



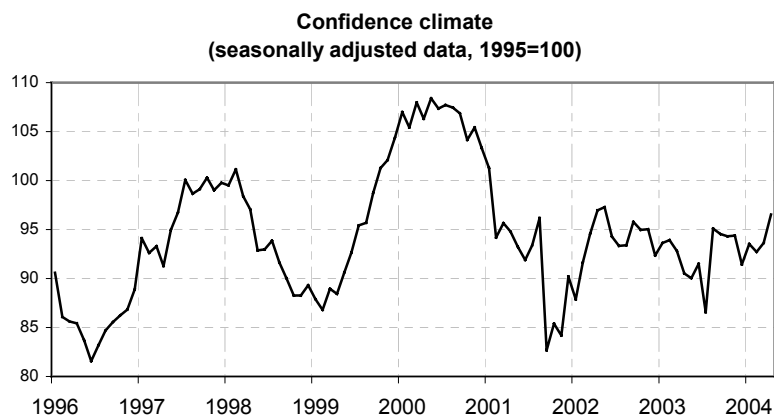
Date: April 29, 2004
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THE CONFIDENCE CLIMATE RECOVERY OF MANUFACTURING AND EXTRACTIVE FIRMS GROWS IN APRIL

- The seasonally adjusted confidence climate of manufacturing and extractive firms rises from 93.6 to 96.5, which is among the highest figures ever observed since May 2002
- Assessments on order books considerably recover, while expectations on a productive activity growth strengthen and the inventories' reduction goes on
- The order-book improvement is common to both domestic and foreign markets. Among non confidence-building variables, favourable expectations on the order-book level consolidate, while those on the general economic trend, on employment and prices remain negative
- The confidence improvement is particularly strong in consumer goods, where the index jumps from 93.5 to 101.8, which is close to the maximum levels ever registered since December 2000; the indicator also grows in intermediate goods (from 94.2 to 95.4), while it falls in investment goods (from 91.3 to 89.5)

THE TRADITIONAL QUARTERLY QUESTIONS ON THE FIRST QUARTER 2004 POINT TO SIGNALS OF RECOVERY ON THE DEMAND SIDE

- According to the ISAE respondents, the flow of new orders grows, expectations on the export trend improve in the next 3-4 months and the number of months of ensured production increases on the basis of the present order books
- Firms seem to respond to the higher demand by interrupting the tendency to reduce their working hours, though they are not yet able to increase their degree of industrial plant utilisation
- Finally, the number of firms perceiving the existence of constraints to their productive activity increases: among the reasons causing constraints, the influence of demand factors decreases, while the impact of "other reasons" – probably linked to the uncertain international situation – is spreading



Data referring to May shall be diffused on May 26, 2004.

Next ISAE surveys are scheduled as follows:

April 30, 2004: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: March) and ISAE Monthly Business Service Survey (Reference period: April)

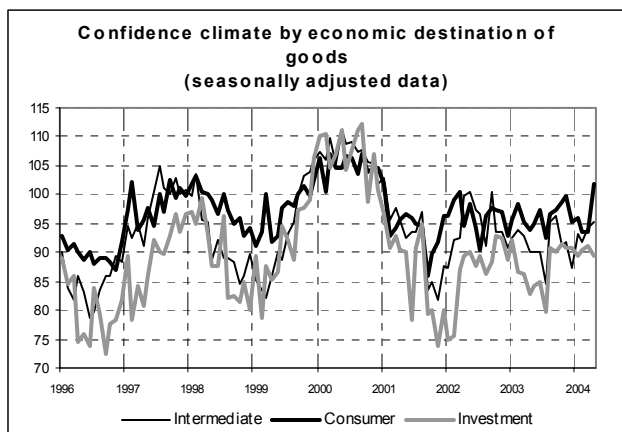
May 4, 2004: Comparative Business Surveys for Italy, Germany and France (Reference month: April)

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 April 1 and 23 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) grows in April for the second month in a row, from 93.6 to 96.5, which is among the highest figures ever observed since May 2002. The confidence improvement mirrors an improvement in all confidence-building variables. Indeed, assessments on order books considerably recover, while expectations on a productive activity growth strengthen and the inventories continue to diminish. The order-book improvement is common to both domestic and foreign markets. Among non confidence-building variables, favourable expectations on the order-book level consolidate, while those on the general economic trend, on employment and on prices remain negative. Turning to single sectors, the confidence improvement is particularly strong in consumer goods, where the index jumps from 93.5 to 101.8, which is close to the maximum levels ever registered since December 2000; the indicator also grows in intermediate goods (from 94.2 to 95.4), while it falls in investment goods (from 91.3 to 89.5).

