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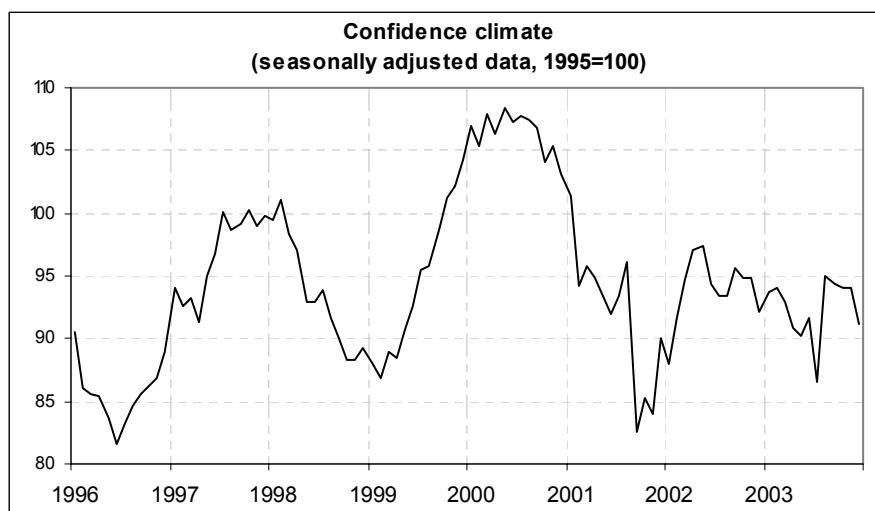
Date: December 22, 2003  
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## IN DECEMBER, THE CONFIDENCE CLIMATE OF MANUFACTURING AND EXTRACTIVE FIRMS DECREASES

- The seasonally adjusted confidence climate of manufacturing and extractive firms falls from 94 in November to 91.2 in December: indeed it decreases from 99.7 to 95.4 in consumer goods, from 91.3 to 90.2 in investment goods and from 91.4 to 86.9 in intermediate goods
- The trend of assessments on the main firm variables is generally favourable, which confirms the ongoing recovery of the industrial cycle, after the minimum values reached in May 2003 (according to the ISAE evaluations)
- Short-term forecasts are still uncertain, as it often happens in the initial phases of recovering economic cycles. Indeed, forecasts on the order-book trend slightly improve, while those on the general economic situation definitely increase. Conversely, short-term expectations on production (which, alongside with assessments on order books and inventories, are part and parcel of the confidence climate) worsen again, while those on selling prices rise

## SIGNALS OF STABILITY OF THE EXPORT TURNOVER EMERGE IN THE IV QUARTER

- The Quarterly ISAE Survey on Exporting Firms shows signals of stability of the Italian exports, both for the current and for the next quarters
- However, the recovery of the international economic cycle reduces the share of firms considering that their exports are affected by negative factors: among those factors, delivery delays and administrative difficulties – which might be connected to a stronger-than-expected pressure from foreign demand - take up a particularly relevant role
- With regard to prices, the ratio between export and domestic prices is decreasing, probably due to the exchange rate appreciation



Data referring to January shall be diffused on **January 28, 2004**.

Next ISAE surveys are scheduled as follows:

**January 7, 2004:** ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: November) and ISAE Monthly Business Service Survey (Reference period: December)

**January 8, 2004:** Comparative Business Surveys for Italy, Germany and France (Reference month: December)

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))

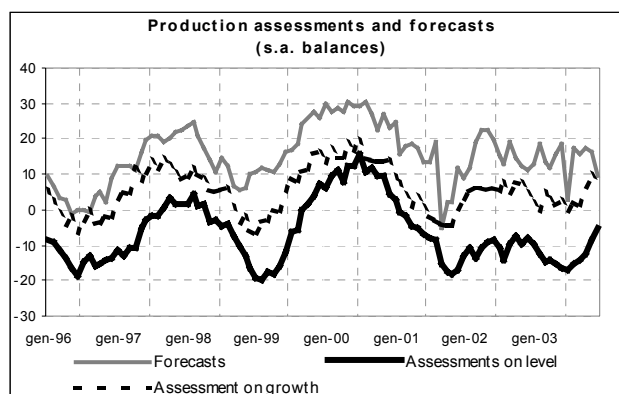
## General Results

According to the ISAE Monthly Survey carried out between December 1 and 18 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) falls from 94 in November to 91.2 in December. Indeed, the contraction is common to all sectors: the index passes from 99.7 to 95.4 in consumer goods, from 91.3 to 90.2 in investment goods and from 91.4 to 86.9 in intermediate goods.

ISAE respondents confirm a general improvement in their assessments on the present order-book and production levels. Inventories are however increasing, as they slightly exceeds what are considered as "Normal" levels.

Short-term prospects are still uncertain: indeed, forecasts on order-book slightly improve, while those on the general economic situation definitely increase. Conversely, short-term expectations on production (which, alongside with assessments on order books and inventories, are part of the confidence climate) worsen again, while those on selling prices grow.

The Quarterly ISAE Survey on Exporting Firms shows signals of stability of the Italian export trend, both for the current and for the next quarters. However, the recovery of the international economic cycle reduces the share of firms considering that their exports are affected by negative factors.



## Situation in the reference period (December 2003)

In December, the trend of assessments on the main firm variables is generally favourable, which confirms the ongoing recovery of the industrial cycle, after the minimum values reached in May 2003 (according to the ISAE evaluations).

The balance of order books equals -14 (-15 in November), which definitely exceeds the figures of the first half of the year. The domestic component is improving (from -17 to -16 in terms of balance), while the foreign component slightly worsens (from -14 to -17), probably in connection to the strong euro appreciation.

