



ISTITUTO DI STUDI E ANALISI ECONOMICA  
Piazza dell'Indipendenza, 4 00185 Roma tel.: + 39-0644482.1 fax: + 39-0644482325

Date: June 25, 2003  
TEL.: 06/444821

## MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

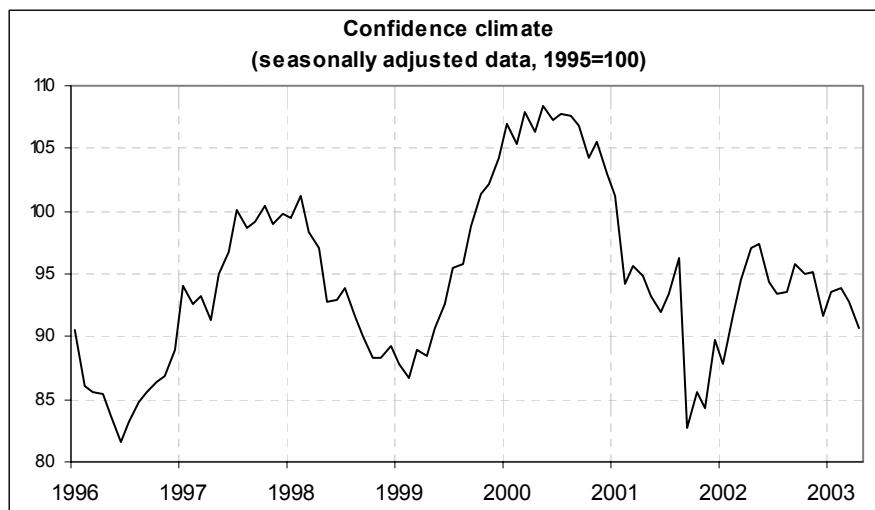
Reference period: June 2003

- According to the ISAE Monthly Survey carried out between June 4 and 18, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) grows again in June after three contractions in a row, passing from 90.3 to 91.6
- The improvement is observed in particular in short-term expectations on production, which reach higher levels than those registered in September 2002. Indeed, opinions on the current order-book level stabilise for the third month in a row and inventories reach again what are considered "Normal" levels, after the slight accumulation of May
- Unlike what emerged in the ISAE Consumer Survey of June 24, firms' expectations on the general economic situation worsen again, as do those on order books, within a framework characterised by a further slight reduction of inflationary expectations
- The confidence growth is diffused in all the main productive sectors: the investment goods index passes from 83.5 in May to 85.7 in June, the one concerning intermediate goods from 90.1 to 90.3 and the one referring to consumer goods goes from 95.5 to 97.6

## QUARTERLY SURVEY ON EXPORTING FIRMS

Reference period: II quarter 2003

- In the II quarter 2003, the euro appreciation against the dollar and the still uncertain short-term recovery of the international economy have a negative impact on the opinions and in particular on the forecasts of ISAE respondents on exports
- This goes alongside with a growing number of entrepreneurs feeling that the United States are the main competitor of Italian goods on the international markets



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

Next ISAE surveys are scheduled as follows:

**June 26, 2003:** ISAE Monthly Business Service Survey (Reference period: June) and ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: May)

**June 30, 2003:** Comparative Business Surveys for Italy, Germany and France (Reference month: June)

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

## General Results

According to the ISAE Monthly Survey carried out between June 4 and 18, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) grows again in June after three contractions in a row, passing from 90.3 to 91.6.

The improvement is observed in particular in short-term expectations on production, which reach higher levels than those registered in September 2002. Indeed, opinions on the current order-book level stabilise for the third month in a row and inventories reach again what are considered "Normal" levels, after the slight accumulation of May.

Unlike what emerged in the ISAE Consumer Survey of June 24, firms' expectations on the general economic situation worsen again, as do those on order books, within a framework characterised by a further slight reduction of inflationary expectations.

The confidence growth is diffused in all the main productive sectors: the investment goods index passes from 83.5 in May to 85.7 in June, the one concerning intermediate goods from 90.1 to 90.3 and the one referring to consumer goods goes from 95.5 to 97.6.

### Situation in the reference period (June 2003)

In June, ISAE respondents' order books remain stable on the low figures registered in the previous months. Indeed, another slight contraction is registered in assessments on the production trend, while inventories reach again what are considered "Normal" levels.

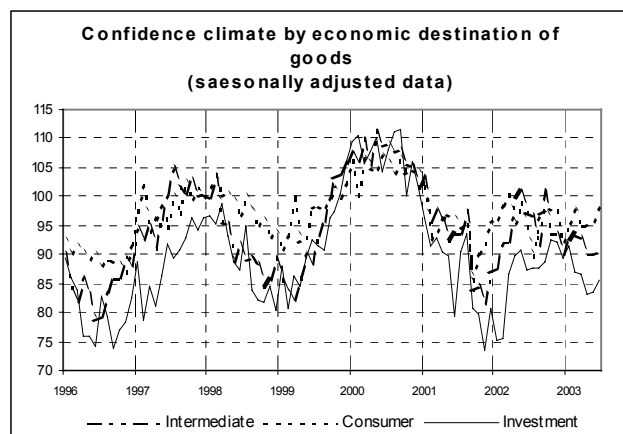
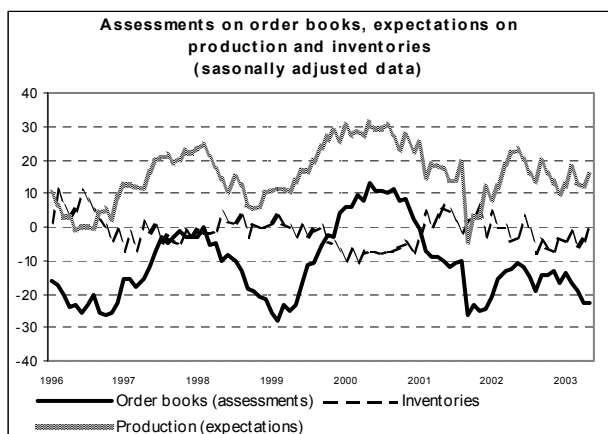
With reference to order books, the seasonally adjusted balance stops at  $-23$ , which stems from a slight improvement in domestic markets (the balance rising from  $-23$  to  $-22$ ) and a substantial stability in foreign markets (the balance equalling  $-25$ ). However, firms signal a small production level contraction (the seasonally adjusted balance decreasing from  $-15$  to  $-16$ ).

