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DATA/Date: September 25, 2002
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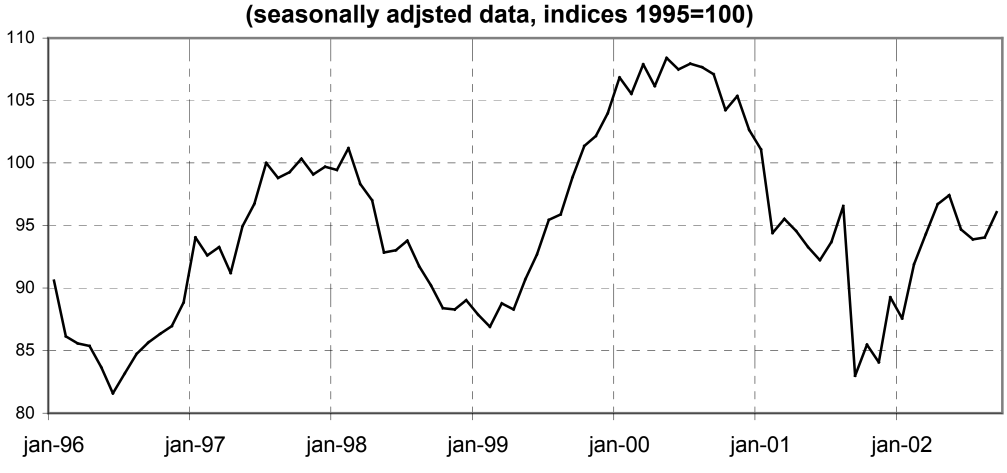
MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: September 2002

- **In September, the manufacturing firms' confidence indicator shows signs of recovery: the seasonally adjusted index rises again for the first time since May 2002, increasing from 94 in August to 96.1**
- **Order-book assessments and short-term expectations on production considerably improve: finished products inventories remain below what are considered "Normal" levels, even though the stock reduction is considered less intense compared to the previous month**
- **The improvement in order-book assessments and in expectations on production is homogeneously wide-spread in the main productive sectors. With regard to inventories, final goods producers signal their stock-reduction phase has finished, while it continues in intermediate products**
- **According to the quarterly survey on export firms, in the July-September period, turnover and export prices (compared to domestic prices) slightly rise compared to the II quarter of the year. Indeed, the number of firms perceiving obstacles to their export activity increases, maybe owing to a weaker-than-expected international recovery**
- **ISAE respondents signal that (compared to exports) the share directed towards extra-EU European countries increases in the II quarter; also increased competition from extra-European countries, United States and, particularly, the rest of the world, is considered**

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



The present survey provides qualitative information directly surveyed from firms on the trend of the main firm variables and on entrepreneurs' confidence. The qualitative data anticipate by months the official ISTAT data and provide complementary information as against the official quantitative ISTAT data.

Data referring to October shall be diffused on **October 26, 2002**.

Next ISAE surveys are scheduled as follows:

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

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

The ISAE Survey carried out between September 4 and 17 on a sample of about 4,000 manufacturing and extractive firms shows that in September the seasonally adjusted confidence climate increases again for the first time since May 2002, rising from 94 in August to 96.1.

Among the indicator-building series, assessments on order books show signals of recovery; indeed, also short-term expectations on production clearly improve. Finished products inventories remain below what are considered "Normal" levels, even though - according to respondents - stock reduction is less intense compared to the previous month.

Order-book expectations are improving, while a negative signal comes from short-term expectations on the country's general economic situation, in a framework characterised by a substantial stability of inflationary tensions for the third month in a row.

Finally, the order-book and production improvement is homogeneously diffused at sector level. Final goods producers signal a brusque stop of finished products inventories' reduction, which continues instead in intermediate goods.

Situation in the reference period (September 2002)

ISAE respondents indicate that their September order books are recovering, mainly thanks to a domestic demand improvement. The seasonally adjusted balance rises from -19 to -15, the one referring to domestic demand from -20 to -11, while the foreign market balance remains stable at -19.

