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## MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

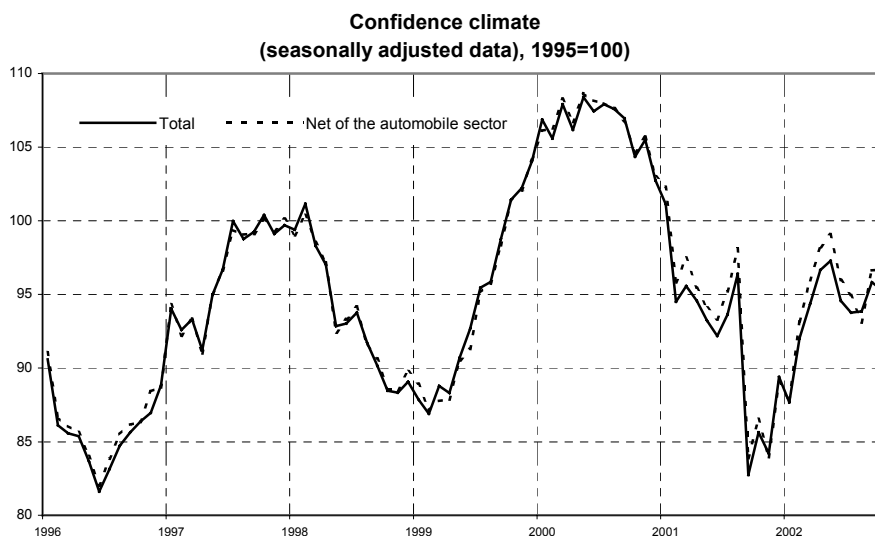
Reference period: October 2002

- According to the ISAE Monthly Survey carried out between October 4 and 18, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) slightly decreases in October (passing from 95.8 to 95.3), though remaining above the average values of the III quarter 2002
- Net of the automobile sector - accounting for about 4.7% of the total manufacturing industry - the confidence climate rises to 96.7 in October from the September figure of 96.6. That is the highest level since May 2002
- The announcement of the serious crisis of the Italian automobile industry may be among the main causes for the strong pessimism rise observed in the short-term prospects of the general economic situation (which however do not belong to the present confidence-building series), which got close to the figures subsequent to the lowest values immediately following the Sept. 11 attacks to the USA

### QUARTERLY ISAE SURVEYS

Reference period: III quarter 2002

- According to the Quarterly ISAE Surveys, the degree of plant utilisation remains stable on the April-June figures. According to the ISAE respondents, their productive activity finds growing obstacles, mainly due to insufficient demand; also the length of ensured production on the basis of the present order-book level decreases. More favourable signals come from exports, which a growing share of respondents expect to rise in the next few months, perhaps thanks to the expected improvement of the international macroeconomic situation
- With reference to the labour market, firms signal a remarkable contraction in the number of worked hours and worse expectations for the short-term labour evolution



*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 November shall be diffused on **November 26, 2002**.

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.

The Survey carried out by ISAE between October 4 and 18 on a sample of about 4,000 manufacturing and extractive firms shows that in October the seasonally adjusted confidence climate slightly decreases from 95.8 in September to 95.3 in October. However, the indicator remains above the average values registered in the III quarter 2002.

Assessments on order books remain stable, while inventories decrease. Negative indications come from short-term expectations on production, which fall again after the strong September improvement. Also short-term expectations on the Italian economic situation considerably worsen, probably also because of the announcement of the serious crisis hitting the Italian automobile sector.

Indeed, the negative trend registered in the automobile industry contributes to explain the October confidence contraction: net of the automobile sector, the entrepreneurs' confidence climate is slightly increasing compared to the September values and reaches the highest levels since May 2002.

### Situation in the reference period (October 2002)

ISAE respondents indicate that their October order books are stable on the September levels (the balance equalling -14, as in the previous month), with a good recovery on foreign markets (the seasonally adjusted balance rising from -18 to -11) and a substantial stability on domestic

markets (the balance going from -11 to -10). Respondents also report a slight production recovery, the balance of which rises from -9 to -7. Finished products inventories remain below what are considered as "Normal" levels, and decrease as against the September figures (the seasonally adjusted balance being -6 compared to -4 in September).

