



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

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TEL.: 06/444821

## MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

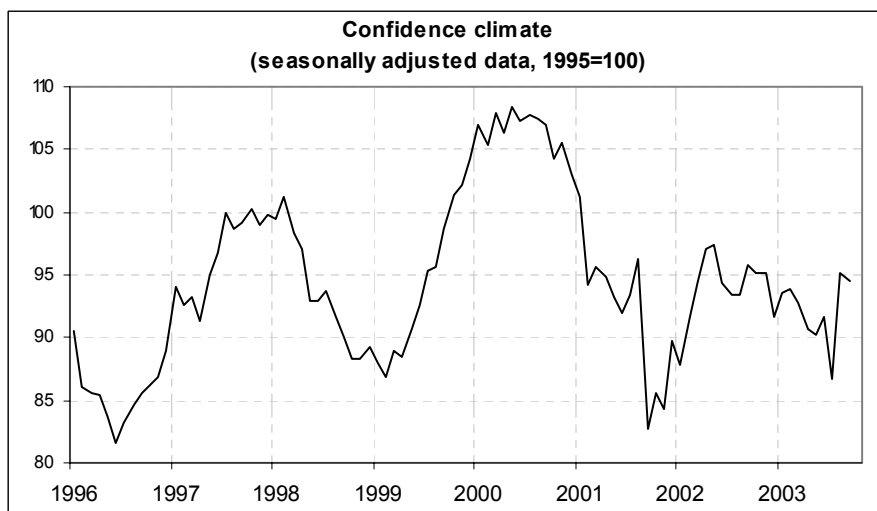
Reference period: September 2003

- According to the ISAE Monthly Survey carried out in the first 19 days of September, the Italian manufacturing and extractive firms' confidence indicator reaches in September slightly lower levels than those attained after the strong leap forward observed in August (from 86.6 in July to 95.1 in August). The index (seasonally adjusted data) equals 94.5, which is definitely above the average figures of the first half of the year
- The strong reduction in finished products inventories intensifies, alongside with a substantial stability in order books and production expectations
- On the demand side, favourable indications come from foreign markets, while assessments on the domestic market trend are slightly more negative than in August. Finally, expectations on the country's general economic situation stabilise, while signals of new price tensions become stronger

## QUARTERLY SURVEY ON EXPORTING FIRMS

Reference period: III quarter 2003

- According to the Quarterly Survey on Exporting Firms, disconcerting signals emerge on the Italian export trend of June-September 2003. Indeed, respondents are more optimistic on the forecasts for the late-2003
- The share of firms deeming their exports are affected by negative factors remains high: among them, price tensions, the efficiency of the firms management and the unsatisfactory product quality contribute to brake exports more than in the recent past



Data referring to October shall be diffused on **October 28, 2003**.

Next ISAE surveys are scheduled as follows:

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

**October 1, 2003:** Comparative Business Surveys for Italy, Germany and France (Reference month: August-September)

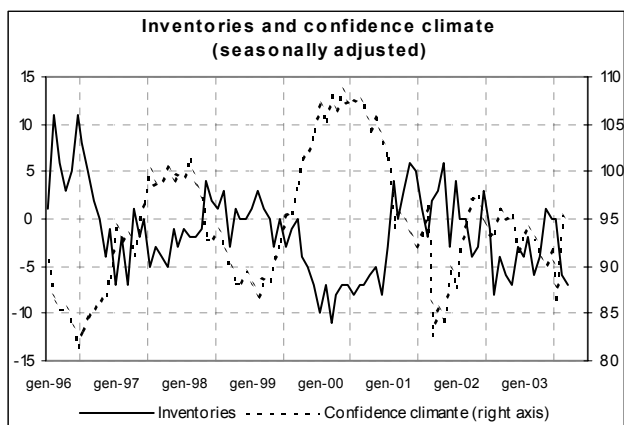
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site [www.isae.it](http://www.isae.it))

## General Results

According to the ISAE Monthly Survey carried out in the first 19 days of September on a panel of about 4,000 firms, the Italian manufacturing and extractive firms' confidence indicator (seasonally adjusted data) gets close to the levels reached with the strong August leap forward. The index goes from 95.1 to 94.5, which is definitely above the average figures of the first half of the year.

The strong reduction in finished products inventories intensifies, alongside with a substantial stability in order books and production expectations. On the demand side, favourable indications come from foreign markets, while assessments on the domestic market trend are slightly more negative than in August. Finally, expectations on the country's general economic situation stabilise, while signals of new price tensions become stronger.

Turning to single sectors, the seasonally adjusted data signal a confidence growth in the main sectors<sup>1</sup>; indeed, the improvement is marked in consumer goods and, in particular, in intermediate goods, while it is smaller in investment goods.



<sup>1</sup> As it usually happens in this kind of analysis, data on single sectors are adjusted separately from aggregate data. Sometimes, this means that figures on the overall industrial trend are out of keeping with data on single sectors.

## Situation in the reference period (September 2003)

In September, assessments on the present order books reach slightly lower levels than those attained after the August recovery. The seasonally adjusted figure falls from -17 in August to -18 in September, with a slight worsening on domestic markets (from -18 to -20) and a recovery on foreign markets (from -25 to -21). The substantial stability of the demand level goes alongside with a further reduction in inventories, which remain far below what are considered "Normal" levels for the second month in a row (the balance passing from -6 to -7). In the past, phases of inventories' reduction were generally accompanied by confidence recovery in manufacturing firms.

