



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

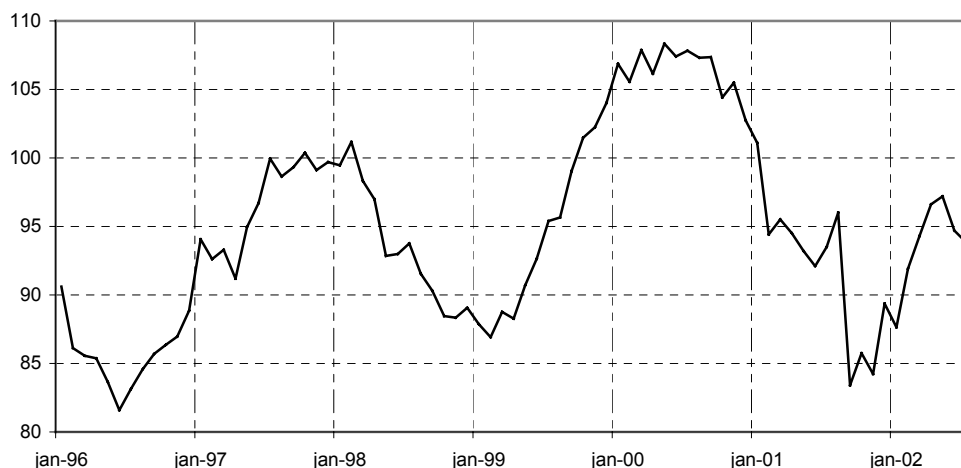
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TEL.: 06/44482710

MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: July 2002

- According to the ISAE Monthly Survey carried out between July 4 and 18, the seasonally adjusted confidence indicator of Italian manufacturing and extractive business firms decreases from 94.7 in June to 93.9 in July. The confidence in consumer and intermediate goods worsens, while the climate pervading investment goods is improving
- Among the indicator-building series, negative indications come from assessments on the present order-book level and from short-term expectations on production. Quite the reverse, finished products inventories are below what are considered "Normal" levels
- Italian entrepreneurs are much more optimistic compared to the past in their short-term prospects for the Italian economy (which are however not part of indicator building series) within a framework characterised by a strong easing of inflationary tensions.
- According to the results of the traditional quarterly Survey, the degree of plant utilisation slightly rises in the second quarter, thus reaching the levels of one year ago. The productive activity however is hampered by insufficient demand. In particular, short-term expectations on exports are decreasing, mainly because of the euro appreciation and of uncertainties on the world demand recovery

Confidence climate
(seasonally adjusted data, indices 1995=100)



The present survey provides assessments and forecasts on the trends of the main firm variables, namely production, order books and selling prices, for which the ISAE qualitative data anticipate by months the official ISTAT data.

Data referring to August shall be diffused on **September 6, 2002**.

Next ISAE surveys are scheduled as follows:

July 31, 2002: Comparative Business Surveys for Italy, Germany and France

The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see website www.isae.it)

General Results.

The Survey carried out by ISAE between July 4 and 18 on a sample of about 4,000 manufacturing and extractive firms shows that in July the seasonally adjusted confidence climate decreases from 94.7 in June to 93.9.

Confidence slightly diminishes in intermediate goods and, more markedly, in consumer goods, while more optimism comes from investment goods producers, who signal - for the fourth month in a row - an order-book recovery and a new strong decumulation of finished products inventories.

Among the indicator-building series, negative assessments are expressed on the present order-book level and on short-term expectations on production. Conversely, finished products inventories - generally considered a good leading indicator of industrial activity - are again below what are considered "Normal" levels.

Finally, respondents are more optimistic on macroeconomic prospects: short-term expectations on the overall economic situation are improving and expectations on inflation are strongly decreasing, in keeping with what emerged on the basis of the Monthly ISAE Consumer Survey of July.

Situation in the reference period (July 2002)

ISAE respondents indicate that their July order books are worsening again, mainly because of a domestic demand deterioration: the seasonally adjusted balance decreases from -12 in June to -14 in July, with a fall from -13 to -16 on domestic markets and a substantial stability on foreign markets (the seasonally adjusted balance equals -13, as in the previous month). Firms also signal a production level contraction (the seasonally adjusted balance decreasing from -8 to -10). Favourable signals come from finished goods inventories, which are again below what are considered "Normal" levels (their seasonally adjusted balance strongly falling from +3 in June to -1 in July).

Order books continue to improve for investment goods (their seasonally adjusted balance going from -13 and -9, which is the highest figure since March 2001). Intermediate goods producers and, particularly, consumer goods producers signal however a demand contraction, as

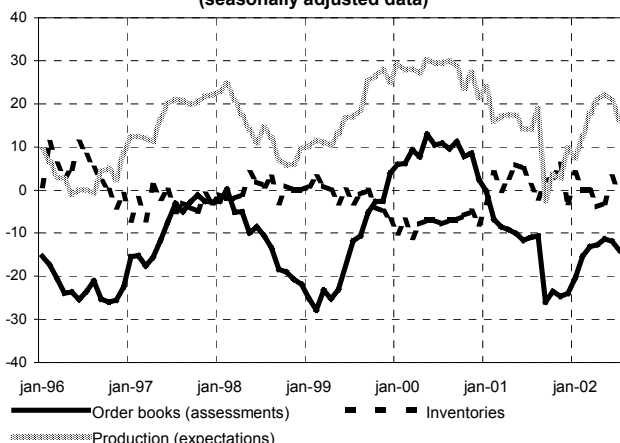
their seasonally adjusted balances go from -10 to -13 and from -12 to -22 respectively. Decumulation of finished goods inventories concerns investment and intermediate goods producers (their seasonally adjusted balances decreasing from +5 to -5 and from -3 to -9 respectively), while consumer goods stocks continue to grow (the seasonally adjusted balance going from +9 to +11).

