



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

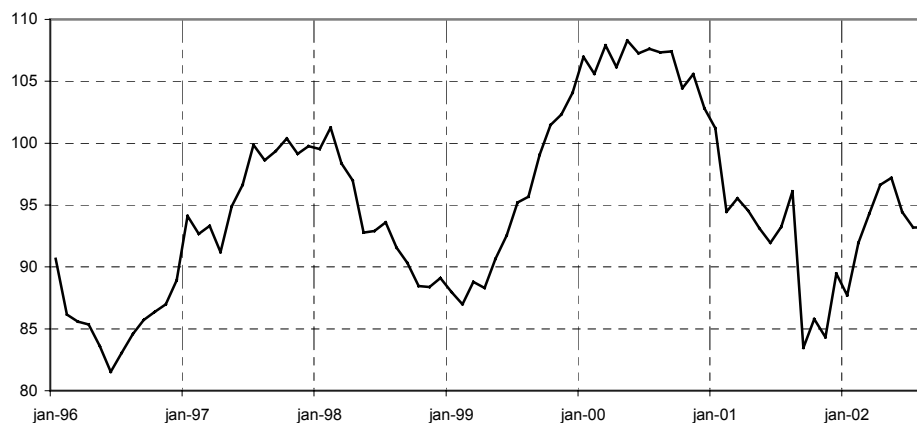
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## MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: August 2002

- According to the ISAE Monthly Survey carried out between August 1 and 28, the seasonally adjusted confidence indicator of Italian manufacturing and extractive business firms remains stable at 93.2, that is on the July levels
- Entrepreneurs signal a stock depletion, while unfavourable indications come from assessments on order books and short-term expectations on production. Indeed, in the past, stock reductions paved the way to demand recoveries
- In particular, consumer goods producers report a strong stock reduction, alongside with a substantial order-book stability and rosier expectations on production. In investment goods, the stock contraction is accompanied by rising expectations on the productive activity. Conversely, negative signals come from intermediate goods producers
- In Germany, the August confidence climate of industrial firms slightly falls compared to July: the IFO index (seasonally adjusted by ISAE) falls from 91 in July to 89 in August. Both assessments on the present demand level and short-term expectations on production are worsening. The balance on finished products inventories remains stable on levels considered well above the Normal levels

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 September shall be diffused on **September 25, 2002**.

Next ISAE surveys are scheduled as follows:

**September 19, 2002:** ISAE Monthly Consumer Survey (Reference month: September)

**September 27, 2002:** ISAE Quarterly Business Service Survey (III quarter)

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

## General Results.

The Survey carried out by ISAE between August 1 and 28 on a sample of about 4,000 manufacturing and extractive firms shows that in August the seasonally adjusted confidence climate remains stable at 93.2, that is on the July levels.

Among the indicator-building series, worsening assessments are expressed on the present order-book level, also short-term expectations on production slightly fall. Conversely, favourable indications come from finished products inventories - generally considered a good leading indicator of industrial activity and demand -, which decrease again compared to the previous month, reaching the minimum December 2000 levels.

Finally, respondents are slightly more pessimistic on the macroeconomic prospects: short-term expectations on the overall economic situation are worsening and expectations on inflation rise again, though to a small extent, probably owing to the ongoing international tensions on raw materials prices, particularly energy.

Looking at single sectors, favourable signals come from consumer goods producers, particularly thanks to the strong stock depletion. However, confidence slightly falls in investment and, more markedly, in intermediate goods.

## Situation in the reference period (August 2002)

ISAE respondents indicate that their August order books are worsening, both at domestic and at foreign level. The seasonally adjusted balance falls from -15 to -21, the domestic order-book balance goes from -17 to -22, the foreign order-book balance from -15 to -19.

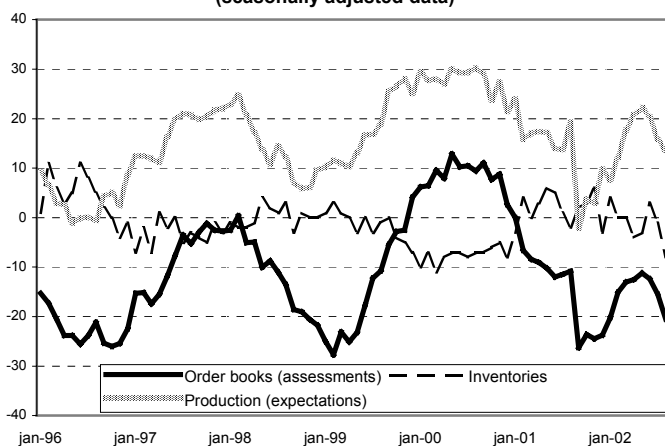
The deterioration mainly mirrors the contraction of demand in investment (the August seasonally adjusted balance equalling -23 from -10 in July) and intermediate goods (the seasonally adjusted balance falling from -13 to -23). Consumer good producers' assessments on order books are stable (the balance equalling -22, as in July).

