



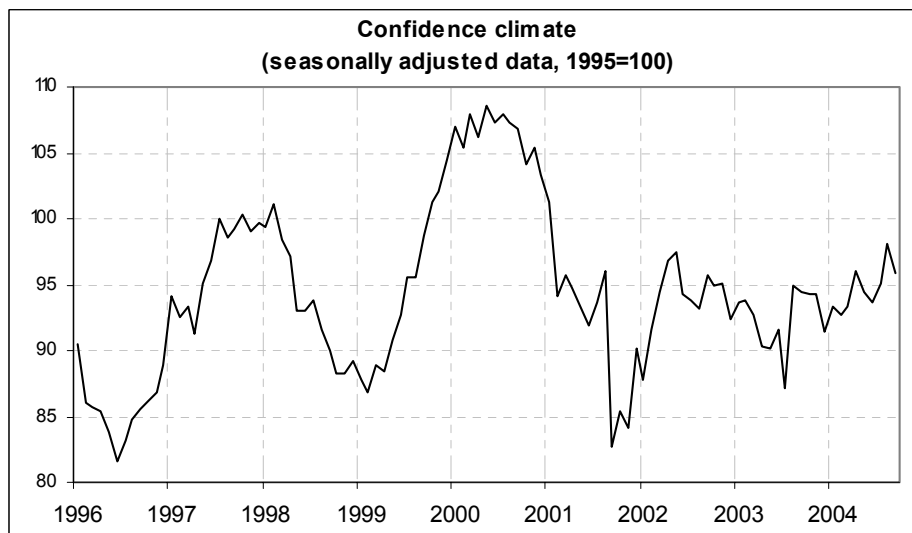
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## AFTER THREE FAVOURABLE MONTHS, MANUFACTURING FIRMS' CONFIDENCE DIMINISHES IN SEPTEMBER

- In September, the seasonally adjusted confidence index falls from 98.1 to 95.9 because of a smaller contraction in finished products' inventories compared to the previous month. Also assessments on the order-book trend and short-term forecasts on production slightly decrease
- Looking at data broken down by sectors, consumer goods producers (the index passing from 94.3 to 94.5) and, in particular, investment goods producers (from 90.9 to 96.4) are more optimistic than in the previous month. After the strong rise observed in August, confidence of intermediate goods producers falls from 102.3 to 97.4, which is above the July levels
- Among the other variables, evaluations on the current production level and short-term forecasts on order books and on the general economic trend recover. Conversely, forecasts on the future selling price trend grow again

## EXPECTATIONS ON EXPORT IMPROVE IN Q3

- In Q3, the balance concerning the expected trend of the export turnover jumps from 13 in Q2 to 25, which means getting close to the figures of January-March 2004
- Favourable indications also come from assessments on the constraints to exports, which are diminishing compared to the previous quarter. In keeping with the respondents' expectations expressed in June, assessments on the current trend of the export turnover worsen
- Among the countries which are considered as important competitors on both the domestic and the international markets, the role of China and of the other non-European and non-USA countries is growing



Data referring to October shall be diffused on **October 27, 2004**.

Next ISAE surveys are scheduled as follows:

**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](http://www.isae.it))

## General Results

According to the ISAE Monthly Survey carried out between September 1 and 20 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls again in September after three rises in a row, passing from 98.1 in August to 95.9. The worsening is mainly due to the smaller contraction in finished products' inventories compared to the previous month. Also assessments on the order-book trend and short-term forecasts on production slightly diminish.

Looking at data broken down by sectors, after the August rise, confidence of intermediate goods producers falls again from 102.3 to 97.4, while consumer goods producers (the index passing from 94.3 to 94.5) and, in particular, investment goods producers (from 90.9 to 96.4) are more optimistic than in the past.

Among non confidence-building variables, evaluations on the current production level and short-term forecasts on order books and on the general economic trend recover. Conversely, forecasts on the future selling price trend grow again.

On the basis of the outcome of the ISAE quarterly questionnaire on the exporting activity, expectations on the export turnover trend in Q3 improve. Indeed, favourable indications also come from assessments on the constraints to exports, which are softer compared to the previous quarter. Conversely, in keeping with the respondents' expectations expressed in June, assessments on the current trend of the export turnover worsen. Among the countries which are considered important competitors on both the domestic and the international markets, the role of China and of the other non-European and non-USA countries is growing.

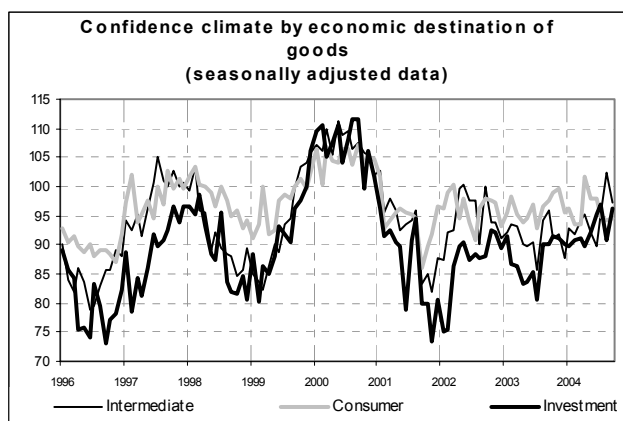
## Situation in the reference month (September 2004)

In September, assessments on order books are substantially stable, while those on production recover, within a framework characterised by an inventories' contraction smaller than the one observed in the previous month. The order-book balance falls from -9 to -10, alongside with a slight contraction in both the domestic (the balance passing from -13 to -14) and the foreign (from -9 to -11) components. Operators signal a gradual and slow production recovery (which has been going on for five months), the seasonally adjusted balance passing from -8 to -6, which is close to the maximum levels ever reached in the year. Assessments on the production rate of change slightly fall from 6 to 5. Turning to inventories, the balance remains negative and equals -4, even though it increases compared to August (when it was worth -8).

