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MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: December 2002

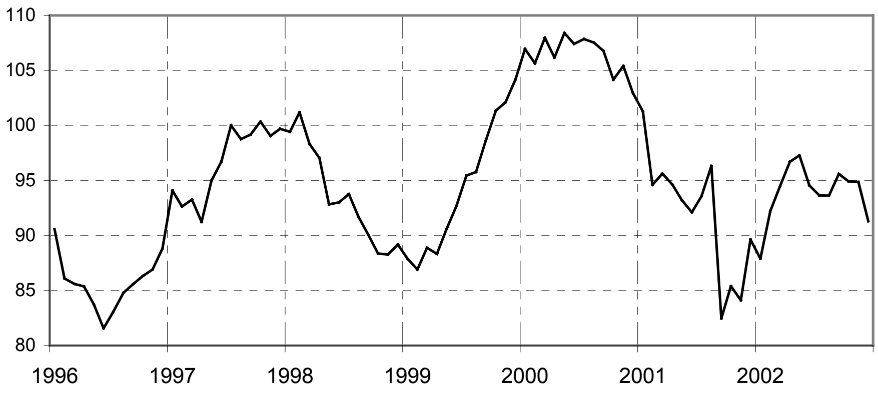
- **According to the ISAE Monthly Survey carried out between December 3 and 18, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) clearly decreases in December (passing from 94.9 to 91.3), remaining on the January 2002 minimum levels**
- **Order books diminish and production expectations decrease, though they remain generally favourable. Inventories – though recovering compared to last month – remain below what are considered "Normal" levels for the sixth month in a row**
- **Expectations on order books for the next quarter are positive, though they become less optimistic. Also forecasts on the general trend of the Italian economy worsen**
- **A growing number of respondents feel the current production level is increasing. Finally, unlike what emerged from the December 19 ISAE Consumer Survey, which signalled growing inflationary tensions, ISAE respondents expect a substantial selling price stability in the next quarter**

QUARTERLY ISAE SURVEY ON EXPORTING FIRMS

Reference period: IV quarter 2002

- **According to the ISAE Quarterly Survey on Exporting Firms, the export turnover in the IV quarter shows signals of recovery and administrative bindings on exports slightly diminish**
- **ISAE respondents signal that – compared to the total export – the percentage aimed at EU countries grew in the IV quarter 2002 to the detriment of U.S. markets and of non-EU European countries**

Confidence climate
(seasonally adjusted data), 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.

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 Survey carried out by ISAE between December 3 and 18 on a sample of about 4,000 manufacturing and extractive firms shows that, in December, the seasonally adjusted confidence climate considerably decreases from 94.9 to 91.3, which is close to the minimum levels registered in January 2002.

The fall is due to the order-book contraction which – after the recovery observed in the past two months – gets again close to the low August 2002 levels in terms of seasonally adjusted data. Indeed, inventories, though recovering, remain below what are considered “Normal” levels for the sixth month in a row. Also production expectations fall, though remaining generally favourable.

For the next quarter, expectations on order books – though remaining positive – are less optimistic compared to the latest months. Also forecasts on the general Italian economic trend are worsening, within a framework characterised by a substantial selling price stability.

Breaking down data by sector, the confidence deterioration is particularly evident in consumer goods (the indicator falls from 97.3 to 91.9), but it is also important in intermediate and investment goods (going from 93.5 and 92.1 in November to 90 and 89.6 in December respectively).

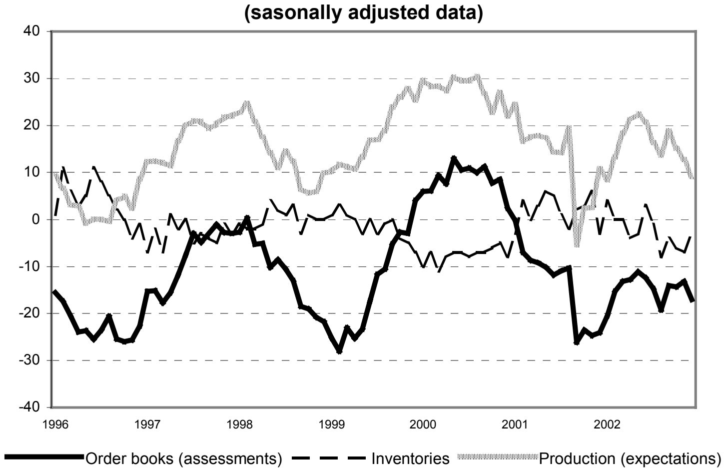
Situation in the reference period (December 2002)