Firms also show a production level contraction (the seasonally adjusted balance decreasing from -11 to -16). Favourable signals come instead from finished goods inventories: their seasonally adjusted balance falls from -1 in July to -8 in August. Both with reference to inventories and to production, consumer goods producers are more optimistic than intermediate and investment goods producers; in particular, consumer goods inventories reach their lowest figures since February 1997.

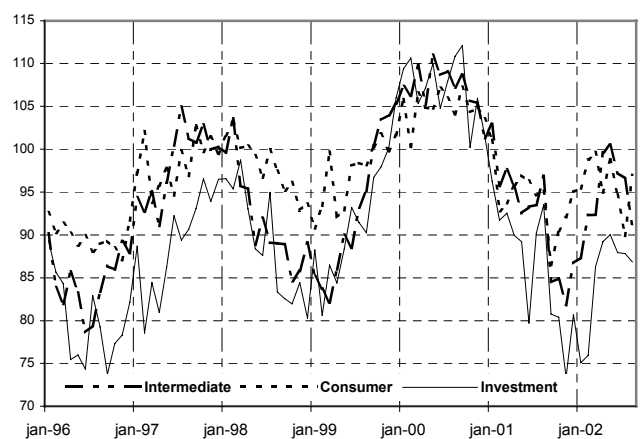
## Forecasts for the next quarter

In August, ISAE respondents are slightly more pessimistic on the short-term trend of demand and production. Also the short-term prospects of the Italian economy are slightly deteriorating, in a framework characterised by a further, modest inflation rekindling, probably due the raw

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)



materials prices - particularly energy – rise on the international markets.

The seasonally adjusted balance of short-term expectations on order books and production decreases from +19 and +16 to +15 and +13 respectively. However, the production fall - which up to July was homogeneously diffused in all major sectors - only concerns now intermediate goods (their seasonally adjusted balance passing from 14 to 9), while expectations in consumer and investment goods are improving compared to July (the balances going from 17 to 19 and from 8 to 10 respectively). With reference to order books, the negative trend is only due to intermediate goods, while other sectors remain unchanged.

Expectations for the Italian economy are worsening again, though slightly, after the July improvement: the seasonally adjusted balance of expectations on the Italian economic trend decreases from 6 in July to 1 in August. In this case, optimism comes from investment good producers. Inflationary expectations rise again - though to a modest extent: the seasonally adjusted balance goes from 5 to 6 in August, though on definitely lower levels than the early-2002 average figures (the balance equalled 9 on average between January and June).

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

|             | Confidence climate (Indices 1995=100) | Order-book level (balance) | Finished goods inventories (balance) | Expectations on production (balance) |
|-------------|---------------------------------------|----------------------------|--------------------------------------|--------------------------------------|
| Mar. 2002   | 94.3                                  | -13                        | 0                                    | 18                                   |
| Apr. 2002   | 96.6                                  | -13                        | -4                                   | 21                                   |
| May 2002    | 97.2                                  | -11                        | -3                                   | 22                                   |
| June 2002   | 94.4                                  | -12                        | 3                                    | 20                                   |
| July 2002   | 93.2                                  | -15                        | -1                                   | 16                                   |
| August 2002 | 93.2                                  | -21                        | -8                                   | 13                                   |

Source: ISAE

**IFO Survey for Germany<sup>1</sup>**

According to IFO data - elaborated and seasonally adjusted by ISAE - the German manufacturing firms' confidence climate decreases from 91 in July to 89 in August, that is on the lowest levels since February 2002. Assessments on order books are deteriorating again: their seasonally adjusted balance passing from -35 to -37. Also short-term expectations on production are worsening: their seasonally adjusted balance falling to -5 (-2 in July); in this case too, this is the minimum figure in the last six months. Finished products inventories remain unchanged: their seasonally adjusted balance equalling 15 for the fifth month in a row. Finally, German firms continue to reduce their expectations on the possibility of an industrial product price rise: the balance on the expected price trend falls from -2 in July to -1 in August.

<sup>1</sup> INSEE does not gather data for France in August. Thus the August issue of the usual ISAE *Comparative Business Survey for Italy, Germany and France* is not published.