

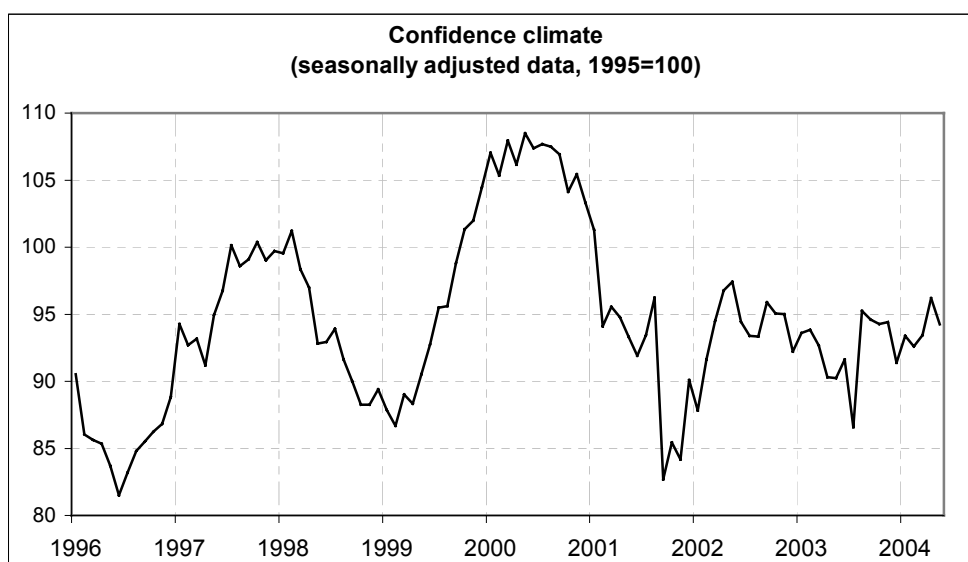


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THE CONFIDENCE CLIMATE OF MANUFACTURING AND EXTRACTIVE FIRMS FALLS IN MAY, THUS ERODING PART OF THE STRONG APRIL RECOVERY

- In May, the seasonally adjusted confidence climate of manufacturing and extractive firms falls from 96.2 to 94.2, which is above the average values of the first quarter
- Looking at single sectors, after the strong April upturn, the confidence indicator of consumer goods producers falls by more than three percentage points (passing from 102.2 to 98.9), thus remaining above the early-2004 figures. The index falls from 95.1 to 92.5 also in intermediate goods. Positive indications come from investment goods, where confidence goes from 89.7 to 91.7, which is one of the highest figures ever registered since November 2002
- Looking at confidence-building variables, assessments on the present order-book level diminish again and reach the March data, while short-term expectations on production decrease as well, though remaining on historically high levels. Finally the inventories' reduction goes on
- The order-book deterioration concerns the domestic market alone: assessments on the foreign market stabilise on the April values. Among the non confidence-building variables, expectations on order books and employment deteriorate, while those on the general economic trend and on prices slightly improve



Data referring to June shall be diffused on **June 24, 2004**.

Next ISAE surveys are scheduled as follows:

May 28, 2004: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: April) and ISAE Monthly Business Service Survey (Reference period: May)

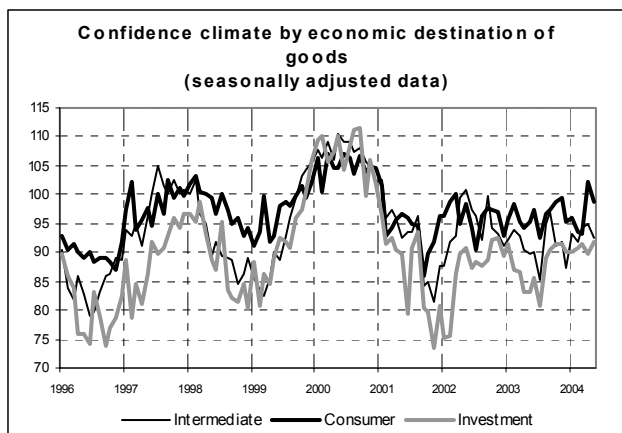
June 1, 2004: Comparative Business Surveys for Italy, Germany and France (Reference month: May)

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 3 and 20 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls in May from 96.2 to 94.2, thus eroding part of the April recovery and remaining above the average figures of the first quarter. The contraction is due to worsening assessments on the present order-book level and to decreasing short-term expectations on production, while the inventories' reduction goes on. The order-book deterioration concerns the domestic market alone: assessments on the foreign market stabilise on the April values. Among non confidence-building variables, expectations on order books and employment deteriorate, while those on the general economic trend and on prices slightly improve.