The phase characterised by an order-book recovery continues with reference both to investment goods - the October balance equalled -11 as against -15 in September (much above the minimum figure of -21 reached in August) - and to consumer goods - the seasonally adjusted balance ranks -10 from -16 in September and -22 in the period July-August. Intermediate goods producers signal a demand deterioration (their seasonally adjusted balance falling from -9 to -19, which is close to the Summer minimum values of -23, after the strong September recovery) due to the domestic component reduction (its balance decreases from -11 to -19). In all sectors, inventories are below what are considered as "Normal" levels; indeed, inventories reductions are signalled by final goods producers (the balance of consumer goods going from 2 to -2, that of investment goods from 0 to -10), while the intermediate goods balance rises from -10 to -5.

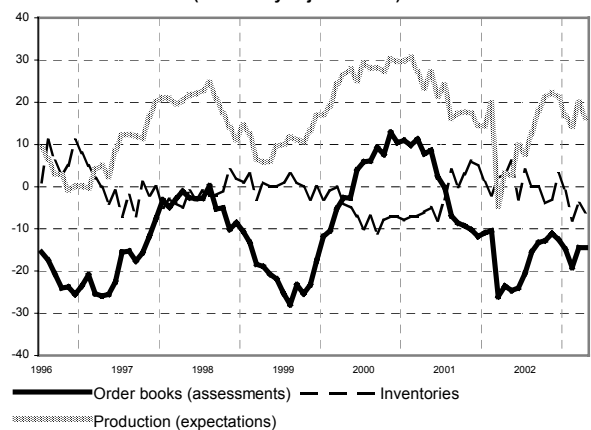
### Forecasts for the next quarter

In October, ISAE respondents are much more pessimistic both on the short-term trend of demand and production, and on the general prospects of the Italian economy. The seasonally adjusted balance of short-term expectations on order books and production falls from 22 to 15 and from 20 to 16, respectively. The demand deterioration is

Confidence climate by economic destination of goods  
(seasonally adjusted data)



Assessments on order books, expectations on production  
and inventories  
(seasonally adjusted data)



homogeneously diffused among all the main sectors. With regard to production, negative indications come from intermediate and consumer goods (the balances passing from 24 to 14 and from 27 to 20 respectively). Conversely, in investment goods, expectations on production are stable on the levels of the previous month (21). Entrepreneurs are much more pessimistic on the prospects of the Italian economy in the next three months: the seasonally adjusted balance decreases for the third month in a row, reaching -16, which is close to the minimum September levels, immediately after the terrorist attacks to the USA. The worse expectations on the general economic situation are homogeneously diffused in all sectors. Finally, inflationary tensions decrease: the seasonally adjusted balance falls down to 4 from the figure of 5 registered in the previous quarter.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
July 2002	93.7	-15	-1	17
Aug. 2002	93.8	-19	-8	14
Sept. 2002	95.8	-14	-4	20
Oct. 2002	95.3	-14	-6	16

Source: ISAE

**ISAE Survey on the automobile sector**

The worsening emerging in the short-term expectations on the economic trend may be linked to the serious crisis

hitting the major Italian automobile industry. According to the ISAE Survey, the sector of "Automobiles and car components" (which accounts for 4.7% of the manufacturing and extractive sector) registers a sharp order-book fall over the past few months, alongside with a strong worsening of its productive expectations and a considerable and long-lasting accumulation of finished goods inventories.

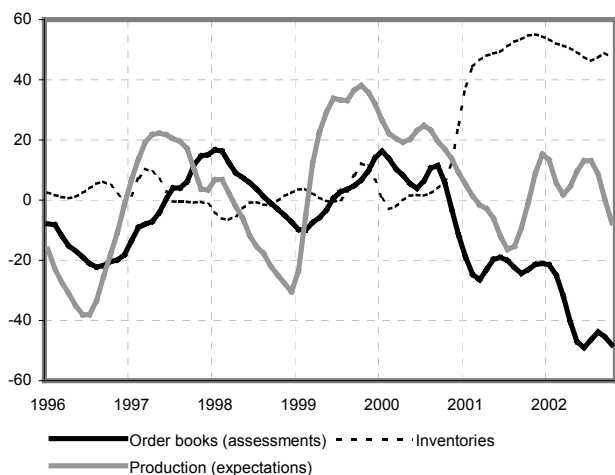
The negative car sector trend - apart from playing a relevant role in the negative assessment expressed on the general economic prospects - fully explains the slight confidence fall registered in October: indeed, while adjusting the overall trend of the car sector data, the confidence indicator equals 96.7, which is slightly more than in September and close to the highest figures reached since May 2002. Looking at the indicator-building series net of the car sector, the order-book level continues to remain stable (-13), while expectations on production register a modest fall (the balance falling from 21 to 19). Finally, the further inventories reduction is confirmed, as they reach levels lower than the "Normal" ones for the fourth month in a row.

