



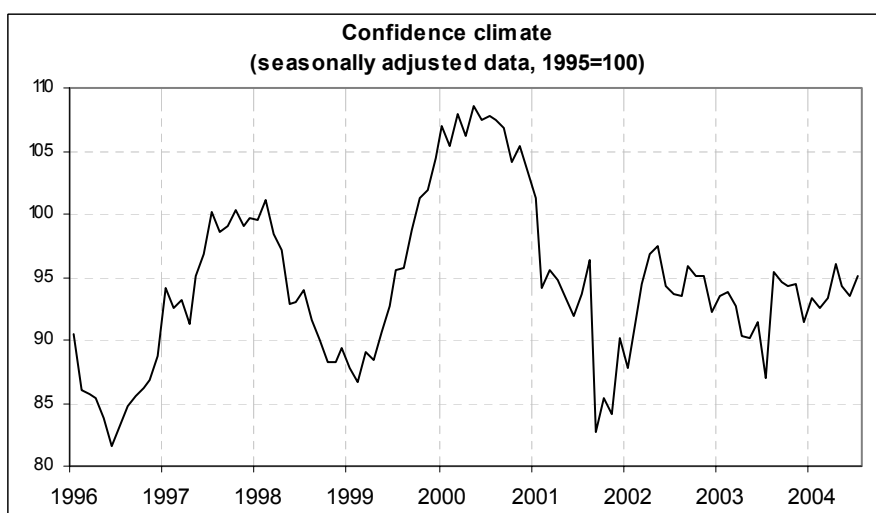
Date: July 27, 2004
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CONFIDENCE OF MANUFACTURING FIRMS GROWS IN JULY

- In July, the seasonally adjusted confidence climate rises from 93.5 to 95, which is above the average figures of the IIQ 2004
- The recovery of assessments on order books intensifies and inventories are again below what are considered as “normal” levels. Conversely, expectations on production decrease, though remaining positive: perhaps they are negatively affected by the hypothesis of a gradual international recovery slowdown in the second half of the year and by the uncertainty characterising the domestic situation
- The order-book growth – which so far mainly concerned the foreign component - is spreading on the domestic market as well. Among non confidence-building variables, signals of uncertainty come from expectations on order books, from employment and from the country’s general economic prospects
- The confidence improvement is very strong in investment and in intermediate goods: the indexes pass from 95.2 and 89.5 to 97.2 (close to the maximum values since December 2001) and 94 (the highest figure since April) respectively. In consumer goods, the index falls from 98 to 95.1, thus losing part of the gain obtained in the past quarter

THE DEGREE OF PLANT UTILISATION GROWS AGAIN IN THE IIQ 2004

- The degree of plant utilisation grows from 75.9 to 76.6 in the IIQ 2004 (seasonally adjusted data) and, at the same time, the share of those considering their productive capacity as “insufficient” rises
- Favourable signals also come from data on the number of worked hours, on new order books, on the months of ensured production and on obstacles to the productive capacity
- Quite the reverse, the optimistic short-term prospects of exports worsen, probably in connection with the new euro strength and with the doubts on the international recovery



Data referring to August shall be diffused on September 8, 2004.

Next ISAE surveys are scheduled as follows:

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

August 2, 2004: Comparative Business Surveys for Italy, Germany and France (Reference month: July)

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

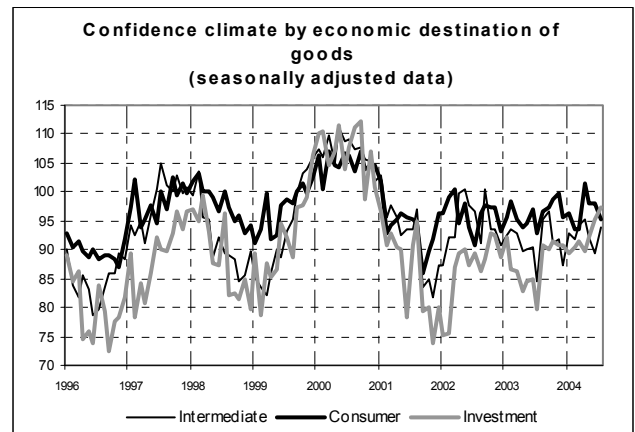
General Results

According to the ISAE Monthly Survey carried out between July 5 and 20 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) grows again in July, passing from 93.5 to 95, which is above the average figures of the IIQ 2004. The confidence improvement is very strong in investment and in intermediate goods: the indexes pass from 95.2 and 89.5 to 97.2 (close to the maximum values since December 2001) and 94 (the highest figure since April) respectively. In consumer goods, the index falls from 98 to 95.1, thus losing part of the gain obtained in the past quarter.