Looking at single sectors, the picture continues to be dishomogeneous: compared to the previous month, evaluations of intermediate goods producers – which were quite optimistic in August - come to a halt, while producers of final goods (namely consumer and investment ones) – which were more cautious in August – witness an improvement. Going in detail, order-book assessments in intermediate goods decrease from -6 to -9 (in terms of balance), alongside with a domestic demand deterioration (from -9 to -13) which more than offset the foreign demand recovery (from -15 to -7). The balances on the production level and rate of change in this sector are recovering (from -12 to -7) and stable (at 7 for the third month in a row) respectively. Inventories – though remaining below what are considered as “Normal” levels - register a higher balance than the latest Survey (from -12 to -3).

In consumer goods, order-book assessments grow from -19 to -16 in terms of balance owing to an improvement in both the domestic (from -19 to -14) and the foreign (from -21 to -18) demand. Inventories are confirmed to be below what are considered as “Normal” level (the balance equalling -4, as in August), while assessments on the current production level and rate of change fall again (the balances of both variables decrease from -4 and 10 to -8 and 3 respectively).

In investment goods, there is a slight deterioration in evaluations on order books (the balance passing from -4 to -5), exclusively due to the foreign demand component (the balance of which falls from 4 to -12), in the presence of a significant domestic demand recovery (the balance passing from -21 to -10). With reference to production, the current growth levels and rates are assessed more favourably than in August, and the balances rise from 1 and 11 to 6 and 12 respectively, while finished products inventories fall again below what are considered as “Normal” levels (from 0 to -4).



### Forecasts for next quarter

Forecasts of ISAE respondents slightly diminish in September with reference to production, while they improve for order books, employment and the general economic trend, though expectations on selling price rises intensify.

The balance of production expectations falls from 18 to 16, though it remains on rather high levels within the present cyclical phase. The order-book balance grows from 19 to 21 and also the employment trend balance recovers from -11 to -10 (raw data). With reference to selling prices, firms continue to expect rises in the next few months (the balance increasing from 10 to 13). Finally, short-term expectations on the general economic situation improve again and the balance reaches its peak of 2004 (-1) from the August value of -8.

In this case too, trends are rather dishomogeneous in single sectors. Indeed, expectations in investment goods are strongly improving and the balances of expectations on order books and production jump from 23 and 17 to 32 and 34 respectively while the one on the employment trend recovers from -3 to -2. However, in this sector, expectations on the country’s general economic situation worsen again (from 7 to 0), though they remain non negative for the fourth month in a row. Firms also expect a new inflation rekindling in the next quarter (the balance rising from 7 to 11). Also consumer goods producers are generally more optimistic on their prospects for the next quarter: the order-book balance grows from 21 to 23, which means it has remained substantially stable on the maximum cyclical figures for some months, while the employment balance recovers from -16 to -15 and, in particular the balance of expectations on the Italian general economic situation becomes positive again (from -13 to 1) for the first time since February 2004. The only negative component refers to expectation on selling price rises (the balance growing from 11 to 16). In intermediate goods, the general picture is worsening and expectations on order books and production are deteriorating (the balances passes from 25 and 23 to 19 and 19 respectively), while a further inflationary growth is looming ahead (from 9 to 13). Conversely, the employment prospects stabilise at -9 and the balance of short-term expectations on the country’s general economic trend recovers from -10 to -6, which is consistent with the average figure for the manufacturing sector as a whole.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
June 2004	93.7	-13	1	16
July 2004	95.1	-8	-3	13
Aug. 2004	98.1	-9	-8	18
Sept. 2004	95.9	-10	-4	16

## The main results of the Survey on exports

According to the quarterly questionnaire submitted to exporting firms (almost half of the sample monthly surveyed by ISAE), in keeping with the worsening of expectations observed in June, assessments on the current export turnover trend are diminishing (the raw balance passing from 18 to 3). However, short-term prospects are improving: the balance of expectations on the export turnover grows (from 13 to 25) again after the stop witnessed in Q2. Besides, 34% of respondents (36% in the previous Survey) consider the influence of external constraints to exports as significant. However, ISAE respondents signal a rise in the constraints due to high costs (57% of the sample consider this to be a problem, as against 49 in the previous Survey), to the difficult access to funding (which is a relevant problem for 10% of the sample compared to 5% in the previous quarter) and to administrative problems (7% of the sample as against 2% in June).

The Surveys provides information on the countries which are considered as the main competitors of Italian firms on the international markets. To this end, the role of China (considered as a major competitor by 31% of respondents as against 25%) and of other non-European countries other than the United States (which are important for 30% of the sample compared to 22%) is growing. On the other hand, the role of the European countries (France in particular) and of the United States as competitors is decreasing.

With reference to the data on the main export outlets by geographical partitions, the weight of the EU increases again (from 60 to 68%), with a rise from 15 to 18% for Germany, from 14 to 16% for France and from 19 to 21% for the other EU countries. Conversely, the export share aimed at non-EU countries is falling (from 9 to 7%), as is the percentage of the United States (from 10 to 8%) and the one of non-European countries other than the United States (from 21 to 16%). Finally, the entrepreneurs' assessments on the export-prices/domestic prices relation grow again (the balance rising from 2 to 4).

