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MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

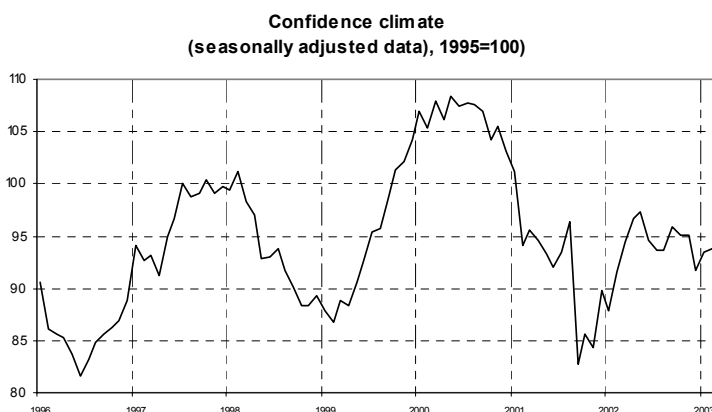
Reference period: March 2003

- According to the ISAE Monthly Survey carried out between March 3 and 14 (thus before the outbreak of the war in Iraq, but in the period of uncertainty which preceded it), the manufacturing and extractive firms' confidence indicator (seasonally adjusted) falls again in March, after the signals of recovery shown over the past two months, passing from 93.7 in February to 92.8 in March, which is however above the minimum values of December 2002
- The worsening is mainly due to darker expectations on the short-term evolution of production; indeed, also assessments on the current order-book level (slightly) deteriorate compared to February, while finished products inventories continue to diminish
- ISAE respondents are even more pessimistic on the short-term prospects of order books and employment as well as on the general economic situation: in this framework, expectations on selling prices are worsening
- The confidence deterioration hits all the major sectors and is particularly harsh for consumer goods producers, which in February had shown a more favourable trend: their index falls from 97.7 to 94.6, while it passes from 87.2 to 86.7 in investment goods and from 93.6 to 93.1 in intermediate goods

QUARTERLY ISAE SURVEY ON EXPORTING FIRMS

Reference period: I quarter 2003

- The Quarterly Survey on Exporting Firms shows positive signals on the export turnover trend both for the I quarter and, as forecast, for the II quarter
- ISAE respondents seem to fear that the difficult international situation might put a halt to their exports
- Finally, ISAE respondents perceive that, in the I quarter 2003, competition coming from Germany, from the Benelux countries and from the United Kingdom is decreasing, while that from France and non-EU countries is increasing



Data referring to March shall be diffused on **April 24, 2003**.

Next ISAE surveys are scheduled as follows:

March 26, 2003: ISAE Monthly Business Service Survey (Reference period: March)

March 27, 2003: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: February)

March 31, 2003: Comparative Business Surveys for Italy, Germany and France (Reference month: March)

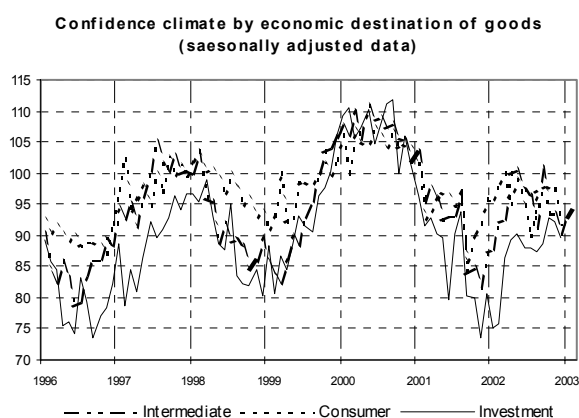
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site www.isae.it)

General Results.

According to the ISAE Monthly Survey carried out between March 8 and 14 (before the outbreak of the war in Iraq, though in the period of uncertainty which preceded it) on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls again in March, after the signals of recovery shown over the past two months, passing from 93.7 in February to 92.8, thus on values remaining above the minimum figures of December 2002.

The worsening is mainly due to the reduction in the expectations on the short-term evolution of production; indeed, assessments on the current level of order books slightly deteriorate, while finished products inventories - which however remain below what are considered "Normal" levels for the ninth month in a row - continue to decrease. Respondents are also more pessimistic on the short-term prospects of their order books and of employment, as well as on the general economic situation; within this framework, expectations of selling price rises are decreasing.

Confidence deterioration is wide-spread in all sectors, though it is particularly harsh in consumer goods, which had shown a rosier trend over the past month: the indicator falls from 97.7 to 94.6, passing from 87.2 to 86.7 in investment goods and from 93.6 to 93.1 in intermediate goods.



