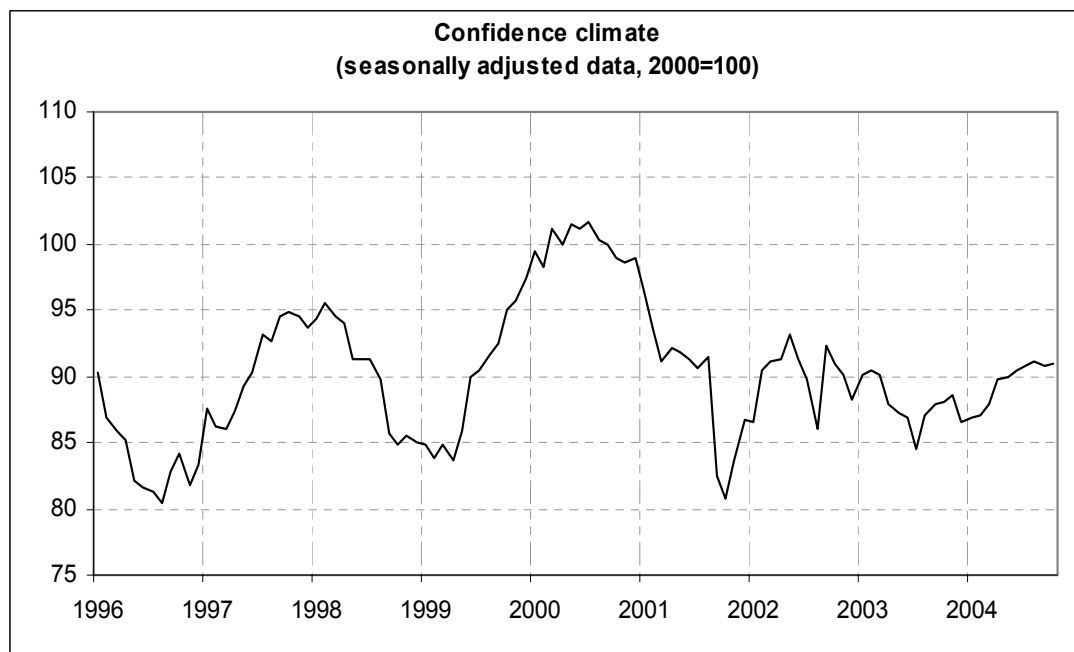




DATA/Date: **October 27, 2004**  
TEL.: 06/444821

## THE MANUFACTURING FIRMS' CONFIDENCE IMPROVES IN OCTOBER, THOUGH THE DEGREE OF PLANT UTILISATION DIMINISHES ON AVERAGE IN Q3

- Starting from October 2004, ISAE is re-elaborating the data of the manufacturing and extractive firms' Survey on the basis of new computation procedures. The main changes concern the firm classification by sector, the weights adopted for aggregation and the computation of the balance of assessments on finished products inventories. A detailed description of the variations is provided by the Press Release "Restructuring of the ISAE Survey on manufacturing and extractive firms", which was diffused together with the present note
- The confidence index (seasonally adjusted data, 2000 = 100) grows from 90.7 in September to 91 in October, thanks to the smaller stock accumulation and to rosier production forecasts. Conversely, assessments on the current order-book trend slightly decrease
- Looking at data broken down by sectors, intermediate goods producers are more optimistic than in September (the index rising from 89.9 to 95.2), while investment goods and consumer goods are deteriorating (from 87.2 and 94.1 to 85.9 and 91.2 respectively)
- Among the other variables, short-term forecasts on order books grow again, while those on the future selling price trend decrease. Expectations on the general economic trend are worsening
- According to the traditional quarterly surveys, constraints to the production activity grow in Q3 (seasonally adjusted data), mainly because of the lack of demand. Similarly, evaluations on new orders are worsening
- The degree of plant utilisation is slightly decreasing (from 76.9 to 76.6 in seasonally adjusted terms) and the assured production length - on the basis of the present order-book level - falls from 3.5 to 3.3 months. Positive signals emerge from the number of worked hours, which a growing share of respondents consider to be increasing



Data referring to November shall be diffused on **November 25, 2004**.