The traditional quarterly questions on the first quarter 2004 point to signals of recovery on the demand side, which is however not accompanied by a rise in the degree of plant utilisation and by a fall in the constraints to the productive capacity utilisation.

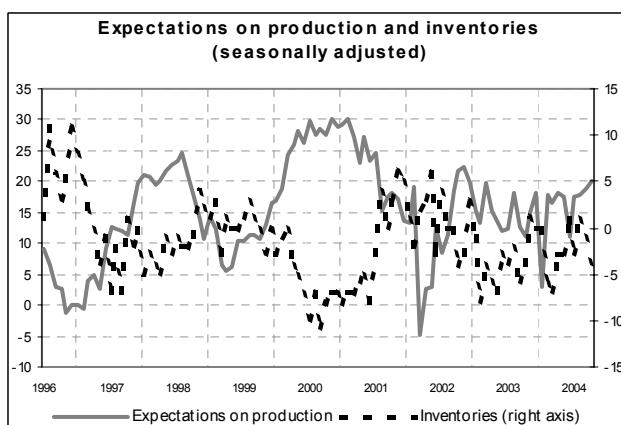
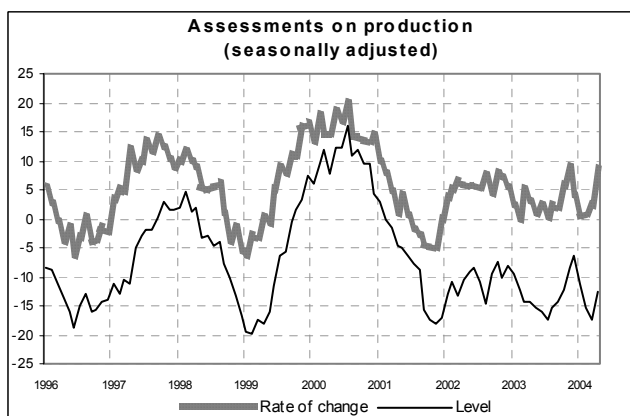
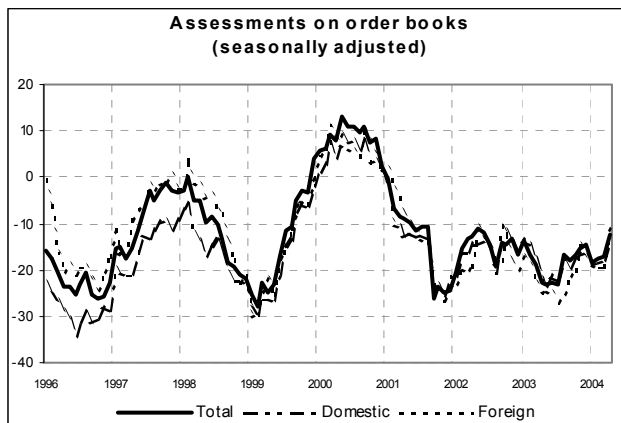


Situation in the reference period (April 2004)

In April, the seasonally adjusted balance of assessments on order books rises from -17 (which is the figure characterising the past two months) to -12 (which is the highest value ever reached since May 2002). The improvement concerns both the domestic (from -18 to -14 , in terms of balance) and the foreign demand (from -19 to -11). This last variable was probably positively affected by the partial recovery of the dollar/euro exchange rate observed in the early-2004. Indeed, firms also signal a productive level recovery for the first time in three months (the seasonally adjusted balance passing from -18 in March to -13 in April). Also assessments on the production variation are rosier than in March (the balance rising from 2 to 8). Finally, positive signals come from inventories, which remain well below what are considered as “Normal” levels (the balance decreasing from -1 to -4).