ISAE respondents indicate that their December order books tend to diminish, both in the domestic and in the foreign components. The seasonally adjusted balance goes from –13 to –17: it passes from –13 to –16 in domestic orders and from –18 to –20 in foreign orders. Demand is decreasing in all major sectors: the overall seasonally adjusted balance falls from –11 to –15 in consumer goods; from –7 to –12 in investment goods and from –16 to –23 in intermediate goods. With regard to the domestic component alone, the major contraction is observed in intermediate goods (the seasonally adjusted balance of which passes from –14 to –25, thus reaching the January 2002 minimum levels). The deterioration is less evident in investment goods (the balance falling from –12 to –17), while modest signals of recovery are observed in consumer goods (the balance passing from –5 to –2). The foreign order-book contraction is due to the fall in intermediate goods (the seasonally adjusted balance of which goes from –21 to –26), while investment goods (-13) and consumer goods (-23) remain stable.

Conversely, assessments on the current production level improve: the seasonally adjusted balance grows from –10 to –8. Positive signals come from investment goods (where the seasonally adjusted balance rises from –9 to –2), but they are diffused also in other sectors (the balance for consumer goods going from –6 to –4 and for intermediate goods passing from –18 to –14).

Finished products inventories remain below what are considered “Normal” levels for the sixth month in a row, even though a moderate tendency to accumulation is

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



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

looming ahead: the seasonally adjusted balance recovers from –7 to –3, thus becoming positive again (for the first time since September) in consumer goods and remaining below what are considered “Normal” levels in intermediate goods (slightly improving from –5 in November to –2 in December) and, particularly, to investment goods (-12 as in November).

Forecasts for the next quarter

In December, ISAE respondents are much less optimistic on the expected production trend, which remains generally favourable; indeed, expectations on demand and, more generally, the short-term prospects of the Italian economy considerably deteriorate, though a substantial selling price stability is expected.

The seasonally adjusted balance of short-term expectations on production falls from 13 to 9. The contraction concerns all major sectors, but it is particularly intense for consumer goods, where the seasonally adjusted balance decreases from 16 to 9; in investment goods it diminishes from 13 to 9 and in intermediate goods it goes from 12 to 10.

Entrepreneurs are much more pessimistic on their expected order books: their seasonally adjusted balance passes from 19 to 11, mainly owing to a strong investment goods contraction (the balance falls from 18 to 2, thus getting close to the October 2001 minimum figures). Moderately negative signals also emerge from consumer goods producers (whose seasonally adjusted balance goes from 19 to 16) and from intermediate goods (from 16 to 13).

Indeed, a more diffused pessimism on the short-term demand prospects goes alongside with a worsening in expectations on the general economic situation of the country: the seasonally adjusted balance, which had recovered to –7 in November, falls back to –14 in December, which is close to the figures of October 2002. The more wide-spread pessimism is particularly evident for investment goods producers (whose seasonally adjusted balance falls from –8 to –20) and is less intense for consumer goods producers (from –7 to –11) and for intermediate goods producers (from –13 to –15).

Unlike what happened for the ISAE Consumer Survey of December 19, mirroring the consumers’ concerns for new inflationary tensions for the next twelve months, entrepreneurs expect a substantial selling price stability for the next quarter. Indeed, the balance concerning selling price expectations diminishes from 2 to 0, thus reaching the minimum May 1999 levels. In intermediate goods, and, particularly in investment goods, prices are expected to decrease, while consumer goods producers expect a moderate rise in their selling prices.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Aug. 2002	93,6	-19	-8	14
Sept. 2002	95,6	-14	-4	19
Oct. 2002	94,9	-14	-6	15
Nov. 2002	94,9	-13	-7	13
Dec. 2002	91,3	-17	-3	9

