



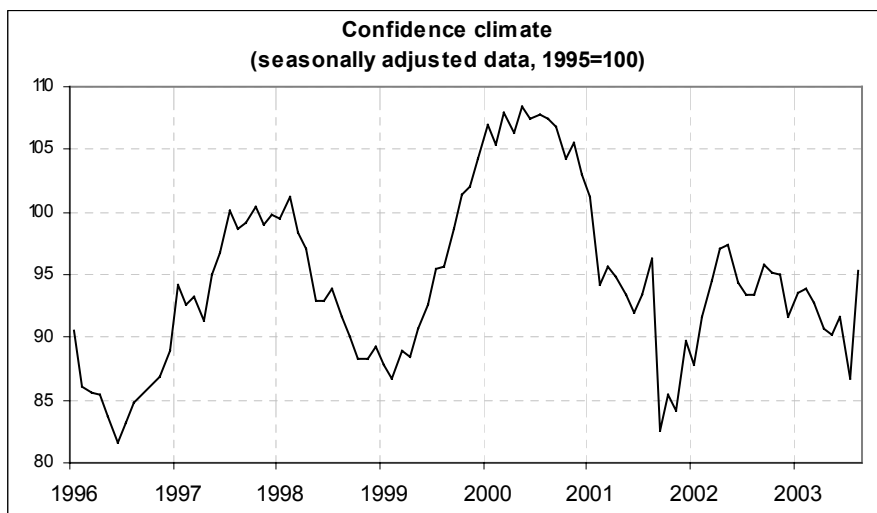
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Date: September 9, 2003
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MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: August 2003

- In August, the manufacturing firms surveyed by ISAE are more optimistic compared to the past few months: the confidence indicator (seasonally adjusted data) jumps from 86.7 to 95.3, thus growing by almost 9 percentage points and getting close to the September 2002 levels
- The improvement is due to a strong reduction in finished products inventories, which probably points to a better-than-forecast demand trend. That assumption is also confirmed by the considerable rise observed in short-term expectations on production
- Order books also show signals of recovery both on the foreign markets and, in particular, on the domestic market, particularly for investment goods producers
- In keeping with those indications, favourable signals emerge for the expected order-book and employment trends and, more generally, for the short-term prospects of the Italian economy, within a framework characterised by a modest inflation rekindling
- According to the data available at European level, there are signals of recovery in Germany as well: the August IFO index (seasonally adjusted by ISAE) grows up to 89 (87 in July), thanks to an order-book growth and to a recovery in short-term expectations on production



Data referring to September shall be diffused on **September 25, 2003**.

Next ISAE surveys are scheduled as follows:

September 23, 2003: Monthly ISAE Consumer Survey (Reference month: September)

September 25, 2003: Monthly ISAE Business Survey on Manufacturing and Extractive Firms (Reference Month: September)

September 26, 2003: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: July-August)

August 31, 2003: Comparative Business Surveys for Italy, Germany and France (Reference month: August) and Monthly ISAE Business Service Survey (Reference period: August-September)

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 August 1 and 18 on a panel of about 4,000 firms¹, the confidence climate of manufacturing and extractive firms (seasonally adjusted data) jumps from 86.7 to 95.3, thus growing by 9 percentage points and getting close to the September 2002 levels.

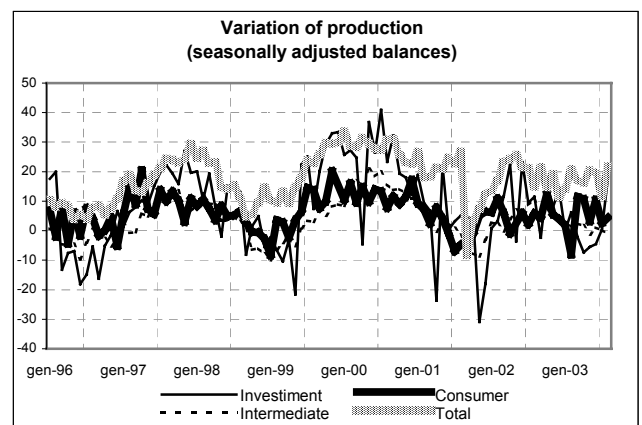
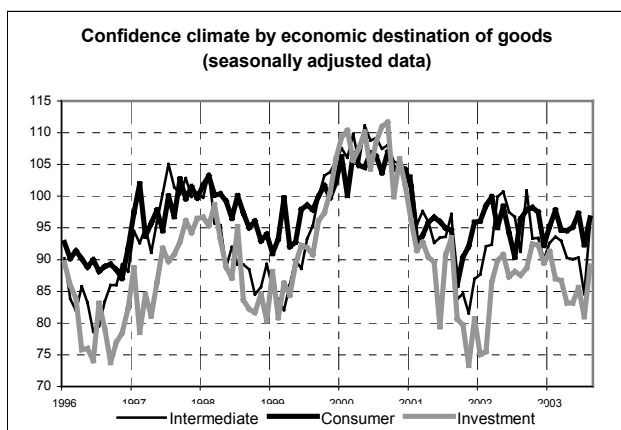
The improvement is due to a strong reduction in finished products inventories, going alongside with a clear rise in short-term expectations on production. Order books also show signals of recovery both on the foreign and on the domestic markets, particularly for investment goods producers. In keeping with those indications, favourable signals emerge for the expected order-book and employment trends and, more generally, for the short-term prospects of the Italian economy, within a framework characterised by a modest inflation rekindling.