Both final and intermediate goods producers signal a demand improvement. Seasonally adjusted balances concerning order books of investment and consumer goods rises from -22 in August to -16 in September, while the one concerning intermediate goods increases from -23 to -9. The domestic order-book recovery is homogeneously diffused between the major sectors. Conversely, with reference to foreign order-books, favourable indications only come from intermediate goods (the seasonally balance passing from -27 to -16); the balance remains stable in investment goods (-14) and worsens for consumer goods (from -21 to -27).

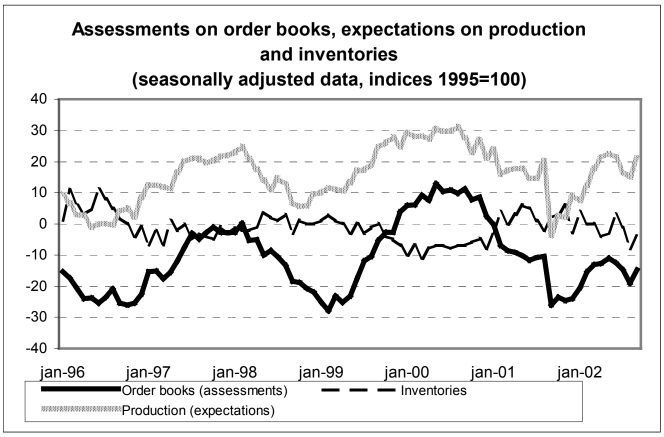
Firms also signal a recovery in their production assessments, the balance (seasonally adjusted data) equalling -11 (-15 in August). Finished products inventories remain below what are considered "Normal" levels, even though the seasonally adjusted balance rises again compared to August (from -8 to -4); final goods producers signal that their stock reduction phase has stopped (the seasonally adjusted balance rising from -12 to 0 in investment goods and from -10 to +2 in consumer goods), while it intensively continues in intermediate goods (the seasonally adjusted balance passing from -6 to -10).

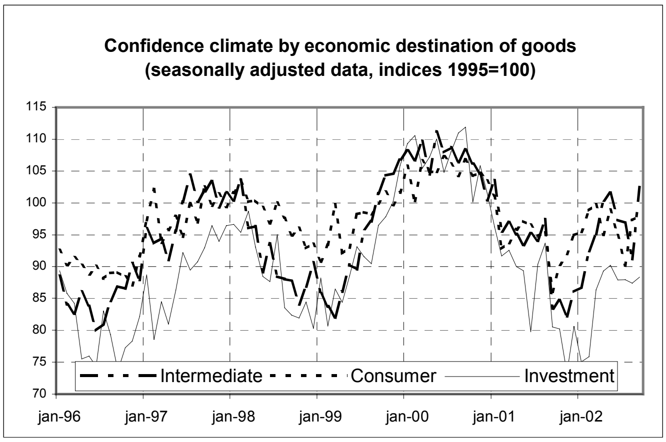
Forecasts for the next quarter

In September, ISAE respondents are considerably more optimistic on the short-term trend of demand and production, while their expectations on the Italian economy worsens, in a framework characterised by a substantial inflation stability.

The seasonally adjusted balance of short-term expectations on order books and production increases from +16 and +24 to +15 and +21 respectively, thus recovering the fall registered in the two Summer months and reaching again last June's figures. With regard to order books, the improvement is particularly strong in intermediate goods (the balance passing from +9 to +28), while a modest balance growth is observed in investment (from +20 to +21) and consumer goods (from +22 to +23). With reference to production, favourable indications come from the main sectors: the seasonally adjusted balance passes from 11 to 21 in investment goods, from 20 to 28 in consumer goods and from 10 to 24 in intermediate goods.