**The main quarterly results (III quarter 2002)**

According to the data of the Quarterly ISAE Survey carried out in the July-September period, the degree of plant utilisation remains stable on the levels observed in the II quarter 2002, namely at 77.6.

Conversely, wide-spread signals of a demand contraction emerge: the length of the ensured production on the basis of the present order books falls down to 4 months (as against 4.3 months in the previous survey), as does the flow of new orders (the balance deteriorating from 4 to -4). Besides, firms signal that their obstacles to productive activity are increasing, mainly because of insufficient demand. Conversely, the share of those perceiving the difficult labour availability as an obstacle to production is decreasing (from 14 to 10%, which is close to the minimum levels of the II quarter 1999). With regard to the labour market, firms seem to react to the order-book standstill with a reduction in worked hours

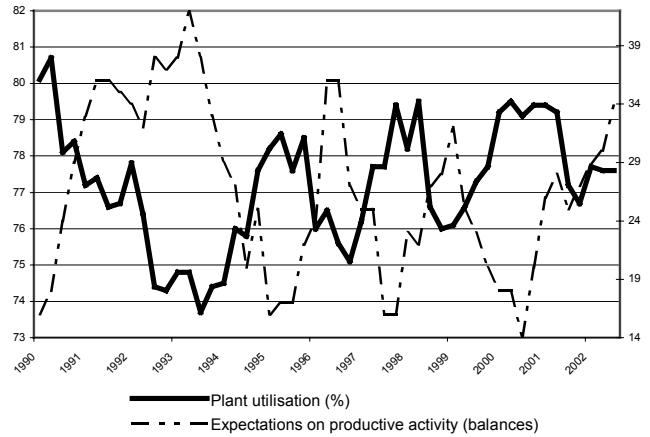
**Automobile sector: assessments on order books, expectations on production and inventories (s.a. and net of irregular components series)**



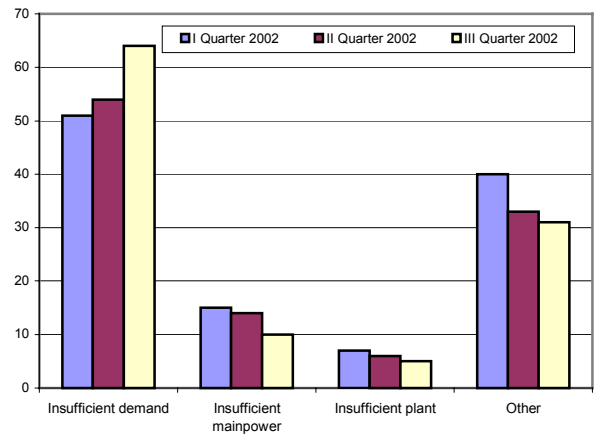
which, means a balance deterioration from 4 to -16 between the II and III quarter 2002. Expectations on employment for the next quarter remain stable as against the previous quarter: the balance stops at -4, on the minimum levels of the III quarter 1999.

The only favourable signals in the Quarterly Surveys come from short-term forecasts on foreign demand. Indeed, the balance of exports in volume passes from 8 to 13, maybe due to diffused expectations for a gradual improvement in the international macro-economic situation. Finally, entrepreneurs signal a substantial stability of the level of raw materials and semi-finished goods inventories, which remain slightly below what are considered as "Normal" levels (the balance remaining at -1, as in the II quarter 2002).

**Productive activity: plant utilisation and expectations in the next 12 months**



**Obstacles to production**



**Expectations on employed mainpower**

