most of the sample (74%) endorses this approach and the number of those forecasting an employment reduction (14% of respondents) is almost equal to the share of those planning to increase it (12%).

Turning to sectors, negative signals come from investment goods (the balance falling from 6 to 0) and from consumer goods (from -4 to -9), while intermediate goods producers are more optimistic compared to January (the balance passing from 0 to 2). Expectations on the general economic situation in Italy are worsening: the seasonally adjusted balance falls again (from -11 to -15), thus equalling the minimum level reached in October 2002. The worsening is homogeneously diffused in all sectors. This goes alongside with the onset of new price tensions: the share of respondents expecting selling price rises in the next quarter definitely exceeds the number of those expecting a decrease and the balance equals 11 (8 in January), which is close to the maximum figures of the summer 2001. Those tensions are probably linked to international factors connected to the recent oil price rise and to the fear that a war in the Middle East will cause a further increases. Indeed, intermediate goods producers expect the major price rises (whose seasonally adjusted balance passes from 4 to 12), as they are more directly subject to price variations on the international markets. In consumer goods, the balance slightly grows compared to January (from 11 to 14) and in investment goods it decreases again (from 11 to 6), probably in connection to the hardly positive demand trend.