Situation in the reference period (March 2003)

In March, ISAE respondents express negative opinions on order books and production, signalling at the same time a further contraction of inventories. Assessments on the present order-book level slightly deteriorate (from -17 to -18), thus getting close to the minimum levels of August 2002. The contraction concerns both domestic (the seasonally adjusted balance falling from -15 to -17) and foreign market (the balance decreasing from -19 to -22). A growing share of respondents consider that the production level is low: the balance falling from -12 in February to -15 in March, thus close to the December 2001 figures. Apparently, firms seem willing to face the growing demand by resorting to inventories. Indeed, an increasing number of respondents consider the present level of inventories below "Normal" values and the balance falls from -2 (in February) to -6, remaining negative for the ninth month in a row.

The worsening of assessments on the current situation hits all sectors: with reference to order books, the overall balance decreases in consumer goods (from -14 to -16) and in intermediate goods (from -17 to -20), while it remains constant in investment goods (-17). On the domestic market, the deterioration is equally distributed in all sectors, while on foreign markets there are signals of recovery in consumer goods (the balance passing from -26 to -25).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Nov. 2002	95.1	-13	-7	13
Dec. 2002	91.6	-17	-3	10
Jan. 2003	93.4	-14	-4	12
Feb. 2003	93.7	-17	-2	17
Mar. 2003	92.8	-18	-6	12

Foreign demand is worsening in investment and intermediate goods (the balances going from -21 to -27 and from -13 to -16 respectively). A growing share of firms operating in investment goods consider the current production level as “Low” (the balance going from -12 to -16); this happens in particular in intermediate goods (from -11 to -20). Conversely, signals of recovery emerge in consumer goods (where the balance goes from -16 to -10). The inventories reduction – which is common to all sectors – is particularly intense in investment goods, where the balance goes from -4 to -10; indeed, inventories continue to diminish also in consumer goods (from -4 to -5) and in intermediate goods (from -2 to -5).

Forecasts for the next quarter

More cautious assessments on the current order-book situation go alongside with a less optimistic approach to the short-term prospects of firms’ activities and to the country’s economic situation.

However, expectations on production remain positive, though they diminish (their seasonally adjusted balance falling from 17 in February to 12 in March). Also expectations on the order-book trend in the next quarter are less rosy and the balance goes from 21 to 17. 76% of ISAE respondents expect a substantial employment stability for the next quarter (raw data only, given the short monthly historical series). Indeed, the number of those forecasting an employment reduction (14% of respondents) exceeds the share of those planning to increase it (10%). Less favourable expectations on order books, production and employment are accompanied by an easing in the price tensions which had emerged over the past few months: the share of firms expecting order-book rises in the next quarter continues to exceed the number of those forecasting a reduction, though the balance falls from 11 to 7. Expectations on the general economic situation continue to worsen as well: the seasonally adjusted balance falls again (from -16 to -22), thus equalling the minimum level reached in April 1999. Even though the Survey was carried out before the outbreak of the war in Iraq, maybe that figure is

influenced by the fears connected to the difficult international situation.

Turning to single sectors, the worsening of expectations on production is particularly strong in final goods: the seasonally adjusted balance goes from 13 to 6 in investment goods and from 20 to 11 in consumer goods, slightly diminishing only in intermediate goods (from 16 to 14). With reference to order books, expectations in consumer goods are stable (the balance remaining at 22), while those concerning intermediate goods are worsening (from 20 to 15). Investment goods producers are more optimistic (the balance passing from 8 to 13). That indication is also confirmed by expectations on the employment trend: indeed, in investment goods the share of those expecting to increase employment exceeds again the number of those expecting an employment fall, and the balance rises from 0 in February to 3 in March. Conversely, expectations on employment worsen in intermediate goods (the balance going down from 2 to -4) and remain strongly negative in consumer goods (the balance remaining unchanged at -9, as in February). With regard to the expected selling price trend, investment and intermediate goods producers witness a reduction in the tensions emerged over the past few months: the seasonally adjusted balances of the two sectors – though remaining positive – fall from 6 to 3 and from 12 to 5 respectively. Conversely, in consumer goods, the seasonally adjusted balance rises from 14 to 15, getting close to the peaks of the last twelve months.

Finally, the worsening of expectations on the short-term evolution of the country’s economic situation is homogeneously wide-spread in all sectors: the balance falls from -9 to -16 in investment goods, from -17 to -24 in consumer goods and from -16 to -20 in intermediate goods.

Quarterly Survey on Exporting Firms

The Quarterly ISAE Survey on Exporting Firms (involving about half of the sample) shows positive signals on the Italian export trend both for the I quarter and, as a forecast, on the II quarter. However, ISAE respondents seem to fear that the difficult international situation might put a halt to their exports.

