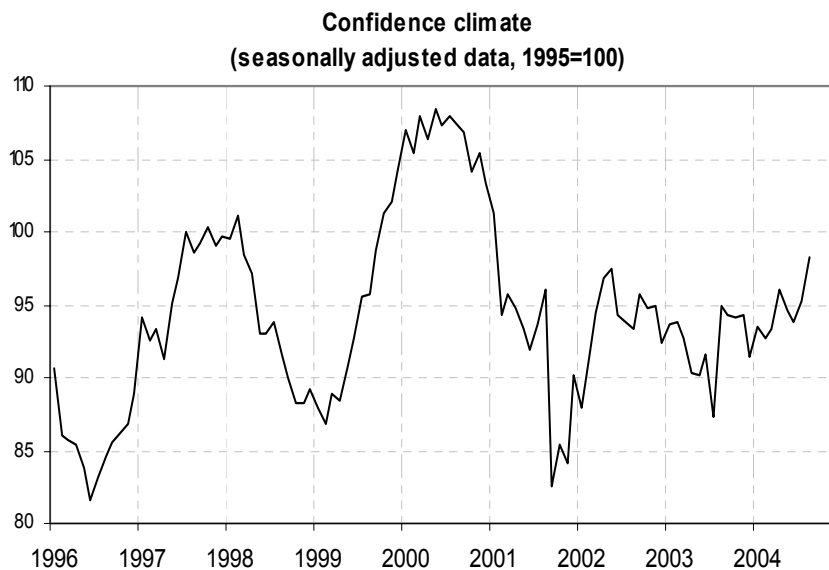




Date: September 8, 2004
TEL.: 06/444821

CONFIDENCE OF MANUFACTURING FIRMS GROWS AGAIN IN AUGUST

- In August, the seasonally adjusted confidence climate rises from 95.3 to 98.3, which is close to the peaks ever reached since January 2001
- The improvement is not homogeneous in all sectors: in intermediate goods the indicator jumps from 95.2 to 102.4; in investment goods – after the strong improvement of the past two months – a stop is registered and the confidence climate falls from 96.9 to 90.8. Finally, in consumer goods, confidence ranks at 94.3, which marks a slight contraction compared to 95.1 in July
- Among the confidence-building variables, expectations on production increase again while inventories further decrease; assessments on the present order-book level remain however negative and slightly decreasing compared to July
- Among the other variables, evaluations on the current production level recover: indeed, forecasts on the order-book and selling price trends stabilise, while those on the short-term prospects of the Italian economy deteriorate again
- In Germany, according to the IFO data – seasonally adjusted by ISAE – confidence climate of manufacturing firms rises in August from 99 to 100 thanks to a small improvement in the evaluations on the present order-book level and to a further reduction in inventories, while expectations on production slightly diminish



Data referring to September shall be diffused on **September 30, 2004**.

Next ISAE surveys are scheduled as follows:

September 22, 2004: ISAE Monthly Consumer Survey (Reference month: September)

September 27, 2004: ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference period: July-August) and ISAE Monthly Business Service Survey (Reference period: August-September)

September 30, 2004: ISAE Monthly Business Survey on Manufacturing and Extractive Firms (Reference month: September)

October 1, 2004: Comparative Business Surveys for Italy, Germany and France (Reference month: 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 2 and 25 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) grows again in August, rising from 95.3 to 98.3, which is close to the peaks ever reached since January 2001.

The improvement is however not homogeneous in all sectors: in intermediate goods the indicator jumps from 95.2 to 102.4; in investment goods – after the strong gains of the past two months – a stop is registered and the confidence climate falls from 96.9 to 90.8. Finally, in consumer goods, confidence stops at 94.3, which marks a slight contraction compared to 95.1 in July.

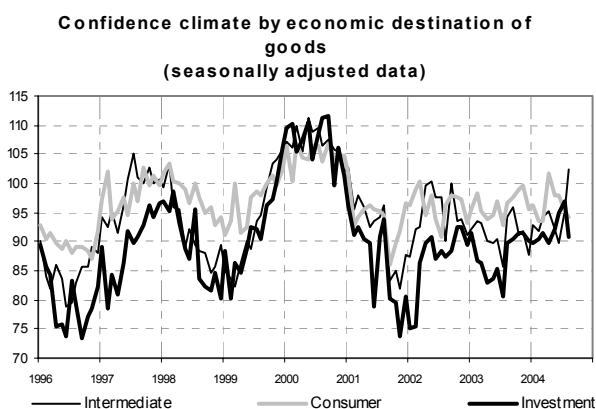
Among the confidence-building variables, expectations on production increase again and inventories further decrease; assessments on the present order-book level remain however negative and slightly diminishing compared to July.