At European level, there are signals of recovery in Germany as well: the August IFO index (seasonally adjusted by ISAE) grows up to 89 (87 in July), thanks to an order-book growth and to a recovery in short-term expectations on production.

Situation in the reference period (August 2003)

In August, ISAE respondents' order books show signals of recovery: after four months of stability, the seasonally adjusted balance passes from -23 to -16, which is the highest since January 2003. The growth concerns both foreign (from -27 to -25) and, in particular, domestic markets (from -22 to -18). The demand improvement goes alongside with a new reduction of inventories, which are again below what are considered "Normal" levels: their balance equals -6, thus getting close to the minimum levels of last march. ISAE respondents also signal a modest growth in the level and current variation of production, which pass from -17 and 1 to -16 and 2 respectively (in terms of balances.).

The signals of the wide-spreading improvement are relatively more intense in investment goods, where the balance concerning the overall orders grows from -23 to -12, the one on the current production from -22 to -4 and the one on the current variation of production from 0 to 18. The domestic demand component recovers as well: its balance rises from -25 to -9, which is the best value since August 2001. Conversely, finished products inventories stabilise on what are considered "Normal" levels.



¹ Owing to the usual Summer close down of plants, the August rate of reply is lower than in other months. However, the number of ISAE respondents was altogether above 3,300 firms, which comprise most of large firms.

Also in intermediate goods, the balance concerning order books strongly grows (from -27 to -17), with signals of recovery emerging in particular from domestic markets. The balance of the current production level goes from -21 to -15, while the one on the current variation slightly decreases from 0 to -1. Inventories remain below what are considered “Normal” levels (from -2 to -6). Unlike what happens in the other sectors, order books in consumer goods decrease both on the domestic and on the foreign markets. However, a strong reduction of finished products inventories is emerging, as their balance passes from 0 to -9 (which is the lowest figure in the past few years), which probably points to an unexpected demand growth which might end up with a production recovery in the next months.

Forecasts for the next quarter

After the strong July fall, production expectations drastically rise in August (their seasonally adjusted balance passing from 3 to 18) and get close to the June 2003 figure (19). Accordingly, a considerable improvement is observed in expectations on order books (from 12 to 22, which is the peak since May 2002), on employment (from -9 and -4 in terms of raw data) and on the general economic situation (from -11 to -4, which is the best level since September 2002), within a framework characterised by an inflation rekindling (the balance of price expectations goes from 1 to 5).

The improvement in expectations is diffused in all the main production sectors, even though it is more marked in investment and intermediate goods.

Indeed, in investment goods, expectations on production grow (in terms of balance) from 2 to 19, thus getting close to the June levels, while those on order books go from 18 to 24 and those on employment from -6 to -4. In intermediate goods, expectations on production rise to 18 (from -4), those on order books go from 3 to 24 and those on employment from -10 to -3. Finally, in consumer goods, expectations on production pass from 13 to 19 (in terms of balance), those on order books fall from 14 to 11 and those on employment recover from -9 to -6.

With regard to the country’s general economic situation, expectations improve in all sectors, passing from -2 to 2 in

investment goods, from -17 to -11 in consumer goods and from -13 to -3 in intermediate goods. Even the slight growing trend of selling prices is common to all sectors, and balances pass from 0, 6 and 0 to 3, 9 and 3 in investment goods, consumer goods and intermediate goods respectively.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
May 2003	90.2	-23	1	16
June 2003	91.7	-23	0	19
July 2003	86.7	-23	0	3
August 2003	95.3	-16	-6	18

The IFO Survey on German manufacturing firms (August 2003)²

According to the IFO data, elaborated and seasonally adjusted by ISAE, the German firms’ confidence climate rises to 89 in August (from 87 in July), thus returning on the levels of the beginning of the year. Assessments on order books considerably improve: their seasonally adjusted balance grows from -38 to -33, which is close to the January 2003 levels (looking at the foreign component the balance stabilized itself at -30). Also short-term expectations on the production trend recover (their balance passing from -9 to -6) and reach their best figure in the past eight months. Inventories remain stable, their seasonally adjusted balance equalling 15. Finally German entrepreneurs expect a substantial selling price stability, as their balance rises from -5 to 0.

² INSEE does not survey French firms in August and thus ISAE does not publish its usual comparison with German and French data.