Negative indications come from expectations on the macroeconomic framework: the number of "pessimists" on short-term prospects for the Italian economy exceeds again the share of "optimists", and their seasonally adjusted balance is negative again, equalling -5 from +1 in August. Finally, for the third month in a row, inflationary expectations stabilise (the seasonally adjusted balance equalling +5, as in July and August, that is much below the figures registered between late-2001 and early-2002)





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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Apr. 2002	96.7	-13	-4	21
May 2002	97.4	-11	-3	23
June 2002	94.7	-13	3	21
July 2002	93.9	-15	-1	17
Aug. 2002	94.0	-19	-8	15
Sept. 2002	96.1	-15	-4	21

Source: ISAE

Quarterly Survey on Exports

According to the quarterly ISAE Survey on manufacturing and extractive firms which have exported in the III quarter 2002 (about half of the sample monthly surveyed by ISAE), the balance on the turnover trend from exports slightly improves in the III quarter compared to the April-June period (from +11 to +12). Indeed, also the share of those deeming exports were obstacled by either internal and external negative factors increases from 21 to 26%. The negative influence mainly derives from the slowness of the international recovery. Also problems linked to the increasing cost and price trends (which negatively influence exports according to 42% of the sample as against 43% in the first half of the year) remain considerable (even though perceived as less negative compared to the first half of the year).

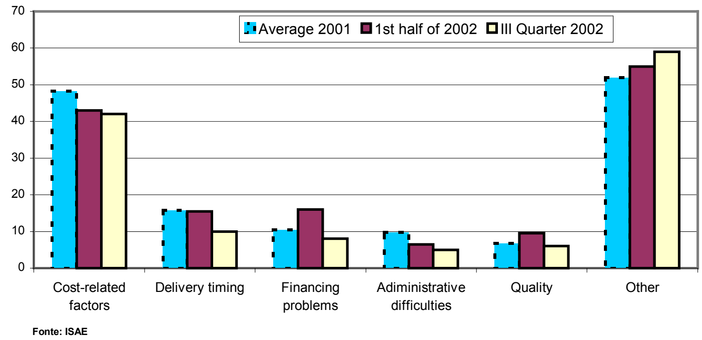
A decreasing number of respondents (from 9.5 to 6% of the sample and from 15.5 to 10% of the sample, respectively) consider the different product quality and the delays in delivery timing as obstacles to exports. Also the percentage of firms complaining for a difficult access to financing is decreasing: in this case, the share of firms perceiving this as a considerable obstacle to the penetration on international markets falls from 16 to 8% between the first and the second half of the year.

With regard to prices, the survey shows that the relation between export and domestic prices - which had considerably risen in the first half of the year - had stabilised during the summer (the balance equalling 4, that is on higher levels compared to 2001).

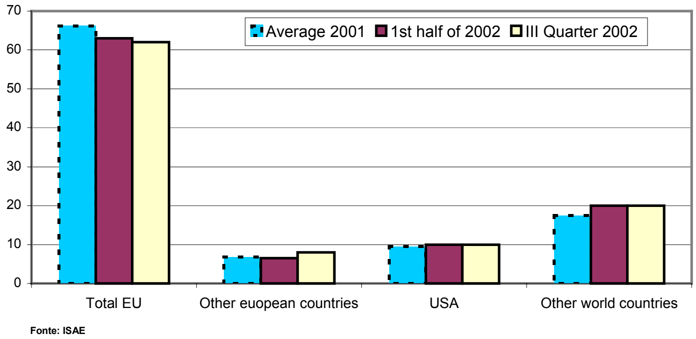
Indeed, the survey also provides - apart from information on turnover and export prices - some indications of a more structural nature on the distribution of Italian exports by geographical area and with reference to countries perceived by Italian firms as the main competitor on international markets. With regard to destination countries, ISAE respondents signal that the role of extra-EU European countries is increasing in the III quarter to the detriment of traditional EU countries, while the flow towards the United States and the rest of the world remain stable in percentage.

Finally, among European countries, according to ISAE respondents, competition from France and Benelux is increasing to the detriment of German and British firms and, in particular, of firms belonging to the remaining European and extra-EU countries; also competition from the United States and the rest of the world is growing again.

Main obstacles to exports



Distribution of exports by destination



Main italian competitors