Assessments on order books are not homogeneous in all sectors: the balance worsens again in investment goods (from -10 to -17), particularly with regard to a negative domestic market trend (the balance going from -9 to -20), while signals of recovery emerge in foreign markets (the balance passing from -23 to -18). In this sector, there is a new considerable reduction in finished products inventories since April 2003, as their balance falls from the normal levels registered in August to -8 in September. Also in intermediate goods, the balance of order books worsens again (from -17 to -20), with signals of recovery in foreign markets (from -26 to -23), and inventories' reductions below "Normal" levels (the balance going from -6 to -9). In consumer goods, the order-book level shows signals of recovery (the overall balance passing from -22 to -15) both on the domestic markets (from -19 to -17) and, in particular, on the foreign markets (from -32 to -21). Inventories - though remaining below what are considered "Normal" levels (-4) - slightly grow compared to August (when the balance equalled -9).

## Forecasts for the next quarter

After the strong growth observed in August, short-term expectations on production, order books and employment and on the country's general economic prospects remain in September on clearly better levels than those registered in the first half of the year. On the production side, the balance equals 17, which marks a slight fall compared to the August figure (18). With regard to order books and employment (raw data only), balances fall from 21 and -4 to 19 and -6 respectively. The relatively favourable approach to short-term expectations on demand and production goes alongside with growing expectations on price tensions, the balance of which reaches its peak since February 2003 (from 6 in August to 10 in September). Overall expectations on the country's general economic situation fall from -4 to -5 in terms of balance, though remaining more favourable than in the first half of the year.

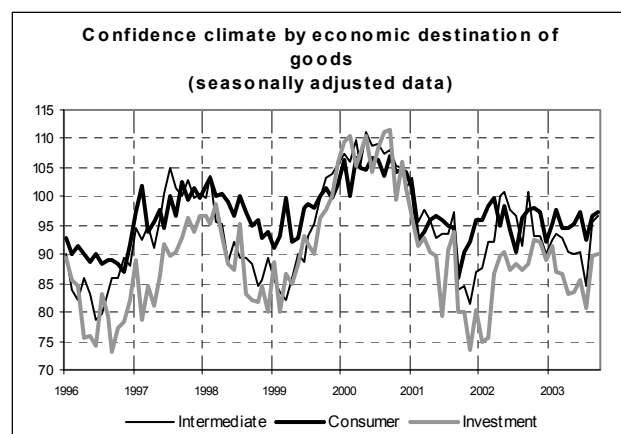
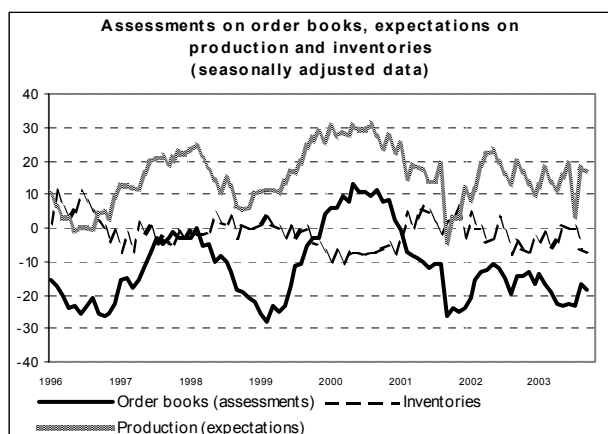
Indications are not homogeneous in short-term forecasts as well. In particular, balances on production are further improving in investment and in intermediate goods (from 19 to 20 and from 18 to 21 respectively), while they are stable in consumer goods (at 19). Similarly, expectations on order books improve in consumer goods (from 18 to 20) while they diminish in investment intermediate goods (from 24 to 18 and from 24 to 22 respectively). Expectations on employment worsen in goods aimed at final demand (from -4 to -11 in investment goods and from -6 to -9 in consumer goods), while they improve in intermediate goods (from -3 to -1).

With regard to selling prices, aggregate tensions mainly depend on consumer goods (the balance going from 9 to 14) and on intermediate goods trends (from 3 to 8), while the balance remains stable (at 3) in investment goods.

Finally, with regard to the country's general economic situation, expectations worsen again in investment (passing from 2 to -8) and in intermediate goods (from -3 to -8). Indeed, consumer goods producers are more optimistic compared to August (the balance growing from -10 to -3).

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
June 2003	91.6	-23	0	19
July 2003	86.6	-23	0	3
August 2003	95.1	-17	-6	18
Sept. 2003	94.5	-18	-7	17



## The Quarterly Survey on Exporting Firms

According to the ISAE Quarterly Survey on Exporting Firms (which is about half of the ISAE monthly sample), discomfoting signals emerge on the Italian export trend in the period June-September, while expectations for the following quarter are more encouraging.

The balance concerning the current trend of the export turnover continues to deteriorate in the III quarter 2003 (from 2 to 0 compared to the previous quarter). Conversely, the balance mirroring the forecasts on the trend for the next three months improves, passing from 8 to 14. Indeed, the share of firms deeming their exports are affected by negative factors remains high (33%). Among them, price tensions are gaining importance (from 32 to 42%), as is poor efficiency (in terms of firm management/distribution or of product quality).

ISAE respondents perceive that competition from Germany (considered a major competitor by 48% of the sample as against 51% of the previous Survey) is diminishing in the III quarter, as is competition from France (from 32% to 28% of the sample), Benelux (from 8 to 4%), and the United Kingdom (from 17 to 11%), to the advantage of the one from other EU countries.

Turning to data broken down by geographical area, 65% of exports (62% in the II quarter 2003) is aimed at EU countries, particularly Germany (18% of exports), France (14%) and the United Kingdom (9%). Among extra-European countries, the main role is played by the United States (though its share fell from 10 to 8% of Italian exports). Finally an increase is signalled in the share aimed at extra-EU European countries (from 6 to 7) to the detriment of extra-European countries other than the United States.