Turning to other variables, evaluations on the current production level recover: indeed, forecasts on the order-book and selling price trends stabilise, while those on the short-term Italian economic prospects deteriorate again.

Situation in the reference period (August 2004)

In August, assessments on order books slightly improve, while those on production clearly recover within a framework characterised by thinning inventories. The order-book balance falls from -8 to -9, alongside with a contraction in both the domestic (the balance passing from -11 to -12) and the foreign (from -6 to -8) components. Operators signal a small production level recovery, the seasonally adjusted balance passing from -10 to -8. Also assessments on the production variation are stable in August (the balance equalling 7). Favourable signals come from inventories too, which decrease again from -3 to -8.

Looking at single sectors, the picture is not homogeneous, with positive indications exclusively coming from intermediate goods: indeed, assessments on order books recover from -8 to -6 (in terms of balance) thanks to the domestic markets (the balance passing from -12 to -9 and from -2 to -15 on the foreign markets). The balances on the production level and variation are stable at -11 and 7 respectively and inventories strongly fall (from -1 to -12 in terms of balance). In consumer goods, assessments on order books decrease from -11 to -19 in terms of balance, owing to a deterioration of both the domestic (from -11 to -19) and the foreign (from -13 to -21) demands. Conversely, assessments on the current production level and variation recover (the balances of both variables passing from -10 and 5 to -3 and 10 respectively) and inventories diminish (the balance going from -2 to -4). Assessments of investment goods operators are indeed much more pessimistic compared to the past few months, with the only exception of those concerning the current production level. The order-book balance equals -4 (from 0) owing to a strong domestic market deterioration (the balance passing from -5 to -21, while the one on foreign order books falls from 6 to 5). Inventories are back on "Normal" levels after the strong contraction observed in July (when the balance equalled -10). Conversely, assessments on the production level become positive (from -3 to 1) and those concerning the current variation stabilise at 11.



Forecasts for next quarter

Forecasts of ISAE respondents improve in August with reference to production, while they stabilise for order books and prices. Conversely, forecasts worsen with reference to the general economic trend and to employment.

The balance referring to expectations on production jumps from 13 to 18, thus coming back on the high levels of the two-month period March-April, while the one on order books slightly decreases (from 20 to 19), though remaining on the highest levels ever registered over the past few months. Conversely, expectations on employment deteriorate (from -7 to -11 in terms of balance, raw data). With regard to selling prices, entrepreneurs continue to expect price rises in the next few months with a balance passing from 10 in July to 9 in August. Finally, short-term expectations on the general economic situation worsen again and the balance falls from -6 to -9.

In this case too, trends are rather dishomogeneous in single sectors. In consumer goods, the general framework is negative, with a worsening of expectations on order books and employment (from 21 and -12 to 19 and -16 respectively), a new rise in expectations on inflation (where the balance rises from 7 to 10) and a growing pessimism on the prospects of the Italian economy (from -5 to -14). The only positive expectations are those on production, which improve and pass from 10 to 14 (in terms of balance). In intermediate goods, expectations on order books definitely improve from 14 to 25, as do those on production (from 12 to 23), while tensions on selling prices are easing (from 11 to 9). In this case too, negative balances come from employment, where the balance falls from -6 to -9, and from the general economic prospects of the country (the balance passing from -8 to -10). Finally, in investment goods, expectations on order books and production deteriorate (from 30 and 24 to 23 and 17 respectively), but concerns on prices decrease (from 12 to 7) and expectations on the general economic situation improve again (from 1 to 7 in terms of balance).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
May 2004	94.5	-16	-5	16
June 2004	93.8	-13	1	17
July 2004	95.3	-8	-3	13
August 2004	98.3	-9	-8	18

The IFO Survey on German manufacturing firms (August 2004)¹

In Germany, according to the IFO data – seasonally adjusted by ISAE – confidence climate of manufacturing firms rises in August from 99 to 100, thus coming back to the levels of last March. This is due to a small improvement in the evaluations on the overall order-book level (the seasonally adjusted balance passing from -20 to -19, which is near the peaks ever reached since March 2001), though in the presence of a moderate worsening in the foreign component (from -10 to -12). Short-term expectations on the production trend slightly fall, as the balance decreases from 3 to 2, i.e. close to the June levels. Positive signals come from inventories, registering a reduction in August as well. Finally, German entrepreneurs are expecting a moderate inflation easing, where the balance passes from in July to 6 in August.

¹ INSEE does not gather data on France in August and ISAE does not publish its usual *Comparative Business Survey* with German and French data.