



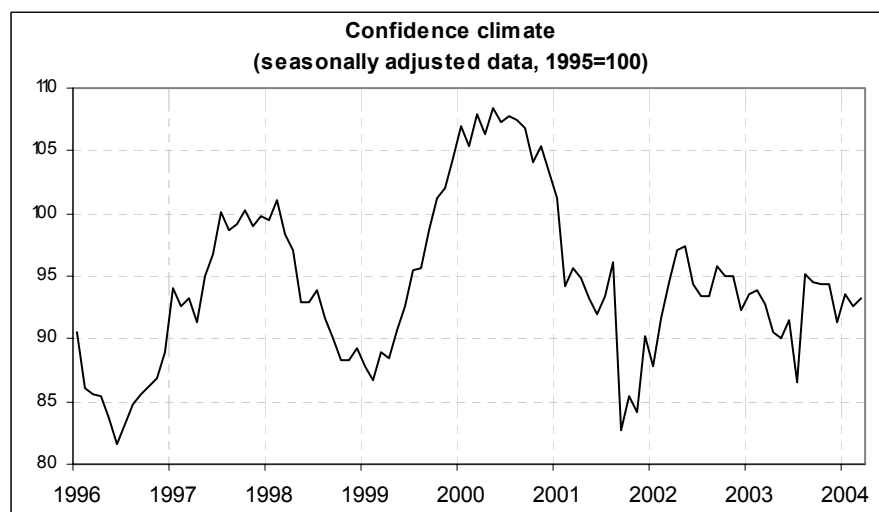
Date: **March 24, 2004**
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THE CONFIDENCE CLIMATE OF MANUFACTURING AND EXTRACTIVE FIRMS GROWS AGAIN IN MARCH

- The seasonally adjusted confidence climate of manufacturing and extractive firms rises from 92.6 to 93.3, close to the figures observed in January 2004
- The Survey was carried out between March 1 and 18, thus comprising the days of the Madrid terrorist attacks. On the basis of the available data, there is no substantial confidence gap between the period preceding the attacks and the immediate follow-up
- Expectations on the productive activity consolidate, while inventories are again below what are considered as "Normal" levels and assessments on the current order-book levels stabilise
- Among non confidence-building variables, short-term expectations on the order-book level improve, while those on the general economic prospects, on employment and on selling prices deteriorate
- Confidence considerably grows in intermediate goods, where the indicator passes from 91.8 to 94.2: the investment goods indicator goes from 90.8 to 91.2, while it remains substantially stable in consumer goods (with a slight contraction from 93.4 to 93.2)

SIGNALS OF EXPORT TURNOVER IMPROVEMENT EMERGE IN THE IQ 2004

- According to the results of the export Survey, the balances of assessments and forecasts on the export turnover improve in the IQ 2004
- However, according to the ISAE respondents, constraints to the export activity increase, probably due to the euro/dollar exchange rate appreciation compared to the previous year
- Among the main outlet countries of Italian exports, the role of the EU countries grows to the detriment of extra-European countries
- At the same time, Italian firms perceive a rise in the German and French firms' competition and a decrease in competition from other European countries and from the United States



Data referring to April shall be diffused on April 29, 2004

Next ISAE surveys are scheduled as follows:

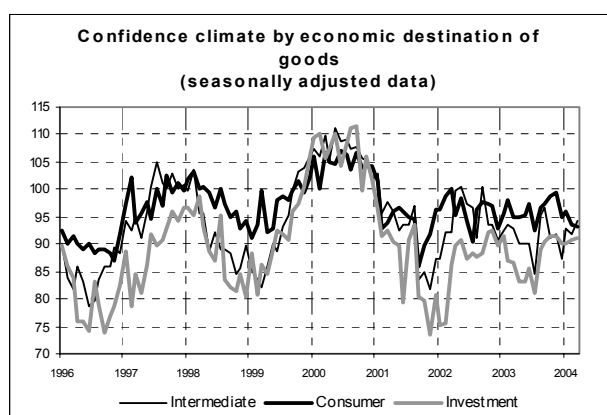
March 25, 2004: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: February) and ISAE Monthly Business Service Survey (Reference period: March)

March 31, 2004: 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 1 and 18 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) grows again in March, passing from 92.6 to 93.3, namely close to the figures observed in January 2004. The Survey comprises the days of the Madrid terrorist attacks: on the basis of the available data, there is no substantial confidence gap between the period preceding the attacks and the immediate follow-up¹. Expectations on the productive activity consolidate, while inventories are again below what are considered as "Normal" levels and assessments on the current order-book levels stabilise. Among non confidence-building variables, short-term expectations on the order-book level improve, while those on the general economic prospects, on employment and on selling prices deteriorate. Confidence considerably grows in intermediate goods, where the indicator passes from 91.8 to 94.2: the investment goods indicator goes from 90.8 to 91.2, while it remains substantially stable in consumer goods (with a slight contraction from 93.4 to 93.2).



¹ It is worth noticing that the ISAE sample reliability is not guaranteed while looking at infra-monthly data; in particular, in the first Survey days respondents are mainly small and medium-sized firms, while most large firms tend to respond in the last Surveys days.

Situation in the reference period (March 2004)

In March, the seasonally adjusted balance of assessments on order books equals -18 (as in February); the domestic component is stable (the balance equalling -19), while the foreign component slightly increases from -20 to -21 . Conversely, firms signal a production level contraction for the third month in a row (their seasonally adjusted balance passing from -16 to -19). Positive signals come from inventories, which are again below what are considered as "Normal" levels (the balance equalling -1 , from 1 in the previous Survey).