Next ISAE surveys are scheduled as follows:

**October 29, 2004:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: September) and ISAE Monthly Business Service Survey (Reference month: October)

**November 2, 2004:** Comparative Business Surveys for Italy, Germany and France (Reference Month: October)

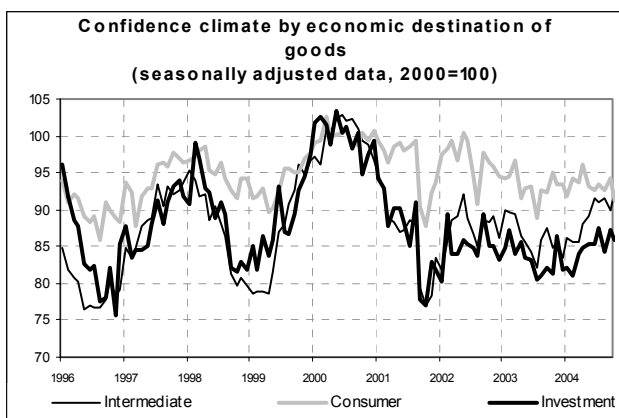
**November 3, 2004:** Quarterly ISAE Business and Consumer Surveys: Territorial Aspects (Q3 2004)

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 October 1 and 16 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) grows from 90.7 in September to 91 in October, thus nearing the cyclically high figures reached in August. The improvement is due to the smaller stock accumulation<sup>1</sup> and to rosier production forecasts. Conversely, assessments on the current order-book trend slightly decrease.

Looking at data broken down by sectors, after the September contraction, intermediate goods producers are definitely more optimistic (the index rising from 89.9 to 95.2, thus getting near to the February 2001 values), while figures referring to investment and consumer goods are deteriorating (from 87.2 and 94.1 to 85.9 and 91.2 respectively). Among non confidence-building variables, assessments on the current production level and on the general economic situation worsen, while short-term forecasts on order books grow and those on the future selling price trend decrease.



<sup>1</sup> Starting from October 2004, the balance of inventories is computed as the difference between the share of "Above Normal" and "Below Normal", pursuant to the European Commission Harmonised Programme.

According to the traditional quarterly surveys, between July and September the degree of plant utilisation slightly decreases and the share of firms considering the present production level "more than sufficient" grows. Negative signals come from assessments on new order books, on the assured production length and on the existence of obstacles to production. Conversely, respondents signal a rise in the number of worked hours.

## Situation in the reference month (October 2004)

In October, assessments on order books worsen, while the indications coming from production are contradictory within a framework characterised by a smaller stock accumulation. The (seasonally adjusted) order-book balance falls from -12 to -14, alongside with a contraction in both the domestic (the balance passing from -16 to -18) and the foreign (from -13 to -16) demand components. With reference to production, firms are uncertain and signal a marked reduction in the current production level (the seasonally adjusted balance passing from -6 to -10) and a recovery in their monthly variations (the balance rising from 4 to 7, which is close to the November 2003 figures). In this framework, the stock reduction (from 6 to 5 in terms of balance, which is near to the minimum May levels) might pave the way to a new production thrust in the next few months, should rosier demand conditions emerge.

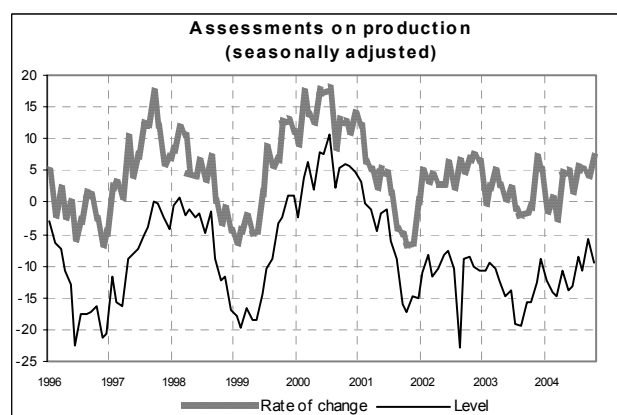
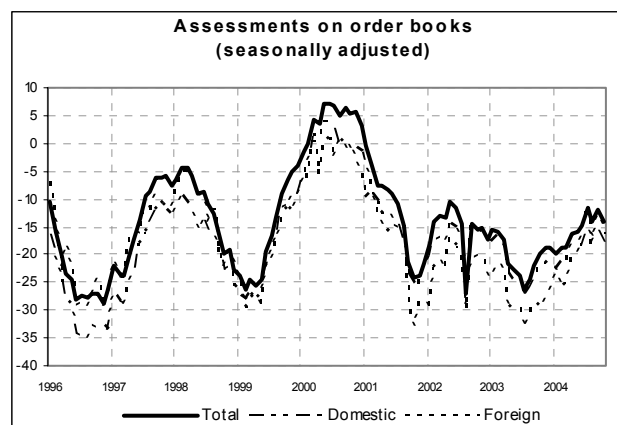
The worsening order-book assessments are homogeneously diffused in all sectors, with more marked negative signals in consumer goods (from -14 to -20 in terms of balance). The worsening in investment goods is mainly due to the foreign demand component (the balance passing from -13 to -18), while in consumer goods negative indications come in particular from the domestic market (the balance falling from -18 to -21). Assessments on the current production level are negative in all sectors, while those on the rate of change of production improve in consumer and in intermediate goods. With regard to inventories, a slight rise is observed in final goods alongside with a fall in intermediate goods (the balance decreasing from 6 to 1).