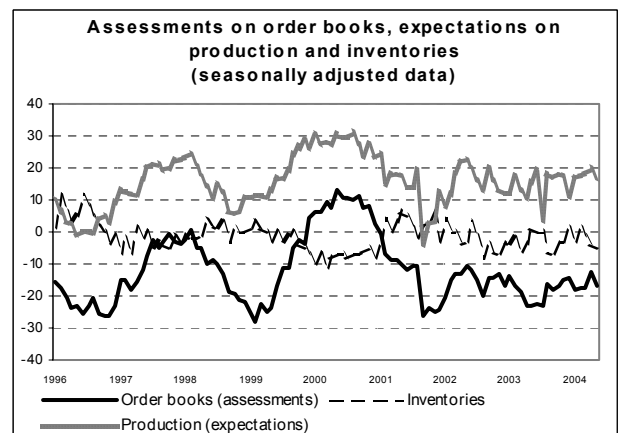
Looking at single sectors, after the strong April upturn, confidence of consumer goods producers falls by more than three percentage points (passing from 102.2 to 98.9). In this case too, the contraction partially erodes the strong April upturn, though the index remains above the early-2004 levels. The index falls from 95.1 to 92.5 in intermediate goods, while favourable signals come from investment goods, where confidence goes from 89.7 to 91.7, which is close to the maximum figures ever registered since November 2002.



Situation in the reference period (May 2004)

In May, the seasonally adjusted balance of assessments on order books decreases from -17 to -13 , which is similar to the March 2004 figures. The contraction only concerns assessments on domestic orders, passing from -15 to -17 , while those on foreign markets stabilise at -11 . Indeed, firms also signal a new productive level deterioration: the seasonally adjusted balance passing from -13 in April to -15 in May. Also assessments on the production variation are less rosy than in April (the balance decreasing from 8 to 5). Finally, positive signals come from inventories, as the ongoing reduction is continuing (the balance diminishing from -4 to -5).

Indications on single sectors are not homogeneous: indeed, in consumer goods – which registered a strong improvement in all the main firm variables in the previous Survey – the balance on order books falls from -4 to -17 , thus going below the March 2004 figure, owing to a deterioration of both domestic (from -10 to -13) and foreign order books (from -12 to -16). The demand worsening goes alongside with less favourable assessments on the level and current variation of production (the balance of both variables diminish from -8 and 11 to -14 and 3 respectively). Indeed, finished products inventories continue to decrease and the balance goes from -6 to -12 .



In intermediate goods, assessments on order books decrease from -17 to -20 in terms of balance (from -18 to -22 on the domestic market and from -7 to -11 on the foreign one), while evaluations on the production level and variation equal -18 and 0 respectively (in terms of balances) from -14 and 6 of the previous month. Finally, inventories remain below what are considered as “Normal” levels for the third month in a row (from -4 to -2, which marks a slight growth). Investment goods producers’ assessments run counter the evaluations expressed in consumer and intermediate goods. Indeed, order books are considered as recovering compared to the past months and balances rise from -13 to -8 (for total order books) and from -11 to -10 (domestic market) and from -7 to -5 (foreign market). Assessments on the current production level grow as well from -5 to -3, while those on the production level variation slightly fall from 8 to 6. Inventories remain below what are considered as “Normal” levels for the ninth month in a row (the balance going from -1 to -2).

Forecasts for the next quarter

In May, the entrepreneurs’ favourable forecasts on production and order books slightly worsen, while those on the employment trend (raw data) definitely decrease. Conversely, the approach to the general economic situation is slightly less dark and a partial inflationary tension easing is emerging.

The balances of expectations on order books and production equal 21 and 17 respectively (from 23 and 20), while those on employment considerably fall from -3 in April to -8 in May (raw data given the short historical series available). Expectations on the short-term evolution of the general economic situation mark a modest recovery from -11 to -9, while the balance of selling price expectations slightly falls compared to April (from 11 to 10).

In consumer goods, expectations on order books and production fall from 26 and 21 to 25 and 18 respectively (seasonally adjusted balances), while those on employment decrease from -8 to -12. The darker picture compared to the previous months is completed by inflationary tensions

(the balance passing from 11 to 14), while forecasts on the general economic trend are worsening (from -9 to -12). In intermediate goods, a slight improvement (from 19 to 21) in expectations on order books is accompanied by caution on the expected production trend (the balance diminishing from 19 to 15) and, particularly, on employment (from 1 to -9). Entrepreneurs in this sector are still expecting selling price rises (the balance passing from 12 to 10) and are relatively less pessimistic than in April on the prospects of the general economic trend (the balance rising from -10 to -5). Finally, in investment goods, the balance of order books falls from 23 to 16, while the one on production remains almost stable compared to April (from 21 to 22). Employment expectations remain positive - unlike what happens in other sectors (the balance equalling 1) -, expectations on the general economic situation are stable (the balance being worth -5) and, finally, those on prices point to more fears for new inflationary tensions for the next few months (the balance growing from 8 to 12).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Feb. 2004	92.6	-17	1	18
March 2004	93.4	-17	-1	18
April 2004	96.2	-13	-4	20
May 2004	94.2	-17	-5	17