Indications on single sectors are not homogeneous: indeed, consumer goods show a remarkably favourable trend, while intermediate goods point to a moderately favourable one and instrumental goods still provide an uncertain trend. Turning to details, order-book assessments in consumer goods rise from -15 to -4 , passing from -16 to -10 on domestic markets and from -21 to -12 on foreign ones. The demand improvement goes alongside with rosier assessments on the level and rate of change of production (the balances of both variables rise from -17 and -6 to -8 and 11 respectively) and with inventories which are again below what are considered as “Normal” levels (the balance falling from 5 to -5). In intermediate goods, assessments on the order-good level recover from -18 to -16 in terms of balance (from -20 to -18 on domestic markets and from -15 to -7 on foreign ones), while evaluations on the level and rate of change of production improve from -21 and 4 to -14 and 8 respectively (always in terms of balance). Finally, inventories remain below what are considered as “Normal” levels for the second month in a row (-4 , as in March). Indeed, assessments of investment goods producers are slightly more cautious: order books and production levels are recovering compared to the previous months, as the balance on order books passes from -17 to -13 (rising from -15 to -11 on domestic markets and from

-20 to -8 on foreign ones), while the balance on production grows from -11 to -5. Evaluations on the short-term production dynamics stabilise (the balance equalling 8, as in March), while inventories get close to “Normal” levels (the balance rising from -7 to -1).



Forecasts for the next quarter

In April, the entrepreneurs’ forecasts are rosier with reference to production and order books, while those on the

general economic trend, on employment and on prices remain pessimistic.

The balances of expectations on production and order books equal 20 and 23 respectively (from 19 and 23), while those on employment remain negative, though slightly improving in terms of balance as against the March figures (from -4 to -3, in terms of raw balances given the short historical series available). Expectations on the short-term evolution of the general economic situation fall from -10 to -11 and the balance of selling prices stabilises on high figures (11), as it was affected by the strong price rises of raw materials on the international markets.

Looking at expectations in single sectors, consumer and intermediate goods producers are generally more optimistic than firms operating instrumental goods. In consumer goods, expectations on order books and production rise from 24 and 16 to 27 and 21 respectively (in terms of balance), while those on employment recover from -10 to -8. This rosier framework is also completed by the falling balance of selling prices (from 15 to 11), while the one on the general economic situation recovers from -12 to -9. In intermediate goods, a slight improvement is observed in expectations on production (from 17 to 19), which is accompanied by more caution on the expected order-book trend (the balance decreasing from 20 to 19) and by positive expectations (the balance passing from -3 to 1) on employment. Entrepreneurs operating in this sector expect further selling price rises (from 10 to 12) and continue to be cautious in their prospects on the general economic situation of Italy (which seem more negative now than in March, with a balance passing from -6 to -10). Finally, in investment goods – unlike what happens in all other sectors – expectations on order books and production are less rosier in April than they used to be in March: indeed, the balance on order books falls from 32 to 24 and the one on production decreases from 25 to 21. In keeping with those indications, firms operating in this sector are even more pessimistic in their forecasts on the employment level (the balance deteriorating from 5 to 1). Conversely, the picture of the general economic situation slightly improves (from -7 to -5) and price tensions intensify (from 5 to 8).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Jan. 2004	93.5	-18	-3	17
Feb. 2004	92.7	-17	1	18
Mar. 2004	93.6	-17	-1	19
Apr. 2004	96.5	-12	-4	20

The main quarterly Survey results

(First quarter 2004)

Traditional quarterly questions indicate that the ensured production length rises from 3.7 to 3.9 months, while the balance concerning the new order-book flow passes from 4 to 7 and the one on expected exports for the next quarter from 18 to 23, which is close to the maximum figures since the third quarter 2000. Inventories of raw materials and semi-finished products continue to thin out (from -3 to -4, in terms of balance) which is probably also affected by the already-quoted high prices of some raw materials on the foreign markets. This reason might even lead some entrepreneurs to postpone any purchases and resort to inventories as much as possible, pending new price reductions. In this phase, firms seem to react to a higher demand by no longer reducing their worked hours, though they are still unable to increase the degree of plant utilisation. Indeed, the balance concerning worked hours goes from -6 to 1 (thus being positive again for the first time since the second quarter 2002), while the degree of plant utilisation falls again from 76.8 to 75.8 (as in the third quarter 2003). In keeping with this last indication, also the share of firms considering their present production capacity more than sufficient grows from 29 to 32 in terms of balance. Firms also report a slight rise in the constraints to their production activity (37% of the sample as against 35% in the previous Survey). However, ISAE respondents feel the rising constraints depend neither on the lack of demand nor on greater difficulties in finding manpower, nor on stricter financial constraints: they feel the reason is to be found in increasing supply-side constraints (insufficient plants) and in “other reasons”, which might be connected to

the uncertainty characterising the international political framework.

