ISTITUTO DI STUDI E ANALISI ECONOMICA
Piazza dell'Indipendenza, 4 00185 Roma tel.: + 39-0644482.1 fax: + 39-0644482229

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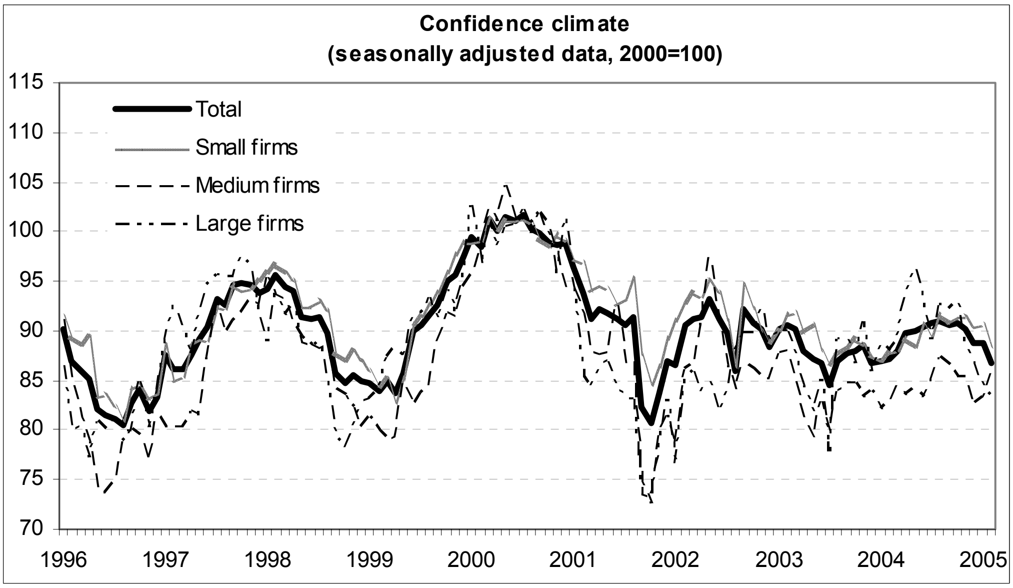
TEL.: **06/444821**

THE MANUFACTURING FIRMS' CONFIDENCE FALLS IN FEBRUARY

- **In February, the seasonally adjusted confidence index (base year 2000 = 100) decreases from 88.7 to 86.8, which is close to the minimum figures reached since December 2003. Assessments on the present order-book level clearly diminish as they come back to the January 2004 troughs and inventories grow again in the wake of a slow worsening of short-term expectations on production**
- **Among non confidence-building variables, assessments on the current production level and variation worsen, while expectations on prices and employment stabilise and forecasts on order books and on the general economic trend slightly recover**
- **Turning to single sectors, confidence stabilises in consumer goods (the index equalling 92.1, as in January), while it falls in investment goods (from 86.4 to 83.5) and in intermediate goods (from 87.9 to 85.1)**
- **In February ISAE surveys the confidence trend by firm dimension: the confidence of small and small-medium size firms (between 10 and 99 employees) registers a clear contraction, passing from 90.6 to 88.4 (seasonally adjusted data). The trend is also negative for larger firms (more than 250 employees), where the confidence indicator decreases from 84.3 to 83. Conversely, in medium-sized firms (between 100 and 249 employees), confidence recovers from 83.3 to 85.8, which is the highest peak since last September**
- **Looking at the recent data by firm dimension, admittedly the confidence trend in small firms mirrors the aggregate indicator, while larger firms are generally below the average and medium-sized firms – which in 2004 had registered a trend similar to the aggregate figure - showed signals of recovery in the early-2005**



Data referring to March shall be diffused on **March 24, 2005.**

Next ISAE surveys are scheduled as follows:
February 28, 2005: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: January)* and *ISAE Monthly Business Service Survey (Reference month: February)*
March 1, 2005: *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 1 and 17 on a panel of about 4,100 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls again in February, passing from 88.7 to 86.8, which is close to the minimum figures reached since December 2003. Assessments on the present order-book level clearly diminish (both on the domestic and on the foreign markets) and inventories grow again in the wake of a slow worsening of short-term expectations on production. Among non confidence-building variables, assessments on the current production level and variation worsen, while expectations on prices and employment stabilise and forecasts on order books and on the general economic trend slightly recover.