The balance concerning the current export turnover improves in the I quarter 2003 compared to the IV quarter 2002 (from 0 to 4); indeed, forecasts on the II quarter are rosier than in the previous Survey and the balance goes from 17 to 20. However, the share of respondents deeming their exports are affected by negative factors rises (from 25 to 33% of the sample, thus getting close to the peaks of the III quarter 2001). In particular, a growth is observed in the number of firms reporting difficulties “for other reasons” (from 54 to 65% of the sample) different from price tensions, lack of demand or scarce efficiency (of administrative or distributive nature or somehow connected to the quality of products). Maybe the rising uncertainty due to the ongoing international situation is one of those “other reasons”.

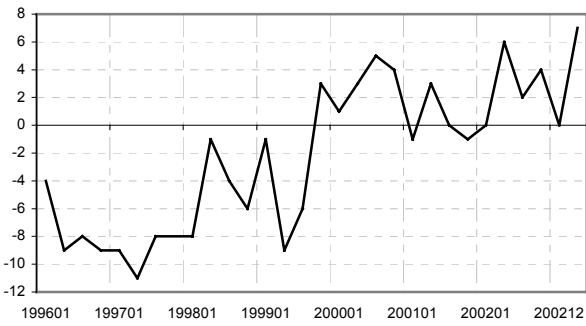
Firms also signal a rise in the ratio between export prices and domestic prices: the balance – which amounted to 0 in the IV quarter 2002 – goes to 7, which is close to the figures of the mid-1995.

Apart from information on the cyclical turnover and price trends, the Surveys provides some indications of structural nature on the distribution of Italian export firms by area of destination and on the countries Italian firms perceive as their main international competitors. In the I quarter 2003, the ranking of the countries as outlet for Italian exports remains substantially unchanged compared to previous Surveys. 64% of exports of ISAE respondents (65% in the previous quarter) go to EU countries (both in the I and in the II quarter 2003). Among those countries, Germany remains the main outlet (19% of exports), followed by France (14%) and by the United Kingdom (8%). Among extra-European countries, the United States play the main role (absorbing 10% of exports of respondents), while 7% of Italian exports go to non-EU European countries and

19% to extra-European countries other than the United States.

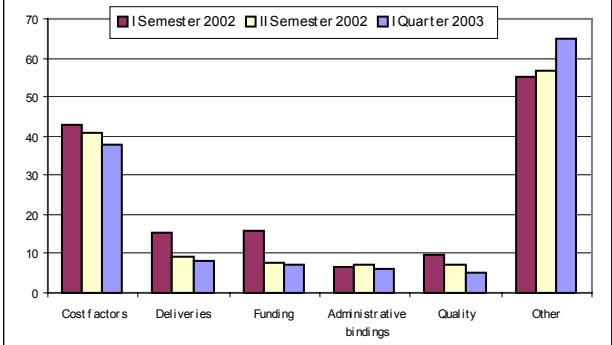
Finally, in the I quarter 2003, respondents perceive a reduction in the competition from Germany (which 47% of the sample consider a major competitor, as against 51% in the previous Survey, maybe also because of the difficult cyclical situation of the German industry), from the Benelux countries (from 8 to 3% of the sample), from the United Kingdom (from 17 to 13%) and from extra-European countries other than the United States (from 41 to 39%). Conversely, competition from France (which a share passing from 30 to 34% of the sample consider a major competitor) and from European non-EU countries (from 6 to 10% of the sample) is increasing.

**Export prices compared to domestic prices
(balances of respondents)**



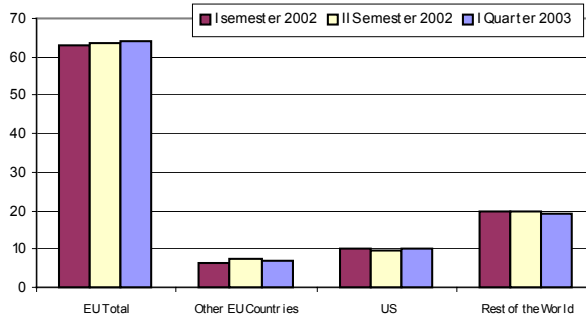
Fonte: ISAE

Obstacles to production



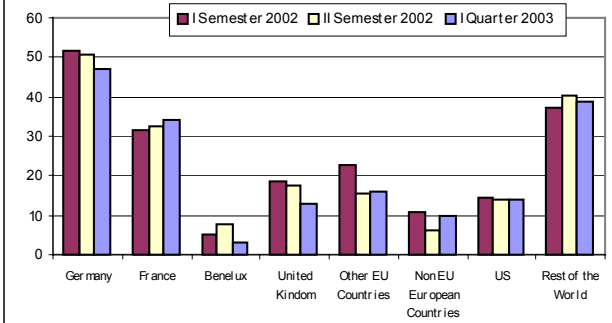
Fonte: ISAE

Distribution of exports by geographical destination



Fonte: ISAE

Countries which are perceived as major competitors



Fonte: ISAE