Forecasts for the next quarter

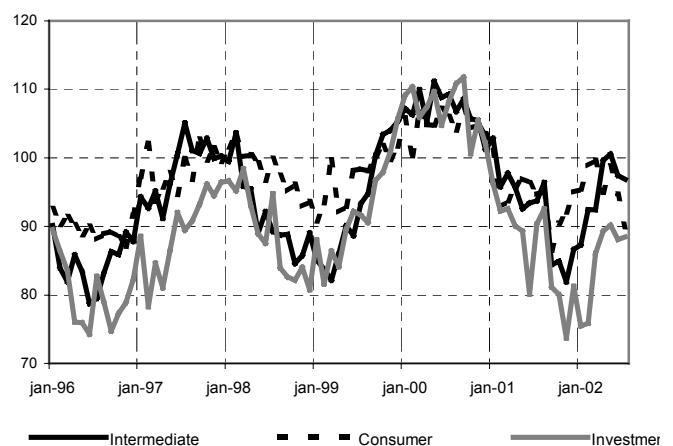
In July ISAE respondents are more pessimistic on the short-term trend of demand and production, but show more confidence in the short-term prospects of the Italian economy in a framework characterised by a further price tension easing. The seasonally adjusted balance of short-term expectations on order books and production decreases from +22 and +21 to +19 and +16 respectively. The production fall is homogeneously diffused in all major sectors. With regard to order books, negative indications come from intermediate and investment goods producers (their balances going from 20 and 24 to 15 and 21 respectively). Conversely, in consumer goods, demand expectations grow again for the first time since last quarter: their balance reaching +22 from +21 in June.

Entrepreneurs are considerably more optimistic on the prospects of the Italian economy for the next quarter: after the contraction registered in the past two months, the seasonally adjusted balance rises to 7 (0 in June), thus getting close to the April level. In particular, expectations of consumer goods producers improve: their seasonally adjusted balance passing from -3 in June to 8 in July. Short-term expectations on the Italian economic trend remain stable in intermediate goods (their seasonally adjusted balance remaining at 4), while those of investment goods slightly deteriorate (the seasonally adjusted balance passing from +1 to -1). Finally, inflationary tensions strongly diminish: their seasonally adjusted balance falling from 10 (last two months) to 5. Indeed, that fall is homogeneously distributed.

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



Confidence climate by economic destination of goods (seasonally adjusted data; indices 1995=100)



Manufacturing firms' confidence climate and balances of indicator-building series
(seasonally adjusted balances)

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Feb. 2002	91,9	-15	0	12
Mar. 2002	94,3	-13	0	17
Apr. 2002	96,6	-12	-4	20
May. 2002	97,2	-11	-3	22
June 2002	94,7	-11	3	20
July 2002	93,9	-14	-1	16

The main quarterly Survey results
(II quarter 2002)

According to the quarterly Survey results, in the II quarter 2002 the degree of plant utilisation is substantially stable compared to the I quarter, equalling 77.8% (77.7% in I quarter). The plant utilisation in intermediate goods producers (which is often leading indicator of the general trend of the Italian industrial sector) passes from 76.2 to 78.3%, while it decreases for final goods producers, both consumer goods (from 78.9 to 76.6%) and for investment goods (from 79.1 to 77.4%). Partially opposing signals come from data on the ensured production and on worked hours: the ensure production length on the basis of the present order books continues to grow (now it is 4.3 months, while it was 4 in the previous quarter), while worked hours diminish (their balance decreasing from 10 in the I quarter to 4 in the II, which is close to late-2001 levels). Inventories of raw materials and semi-finished products are mainly considered "Adequate" to needs.

Prospects for the next months remain generally favourable, though signals of weakness are emerging on the foreign demand side, probably linked to the currency appreciation phase. Indeed, firms expecting an order-book growth are more numerous than those expecting an order-book contraction (their balance equalling +4). The balance concerning expectations on exports - though remaining positive - brusquely falls from +19 to +8: the contraction mainly concern producers of investment goods (from 31 to 4) and of intermediate goods (from 20 to 5).

The productive activity is at least partially obstructed by the hardly satisfactory final demand trend: the share of firms declaring their productive activity found no considerable obstacles in II quarter 2002 (from 69 to 70% of respondents) is substantially stable, while the number of those deeming insufficient demand a major obstacle for their productive plans is growing.

Finally, negative signals emerge with regard to labour market: the number of those expecting an employment rise in the next 3-4 months is exceeded again by those expecting an employment reduction (the balance passing from 3 to -4), being negative again for the first time since III quarter 2001. In this case too, pessimism is mainly spread among intermediate and investment goods producers (their balances passing from 9 to -3 and from 5 to -2 respectively).