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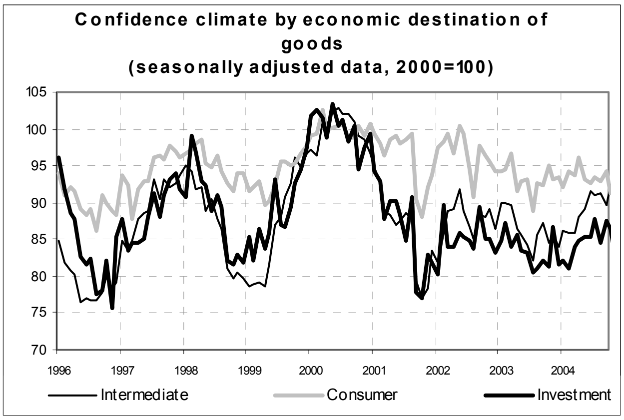
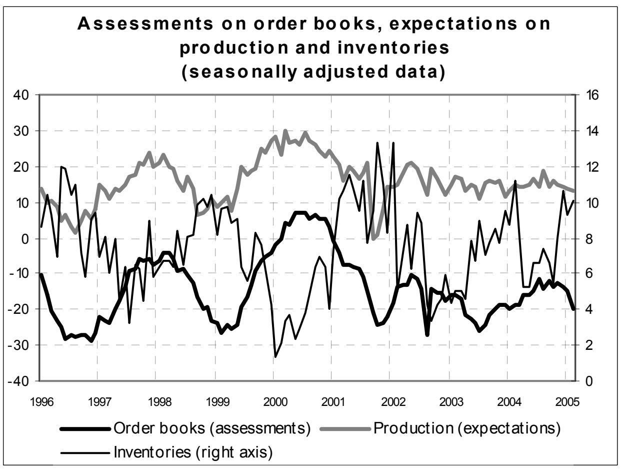




Situation in the reference month (February)

In February, manufacturing firms' assessments on order books, production and inventories are worsening compared to January. Indeed, the contraction is common to all sectors, though it is particularly negative in investment goods.

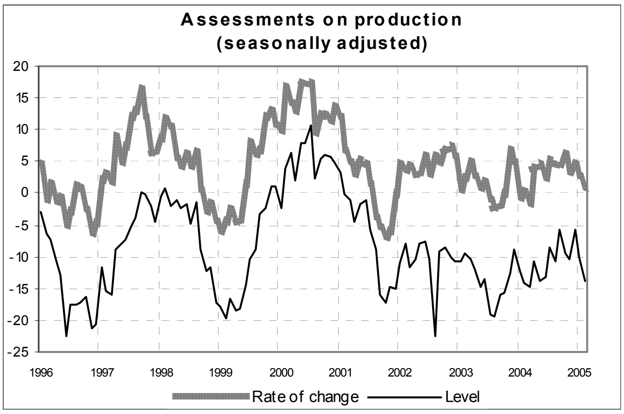
The seasonally adjusted order-book balance shows again the low figures of January 2004, passing from -15 to -20, owing to a contraction of both the domestic and the foreign demand components. The domestic order-book balance falls from -18 to -23, while the one referring to the foreign demand goes from -17 to -21: both are close to the troughs reached since January and April 2004 respectively. Turning to the domestic market, negative signals come from investment good producers (from -16 to -21) and from intermediate goods (from -14 to -25), while the deterioration in consumer goods is smaller (the balance falling from -21 to-22). The contraction is even stronger on the foreign markets, which are still affected by the past exchange rate appreciation: indeed, the fall is particularly marked in investment goods (from -13 to -20), while it is smaller in intermediate (from -20 to -21) and in consumer goods (from -19 to -20). The demand contraction is accompanied by a further stock growth, the balance of which rises from 9 to 10. Inventories rise in particular in investment goods (the balance jumping from 10 to 16), while stocks remain stable above what are considered as "Normal" levels in consumer and in intermediate goods (at 7 and 11 respectively). Finally, most firms signal a deterioration both in their current production levels (the balance passing from -10 to -14) and in their production variations (fro 3 to 1). In this case too, homogeneously negative indications come from investment goods (the balances falling from -8 and 7 to -12 and 0 respectively). The current variation balance decreases from 2 to 0 in consumer goods, while the one referring to the current production level stabilises at -14. In intermediate goods, the balance of the current production level diminishes from -8 to -15 and the one of the current production variation recovers from 0 to 3.