Source: ISAE

Quarterly ISAE Survey on Exporting Firms

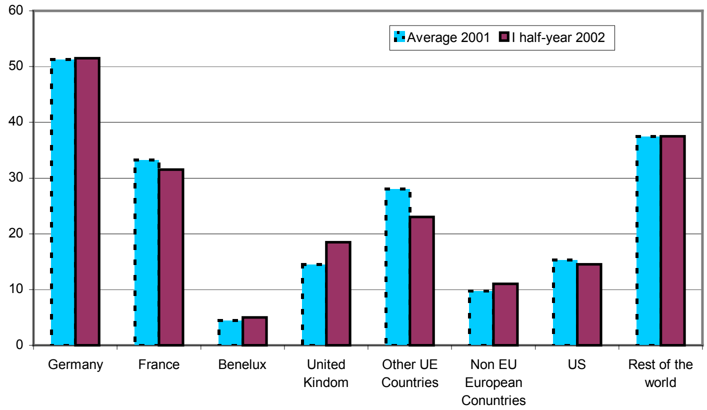
Reference period: IV quarter 2002

According to the ISAE Quarterly Survey on Exporting Manufacturing and Extractive Firms, (almost 50% of ISAE respondents) the balance concerning the export turnover improves in the IV quarter 2002 compared to the July-September period (from 12 to 17). With regard to prices, the Survey shows that the export price/domestic price ratio – which had considerably increased on average in ealy-2002 – decreased again in the quarter October-December. Indeed the share of those thinking exports are negatively influenced by both internal and external factors slight diminishes (from 26 to 25%.). In particular, the negative role of cost and price factors and of the difficulties to gather funds is considered less important.

Conversely, administrative bindings increase as do controls on the products quality.

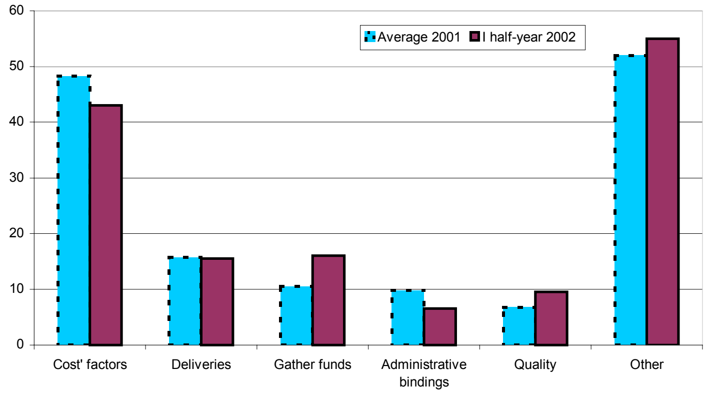
Besides, the Survey provides information on the turnover and prices cyclical trends, together with some structural indications on the distribution of Italian exports by geographical area of destination and on the countries which are perceived as major competitors on the international markets. With regard to export destinations, ISAE respondents signal that the role of the EU countries grew in the IV quarter, compared to the first nine months of the year, to the detriment of the U.S. market and of non-EU European countries. However, the flows towards the rest of the world remain stable. What increases significantly is the competition pressure from non-EU European countries and from the rest of the world.

Countries which are perceived as major competitors



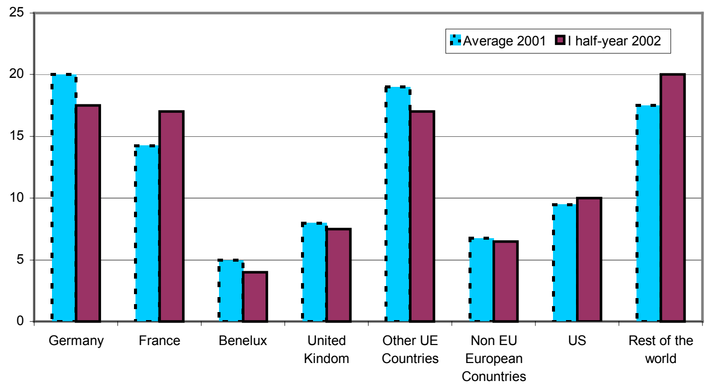
Fonte: ISAE

Obstacles to production



Fonte: ISAE

Distribution of exports by geographical area of destination



Fonte: ISAE