Indications on single sectors are not homogeneous: indeed, investment goods producers show a substantial stability in their assessments on the present order-book level, which is the outcome of a domestic demand recovery and of a negative foreign demand trend. Also assessments on production slightly improve and inventories remain below what are considered as "Normal" levels (though slightly increasing compared to February). Generally speaking, evaluations in consumer goods are less favourable, with a strong deterioration in assessments on production (from -12 to -18 in terms of balance) and a further growth in inventories (from 3 to 5). With reference to order books, the overall balance is substantially stable, but in this case the improvement comes from foreign demand (where the balance recovers from the strong contraction observed in the previous month, passing from -32 to -21 , that is close to the January figures). Finally, assessments on order books improve in intermediate goods (the overall balance passing from -20 to -18) and inventories fall again below what are considered as "Normal" levels (from 1 to -4), in the face of a substantial production stability (the balance decreasing from -20 in February to -21 in March).

Forecasts for the next quarter

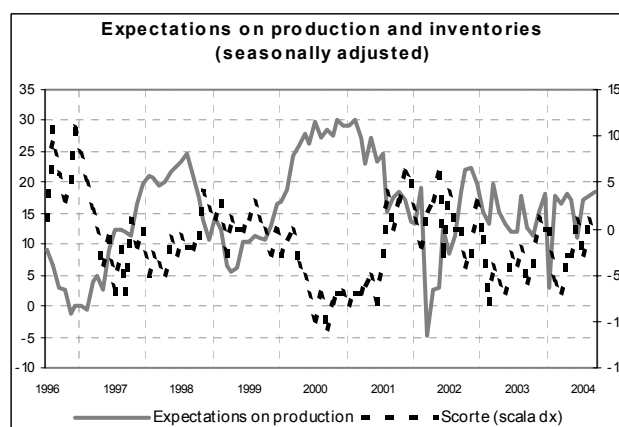
In March, the entrepreneurs' forecasts are rosier with reference to production and order books, while pessimism on the general economic trend, on employment and on prices is increasing.

The balances of expectations on production and order books equal 19 and 23 respectively (from 18 and 21), while those concerning the short-term economic prospects of Italy fall from -3 to -10, which is close to the July 2003 data. Also concerns on the employment trend grow (from -3 to -4 in terms of raw balances), as do those on prices, with a balance rising from 9 to 11, which is one of the highest figures ever reached since February 2003.

Looking at single sectors, investment goods producers and – to a lesser extent – intermediate goods producers express generally favourable expectations of their main firm variables, while expectations of consumer goods producers are substantially worsening. In investment goods, expectations on order books strongly improve (from 22 to 32 in terms of balance), as do those on production (from 21 to 25). Expectations on the employment trend are favourable again (from -2 to 5 in terms of balance). Indeed, price tensions are easing (from 6 to 5) and expectations on the general economic situation worsen from -2 to -7. In intermediate goods, expectations on order books and production improve (from 17 and 15 to 20 and 17 respectively), while those on employment (-3) and on the general economic prospects (-6) remain stable. However, the recent tensions on the international energy prices contribute to the leap forward in the balance of expected prices in the forthcoming months, passing from 3 to 10, which is close to the high figures of February 2003. Consumer goods producers' forecasts are less optimistic, as – in the face of substantially stable expectations on order books (at 24, as in February) and production (at 15, as in February) – they signal a further worsening in employment (the raw balance falling from -5 to -10) and in the general economic prospects (from 0 to -13). With regard to prices, the balance slightly reduces, passing from 18 to 16, which is however close to historically high levels.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Dec. 2003	91.4	-15	1	11
Jan. 2004	93.5	-18	-3	17
Feb. 2004	92.6	-18	1	18
March 2004	93.3	-18	1	19



The quarterly Survey on Exporting Firms

The quarterly Survey on Exporting Firms (concerning about half of ISAE respondents) show signals of recovery of Italian exports both in the present and in the next quarter. However, the share of firms perceiving strong constraints to their exports is growing.

Compared to the previous quarter, the balances concerning the current and expected trends of the export turnover improve (from 0 and 13 to 4 and 27 respectively); however, the number of firms feeling their exports are influenced by negative factors increases from 30 to 39%. Among the negative factors, the role of the high prices remains relevant while the weight of financial reasons and of “other reasons” (probably linked to the euro appreciation) grows. Conversely, concerns connected to the delivery delays are less important than in the previous Survey.

The Survey provides information on the main competitors for Italian firms on the international markets: in the IQ 2004 the share of firms signalling a strong competition coming from Germany (which is important for 52% of respondents as against 49% in the previous Survey) and from France (26% as against 24%) grows to the detriment of the Benelux countries (from 6 to 5%) and of the United Kingdom (from 18 to 16%). Besides, competition coming from countries other than the Western industrial economies (namely the European countries and the United States) decreases from 50 to 45%.

With reference to the export destination by geographical area, 66% of Italian exports (61% in the previous quarter) are aimed at EU countries, in particular Germany (19% of exports), France (16%) and the United Kingdom (9%). The share of the other EU countries grows from 16 to 18%, while – among the extra-European countries – the weight of the United States slightly decreases from 9 to 8%. Finally, the assessment of firms on the ratio between export prices and domestic prices increases and the balance grows from 1 to 3, which is however below the average values of 2003.