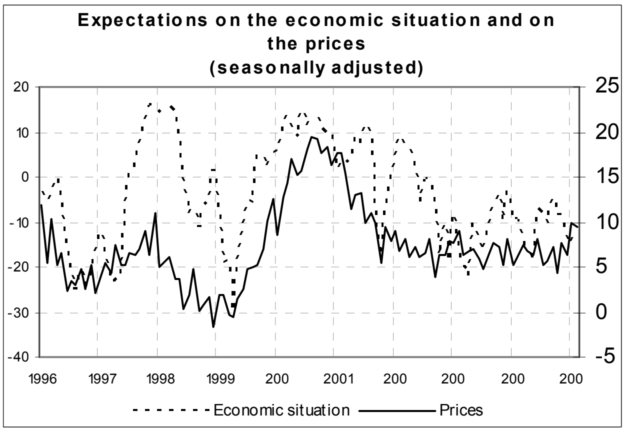
Forecasts for next quarter

In February, the slow fall in production expectations goes on. Even expectations on order books slightly diminish, while those concerning selling prices stabilise and those referring to the country's general economic situation recover.

The balance of order-book expectations falls down to 14, after remaining stable at 15 in the three previous months: this is the lowest figure ever registered since January 2004. Turning to production, expectations continue to diminish (from 14 to 13) on values below the August 2004 figure of 19. Conversely, price tensions are easing (the balance stabilising at 10) and the prospects of the general economic situations are less dark (the balance rising from -14 to -12). Employment expectations (raw data) stabilise at -1 in February, after the strong rise observed in January, thus confirming to exceed the values of 12 months ago.

In this case, looking at single sectors, the situation is rather heterogeneous. Indeed, the worsening almost exclusively comes from the replies of intermediate good producers, who signal a fall in their expectations on order books (from 13 to 9), production (from 13 to 12) and employment (from 0 to -2), together with price rises (from 11 to 10) and to a slight recovery in expectations on the general economic trend (the balance growing from -13 to -12). Conversely, signals of recovery emerge in investment goods thanks to demand expectations (from 12 to 16), production expectations (from 16 to 18) and employment expectations (from -2 to 4). In this case too, price expectations grow from 10 to 11 and those on the general economic trend stabilise at -9. Finally, homogeneously positive indications come from consumer good producers who, on the one side, are slightly more optimistic on next quarter's order-book and production trends (the balances passing from 18 and 15 to 19 and 16 respectively), while, on the other side, a tension easing on prices is looming ahead (from 10 to 9) together with a rosier general economic situation (from -17 to -14).





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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Nov. 2004	90.1	-13	8	15
Dec. 2004	88.7	-14	11	14
Jan 2005	88.7	-15	9	14
Feb. 2005	86.8	-20	10	13

Confidence trend by firm dimension

The new procedure ISAE has been adopting since October 2004[1] enables a thorough confidence analysis broken down by firm size. The disaggregated trends are in keeping with the overall figures on the manufacturing sector regularly published by ISAE. The firm dimension structure of the ISAE sample (which mirrors the reference universe structure) is characterised by a wide-spread presence of small firms both in terms of value added and of number of respondents (Table 1).