Among confidence-building variables, the recovery of assessments on order books intensifies and inventories are again below what are considered as “normal” levels. Conversely, expectations on production decrease, though remaining positive: perhaps they are negatively affected by the hypothesis of a gradual international recovery slowdown in the second half of the year and by the uncertainty characterising the domestic situation.

The order-book growth – which so far mainly concerned the foreign component - is spreading on the domestic market as well. Among non confidence-building variables, signals of uncertainty come expectations on order books, from employment and from the country's general economic prospects.

On the basis of the usual quarterly questions, the degree of plant utilisation grows in the IIQ 2004 and attains the highest figures ever registered since the IQ 2003. At the same time, the share of firms considering their productive capacity as “insufficient” rises. Favourable signals also come from data on the number of worked hours, on new order books, on the months of ensured production and on obstacles to the productive capacity.

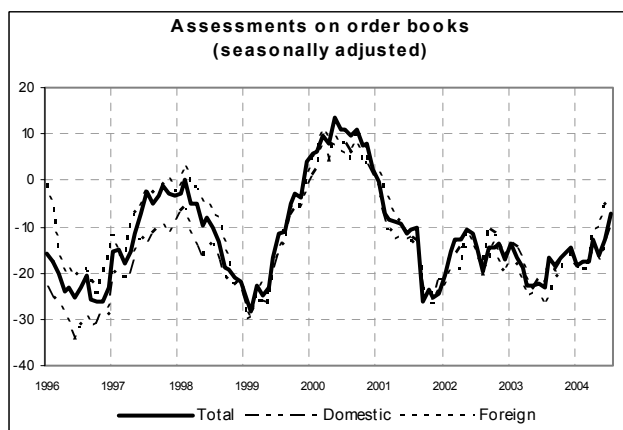
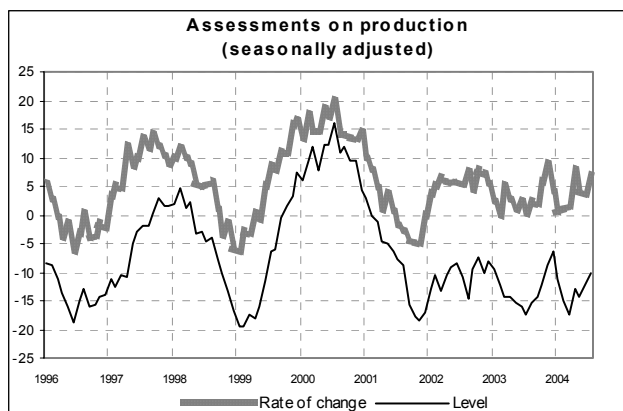


Situation in the reference period (July 2004)

In July, clear signals of improvement emerge in assessments on the current demand and supply. The seasonally adjusted balance of assessments on order books recovers from -13 to -7 , thus reaching the highest value since February 2001. Both the foreign (the balance rising from -6 to -4) and the domestic (from -15 to -10) demand components grow for the second month in a row. Operators signal a further production level recovery, the seasonally adjusted balance passing from -12 to -10 . Also assessments on the production variation are rosier than in June (the balance increasing from 4 to 7). Favourable signals come from inventories, which are again below “normal” levels (the balance falling from 1 to -3).

Looking at single sectors, the picture is not homogeneous, with a positive trend in investment and intermediate goods and a negative trend in consumer goods. In consumer goods, assessments on order books slightly decrease (from -10 to -11) owing to a foreign demand deterioration which more than offsets the domestic demand recovery (from -12 to -10). That worsening goes alongside with moderately rosier assessments on the production level and current change (the balances passing from -15 and 1 to -11 and 4 respectively) and with inventories below “normal” levels (the balance decreasing from 0 to -1). In intermediate goods, the recovery in order-book assessments is marked (from -20 to -7 in terms of balance), mainly thanks to domestic markets (the balance growing from -21 to -12 ; while the foreign component rises from -8 to -2). Balances on the production level and change are also improving,

passing from -15 and 4 in June to -12 and 7 in July. Finally, inventories are again below “normal” levels (from 2 to -1). Assessments of investment goods producers are also more optimistic compared to the previous months. The order-book balance equals 1 (from -1), thus being positive again for the first time since November 2000, thanks to the domestic market recovery (from -9 to -5) and to the foreign market growth (from 3 to 7). Moreover, inventories strongly decrease from 0 to -10. Conversely, assessments on the current production level and change slightly deteriorate (the balances passing from -1 and 13 to -3 and 11).



Forecasts for next quarter

In July, the entrepreneurs’ expectations on order books, production, employment and the general economic situation decrease, probably because of the hypothesis of a gradual international recovery slowdown in the second half of the year and of the uncertainty characterising the domestic situation.

