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MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: May 2003

- According to the ISAE Monthly Survey carried out between May 5 and 19, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls in May from 90.5 to 90. All in all, in the first five months of the year, the index shows slightly higher values compared to the low levels reached in December 2002
- Assessments on the current order-book level remain stable at the low values of April, while inventories, after 15 months, rise slightly above what are considered "Normal" levels, in the presence of stable production
- With regard to order books, favourable indications come from intermediate and, in particular, investment goods producers, while negative signals come from consumer goods. Assessments on production are improving in instrumental goods, while they are deteriorating in intermediate and consumer goods
- ISAE respondents are more optimistic on their own and on the general economic situation short-term prospects: expectations on order books and production rise again, while those on employment and, in particular, on the economic situation of the country are recovering, also in relation to the rapid conclusion of the war in Iraq
- Firms also signal an easing of inflationary tensions, probably influenced by the decreasing trends of raw materials prices on the international market
- Signals of inflationary tension easing and improved expectations on order books, on production and on the economic situation are homogeneously diffused in all sectors

Confidence climate
(seasonally adjusted data, 1995=100)



Next ISAE surveys are scheduled as follows:

May 29, 2003: ISAE Monthly Business Service Survey (Reference period: May) and ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: April)

June 3, 2003: Comparative Business Surveys for Italy, Germany and France (Reference month: May)

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 May 5 and 19 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls in May from 90.5 to 90. All in all, in the first five months of the year, the index shows slightly higher values compared to the low levels reached in December 2002.

Assessments on the current order-book level remain stable at the low values of April, while inventories, after 15 months, rise slightly above what are considered "Normal" levels, in the presence of stable production.

ISAE respondents are more optimistic on the short-term prospects of their firms and on the general economic situation: expectations on order books and production rise again, while those on employment and, in particular, on the economic situation of the country are recovering, also in relation to the rapid conclusion of the war in Iraq. Finally, firms signal a marked easing of inflationary tensions, probably influenced by the decreasing trends of raw materials prices on the international market.

Turning to single sectors, the confidence indicator rises in consumer (passing from 94.7 to 95.3) and in investment goods (from 83.1 to 83.6). For the intermediates, the indicator shows a slight contraction, going from 90.2 in April to 90.1 in May.

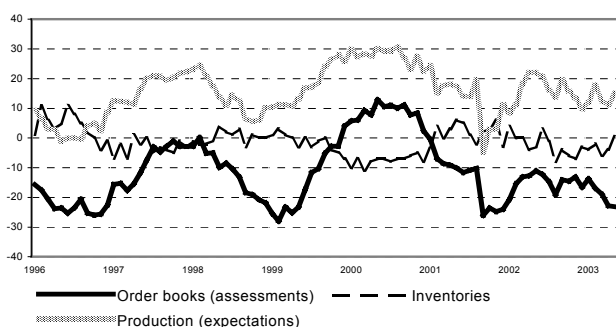
Situation in the reference period (May 2003)

In May, the order books of ISAE respondents remain stable at the low levels reached in April, while a contraction is signalled in assessments on the production trend, along side with a rise in inventories.

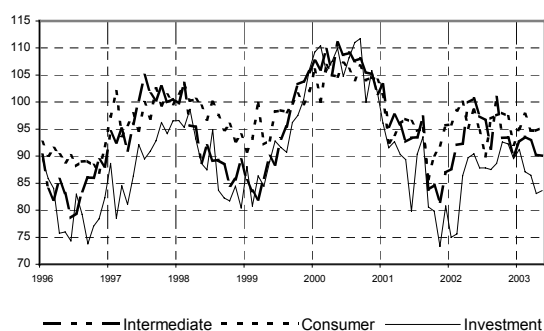
With regard to orders, the seasonally adjusted balance stops at -23 : orders fall on the domestic market (where the balance equals -24 as against -22 in April) and remain stable, in terms of balance, at -25 on foreign markets, thus being affected by the strong euro appreciation against the dollar. Firms also signal a slight production level contraction, its seasonally adjusted balance falling from -14 in April to -15 in May. Negative assessments on order books and production go alongside with a growth of inventories which, after 15 months, rise slightly above what are considered "Normal" levels, going from -4 to 1 .

With regard to order books, favourable indications come from intermediate (the balance going from -26 in April to -23 in May) and, in particular, from investment goods (from -20 to -16), while consumer goods producers are pessimistic (the balance going from -20 to -25). Assessments on production are improving in instrumental goods (from -15 to -14), while they worsen in consumer and intermediate goods (from -11 to -15 and from -15 to -17 respectively). Inventories remain below what are considered "Normal" levels only in consumer goods (the balance passing from -6 to -7), while they grow both in investment (from -5 to 3) and in intermediate goods (from -1 to 4).

Assessments on order books, expectations on production and inventories (seasonally adjusted data)



Confidence climate by economic destination of goods (seasonally adjusted data)



Forecasts for the next quarter

In May, expectations on the firm variables (order books and production) considerably improve, as do those on the general economic prospects, within a framework characterised by decreasing expectations on selling prices.

Expectations on production become rosier (the seasonally adjusted balance rising from 11 to 15), while those on the order-book trend for the next quarter become even more favourable (the balance going from 16 to 21, which is the same figure of February 2003). The 74% of ISAE respondents (75% in April) continue to expect a substantial employment stability for the next quarter, while the share of firms expecting a rise slightly increases, the balance growing from -5 to -4. With regard to selling prices, firms expect a deceleration in the next few months: the seasonally adjusted balance goes from 8 in April to 5 in May. Conversely, the prospects of the country's general economic situation - though remaining negative - are clearly recovering: the balance rises from -17 to -10 and it gets closer to the early-2003 levels, probably also influenced by the end of the war in Iraq.

Turning to single sectors, expectations on order books are improving in investment and intermediate goods (the balances going from 9 to 18 and from 15 to 21 respectively), while in consumer goods the balance remains stable at 21. A considerable optimism regarding expectations on production is emerging in all sectors, slightly less for intermediate goods (the balance going from 14 to 17). The improvement in expectations on employment is particularly marked in investment goods: most respondents (78% of firms, as against 83% in April) still expects a substantial stability of the labour market conditions, though the share of those expecting an employment rise in the next quarter in their own firms is growing. The balance slightly rises also in intermediate goods (from -6 to -5), while it slightly worsens in consumer goods (from -7 to -8). Finally, prices are expected to diminish in investment goods (the balance going from -2 to -4). Signals of an inflationary tension easing also come from consumer and intermediate goods, probably in relation to the decreasing trend of raw materials prices and to the euro appreciation.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Feb. 2003	93.8	-17	-2	18
Mar. 2003	92.7	-19	-6	13
Apr. 2003	90.5	-23	-4	11
May 2003	90.0	-23	1	15