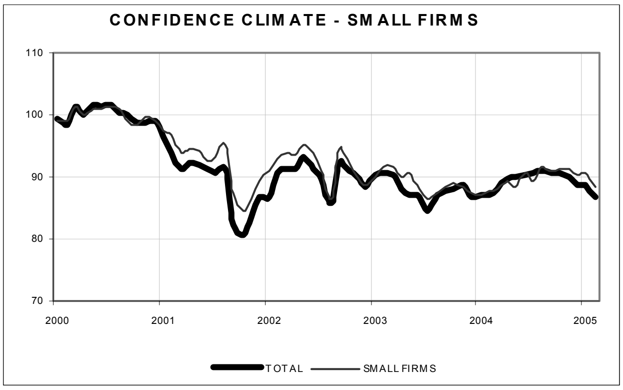
All in all, the confidence trend of small firms (between 10 and 99 employees) is fully in keeping with the figures referring to the whole manufacturing sector. In particular, confidence in small firms shows signals of recovery between January and August 2004 and, during the summer, comes back to the Q1 2003 values. However, the index has stopped falling since September and has fallen down to 88.4 in February, which means two points less than in January (when it equalled 90.6) and more than three points below the August 2004 figures (91.7).

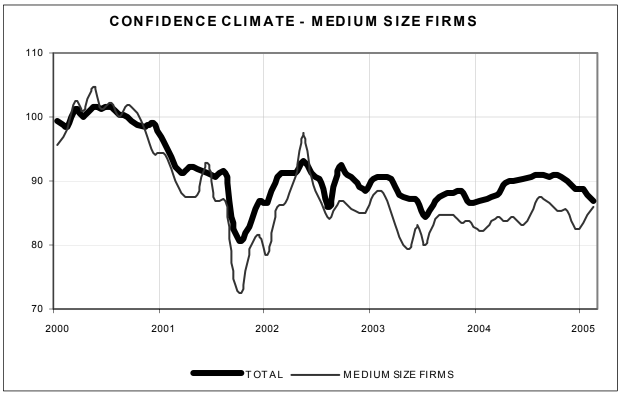
The indicator computed for firms with 100-250 employees also shows a confidence growth in the first half of 2004 and a contraction between September and December.

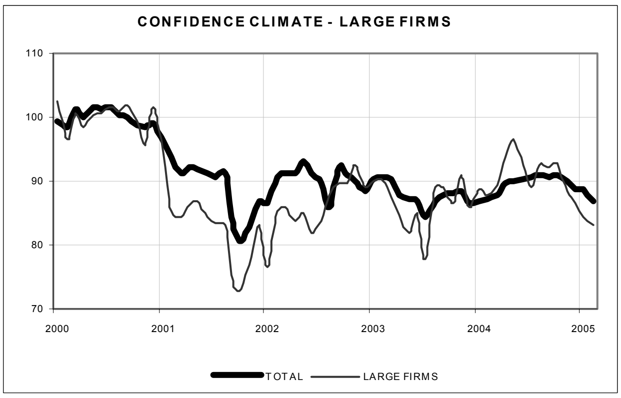
In this case, the deterioration is worth five points, which exceeds the average figures. In the first two months of 2005, medium-sized firms from the ISAE sample signal a further recovery as the indicator rises up to 85.8, which marks a recovery compared t the late-2004 figures. Finally, large firms show a negative trend: in this case too, signals of recovery were registered in the first half of 2004, but then, starting from September, the fall has been dramatic and has led the indicator from 84.3 in January to 83 in February, which is almost ten points below the August figure of 92.5.

Tab.1 – THE SAMPLE STRUCTURE OF THE SURVEY ON MANUFACTURING FIRMS BY SIZE FIRMS

VARIABLES	SMALL	MEDIUM	LARGE
Value added	64,4	11,3	24,3
n. firms	78,0	13,0	9,0
n. employees	16,6	13,7	69,7







Source: **ISAE - seasonally adjusted data**

[1] See the ISAE Press Release on the Monthly Survey on Manufacturing Firms of October 2004. For a further deepening, see the work by Malgarini M., Margani P. and Martelli B., "Re-engineering the ISAE Manufacturing Survey", *Documenti di Lavoro ISAE*, n. 47, January 2005.