## Forecasts for next quarter

Compared to September, forecasts of ISAE respondents are generally improving with reference to order books, production and employment, while price tensions are expected to ease. Expectations on the general economic situation are worsening compared to the previous month.

The balance of order-book expectations grows from 18 to 20, thus coming back to the August figures. The one on production rises from 15 to 16 and the balance referring to employment (raw data) recovers from -4 to -3. With reference to selling prices, firms seem to have intention to reduce price rises in the next few months (the balance decreasing from 14 to 12). Finally, short-term expectations on the general economic situation worsen and the balance falls from -4 in September to -8 in October.

Forecasts of ISAE respondents are rather dishomogeneous in single sectors. Indeed, expectations in intermediate goods strongly improve and the balances of expectations on order books and production jump from 14 and 12 to 23 and 17 respectively, while the one on the employment trend recovers from -2 to 0. However, in this sector, selling price tensions are emerging (the balance passing from 18 to 21), while pessimism on the country's general economic situation is increasing (the balance falling from -12 to -15). In consumer goods, the balance of order-book expectations diminishes (from 21 to 16) and the one of production expectations falls from 17 to 16. Conversely, the balance of employment expectations (raw data) remains stable on negative figures (-5), while expectations on the country's general economic situation are worsening (from -12 to -13 in terms of balance). The only positive feature in this sector is that expectations for selling price rises are decreasing from 6 to 3, which is close to the minimum levels of June 1999. Finally, in investment goods, the balances of expectations on order books and production diminish from 22 and 14 to 21 and 13 respectively and the one on the general economic situation falls from -1 to -18. Rosier indications emerge from the employment prospects (the raw balance passing from -7 to -4) and from the decreasing price expectations (the balance falling from 15 to 9).



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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
July 2004	90.7	-12	7	14
Aug. 2004	91.1	-14	7	19
Sept. 2004	90.7	-12	6	15
Oct. 2004	91.0	-14	5	16

## The main quarterly Survey results

### (Q3 2004)

According to traditional quarterly questions, in the July-September period ISAE respondents signal growing constraints to their production, mainly due to lack of demand and to a falling degree of plant utilisation. Starting from October 2004, the main balances of the quarterly Survey and the degree of plant utilisation are seasonally adjusted with the Tramo-Seats method.

Going in detail, the evaluations on new order books slightly decrease (the seasonally adjusted balance falling from 4 to 3), as do those on the assured production length (from 3.5 to 3 months). Besides, expectations on the short-term export trend worsen from 12 to 10 (seasonally adjusted balance). This goes alongside with growing constraints to production (which are relevant for 44% of respondents as against 38% in Q2), mainly due – in keeping with the indications coming from order books -- to “lack of demand”, apart from “financial constraints” and “other reasons”, probably linked to the uncertain international economic situation. Furthermore, the share of firms considering their competitive positions worst than in the previous quarter rises both referring to the European and to the extra-EU markets, probably in connection with the euro-dollar exchange rate. Besides, stocks of raw materials and semi-finished products remain unchanged (-9 in raw terms, as in the previous Survey).

The negative assessments on demand go alongside with a slight fall in the degree of plant utilisation (from 76.9 to 76.6% in seasonally adjusted terms) and with a rise in the number of those considering their productive capacity “more than sufficient” (32% of the sample as against 30% in Q2). Conversely, there is a growth in the number of worked hours: the seasonally adjusted balance recovers from the low figures of Q2, passing from -1 to 2 and being positive again for the first time since Q1 2001.