Turning to single sectors, signals of recovery emerge from consumer goods orders (from  $-25$  to  $-20$ ), while the balance concerning intermediate goods stabilises at  $-23$  and the one referring to investment goods continues to decrease (from  $-18$  to  $-24$ , which is close to the levels reached in early-2002). Signals of recovery on consumer goods also come from assessments on the current production level, (the balance grows from  $-14$  in May to  $-10$  in June), while indications coming from intermediate goods and, in particular, from investment goods worsen (the balances passing from  $-17$  to  $-20$  and from  $-14$  to  $-22$  respectively).

Finally, with regard to inventories, a further reduction is signalled in consumer goods (from  $-7$  to  $-8$ ), while the balance passes from  $4$  to  $1$  in intermediate goods and remains stable at  $3$  in investment goods.

### Forecasts for the next quarter

In June, ISAE respondents are generally more optimistic on the production trend, even though concerns on order books, employment and on the general Italian economy grow again within a framework where selling prices are expected



to diminish.

The balance of expectations on production rises from 16 in May to 19 in June, which is close to the maximum level of September 2002; conversely, expectations on order books in the next quarter fall from 21 to 19, which is however still above the average levels of the first five months of 2003. The share of entrepreneurs expecting a substantial employment stability rises from 74 to 76%, while the number of those forecasting an employment growth slightly decreases (the balance falling from -4 to -5). With reference to selling prices, firms expect a price dynamics reduction in the next few months: the balance (seasonally adjusted figures) diminishes from 5 to 4. Expectations on the general economic situation worsen again after the signals of recovery registered in May and the balance goes from -10 to -12, which confirms that the uncertainty characterising the present phase is going on.

Turning to single sectors, expectations on production are improving only in equipment and machinery (the balance rising from 9 to 22), while consumer goods remain unchanged (20) and expectations worsen in intermediate goods (from 16 to 14). Investment goods show a considerable optimism in order-book prospects (the balance passing from 18 to 23). However, with reference to consumer goods, particularly to intermediate goods, a worsening is emerging (the balances passing from 20 to 18 and from 21 to 15 respectively).

The slight deterioration of employment expectations affects investment and consumer goods sectors: in the former case, the share of those expecting a substantial labour market stability diminishes (from 78 to 77%), whereas the number of those expecting an employment reduction in their firms in the next quarter rises from 8 to 9%. In the latter case, the balance slightly decreases (from -8 to -9) owing to a rise in the percentage of those expecting an employment level reduction. In intermediate goods alone, the balance recovers from -5 to -4.

Finally, prices are expected to decrease in consumer goods (from 14 to 10) and in intermediate goods (from 4 to 2), while completely different signals come from equipment and machinery (from -4 to 5).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Mar. 2003	92.8	-19	-6	13
Apr. 2003	90.7	-23	-4	12
May 2003	90.3	-23	1	16
June 2003	91.6	-23	0	19

### The Quarterly Survey on Exporting Firms

In the II quarter 2003, the euro appreciation against the dollar and the still uncertain short-term recovery of the international economy have a negative impact both on the forecasts and opinions of ISAE respondents on exports.

According to the ISAE Quarterly Survey on Exporting Firms (which is about half of the ISAE monthly sample), the balance concerning the current turnover trend of exports deteriorates in the II quarter 2003 as against the previous quarter (from 4 to 2), while the fall in expectations for the III quarter is even worse and the balance decreases from 20 to 8, which is a minimum figure since the II quarter 2001.

This goes alongside with a substantial stability (33%, which is historically a high level) of the share of respondents deeming their exports are affected by negative factors. In particular, among these factors, the item "other reasons" considerably increases (from 65 to 76%), which is probably linked to the euro-dollar exchange rate.

The euro appreciation also leads to a rise from 14 to 22% of the share of respondents deeming the United States are their major competitor on the international markets. Indeed, also competition from Germany is growing (51% of the sample consider Germany a strong competitor, as against 47% in the previous quarter) to the detriment of France (the share of respondents identifying France as the main Italian competitor decreases from 34 to 32%).

With regard to data broken down by geographical area, 62% of exports (64% in the I quarter 2003) is aimed at EU countries, particularly Germany (18% of exports), France (14%) and the United Kingdom (8%). Among extra-

European countries, the main role is played by the United States (absorbing 10% of Italian exports). Finally a decrease is signalled in extra-EU countries (from 7 to 6) to the benefit of extra-European countries other than the United States (from 19 to 22).