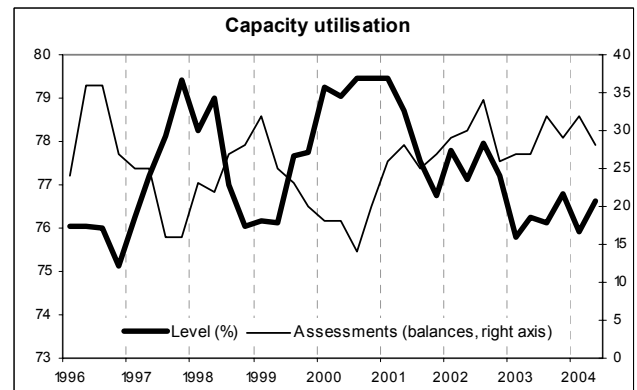
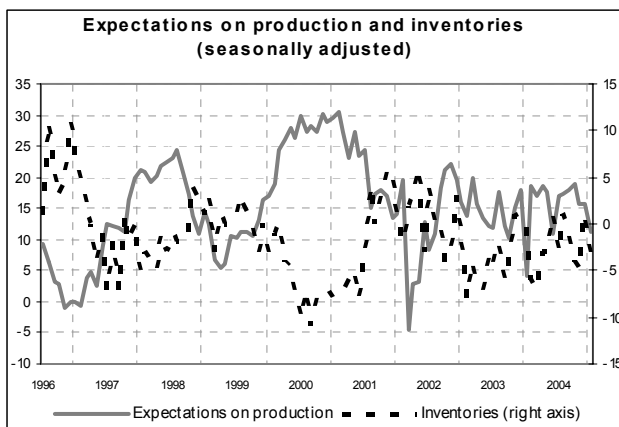
Balances concerning expectations on production and order books fall from 16 and 23 of the previous Survey to 11 and 20 respectively. Expectations on employment further decrease from -5 to -7, while those on the short-term evolution of the Italian economy pass from -4 to -5. The balance of selling prices increase again (from 9 to 10), probably affected by the high energy prices.

Deteriorating expectations are homogeneously diffused in all sectors. In consumer goods, expectations on order books and production diminish from 24 and 19 to 22 and 10 respectively (seasonally adjusted balances), while those on employment (raw data) fall from -3 to -12. Moreover, the balance on selling prices rises from 6 to 7, which completes the dark picture in this sector, while the balance on the general economic situation slightly recovers from -6 to -5. In intermediate goods, balances of order-book expectations decrease from 17 to 14, as do those on production (from 10 to 8) and on the general economic situation (from -1 to -8). Conversely, positive indications come from employment, while expectations on prices stabilise (the balance passing from 12 to 11). Finally, also in investment goods, expectations on order books and production deteriorate from 34 and 29 to 30 and 24 respectively, while those on the country’s economic situation fall again, though – unlike what happens in the other sectors - the balance remains positive (from 4 to 1). Even the balance of labour market expectations decreases from 4 to 1, while the one concerning prices grows from 9 to 13.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
April 2004	96.0	-13	-4	19
May 2004	94.2	-16	-5	16
June 2004	93.5	-13	1	16
July 2004	95.0	-7	-3	11

(from -4 to -2), probably in connection to expectations on price rises, which may lead firms to make immediate purchases, as demand recovers. Entrepreneurs also signal that their production constraints are diminishing (34% of the sample provide a positive answer, as against 37% of the previous Survey). According to respondents, this depends on the demand improvement (the share of those thinking that insufficient demand is a constraint falls from 56 to 55%), while the percentage of those mentioning difficulties to find manpower is a constraint stabilises (at 5% of the sample) and the number of those referring to “other reasons” increases, which might be linked to the above-mentioned uncertainty. Finally, non-favourable indications come from short-term forecasts on the export trend, which falls from 23 to 11 in terms of balance.



The main quarterly Survey results (IIQ 2004)

Traditional quarterly questions provide positive signals both on the demand and on the supply side, with the only exception of expectations on the export trend. The degree of plant utilisation grows again and its seasonally adjusted balance rises from 75.9 to 76.6. At the same time, the share of those considering the present production capacity level “more than sufficient” falls, while the number of those considering it “insufficient” rises, which makes one think that further rises in the degree of plant utilisation and in purchases of investment goods in the next few months are possible. In keeping with those indications, also the balance referring to the number of worked hours increases from 1 to 6, as does the balance on new order books (which doubles from 7 to 14). Consistently, also the ensured production length grows from 3,9 to 4 months. Inventories of raw materials and of semi-finished products decrease less