It is worth noticing that, in the IV quarter 2003, foreign orders are improving on average as against the III quarter, in keeping with the indications coming from the Quarterly Survey on Exporting Firms (see below). Firms signal their productive levels are recovering and their seasonally adjusted balance equals -5 (as against -9 in the previous Survey), which is the highest peak since May 2001.

In this phase, firms signal a further slight growth in inventories, which are positive again (in terms of balance) for the first time since May 2003 and pass from -3 to 1. The new rise partially accounts for the confidence climate worsening.

Turning to single sectors, favourable indications come in particular from investment goods producers: their assessments on the order-book level are improving both with regard to the domestic markets and to the foreign ones, while those on the current production trend and its variation are increasing. Indeed inventories are growing. Also consumer goods producers show a positive approach, though they are less optimistic than investment goods producers, while the situation in intermediate goods remains substantially stable.

## Forecasts for the next quarter

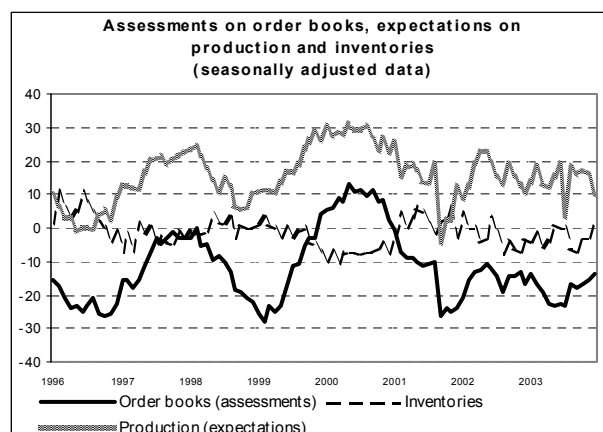
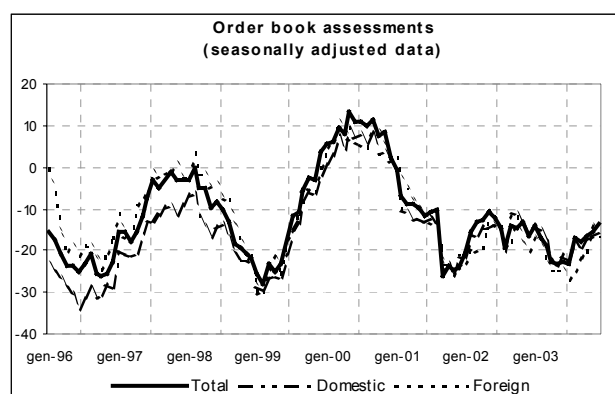
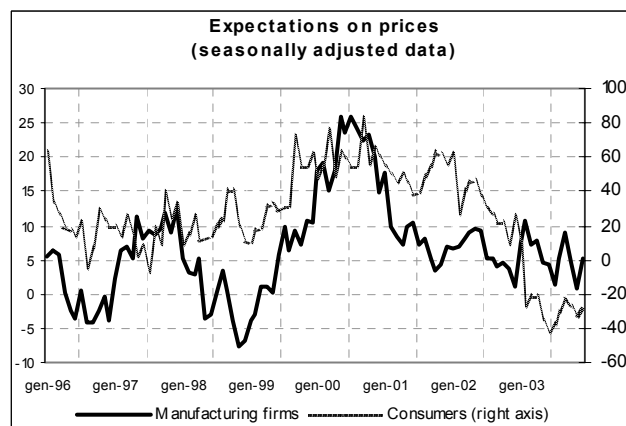
With regard to expectations, the December data are not homogeneous, as some variables show signals of improvement and other worsen, revealing a high degree of uncertainty in the ongoing recovery. The respondents' forecasts on the country's general economic situation become less critical: the balance passes from -5 to 0, thus showing non negative figures for the first time since July 2002. Expectations on order books and employment remain stable (the balances passing from 18 to 17 and remaining at -10 respectively). Conversely, expectations on production worsen: the balance falling from 16 to 9. On the price side, unlike what emerged from the Monthly ISAE Consumer Survey, an inflationary pressure rise is signalled and the balance goes from 1 in November to 5 in December.

Even the short-term forecasts are rather homogeneous in all sectors: With regard to production, the balance worsens in all three sectors (from 15 to 11 in investment goods, from 21 to 15 in consumer goods and from 14 to 2 in intermediate goods). With reference to expectations on order books, the seasonally adjusted balance worsens in investment (from 18 to 15) and in intermediate goods (from 17 to 16), while it recovers in consumer goods (from 20 to 22). On the employment side, expectations on investment improve (passing from -12 to -9), as do those on intermediate goods (from -11 to -7), while those on consumer goods diminish (from -10 to -13). Finally, with regard to prices, the trend is not homogenous in all sectors: the balance rises from 7 to 12 in consumer goods, from -5 to 0 in intermediate goods and it remains stable at -3 in investment goods.

Also forecasts on the country's economic situation improve in all three sectors: the seasonally adjusted balance grows from -3 to 5 in investment goods, from 2 to 6 in consumer goods and from -16 to -8 in intermediate goods.

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

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Sept. 2003	94.4	-18	-7	16
Oct. 2003	94.0	-17	-3	17
Nov. 2003	94.0	-15	-3	16
Dec. 2003	91.2	-14	1	9



## The Quarterly Survey on Exporting Firms

The Quarterly Survey on Exporting Firms (about half of the ISAE sample) shows a stable Italian export trend both for the present and for the next quarters. However, the share of respondents perceiving the existence of strong constraints to exports is decreasing.

The balances concerning the current and expected export turnover trend remain substantially unchanged compared to the previous quarter (at 0, as in the previous quarter and passing from 13 to 14 respectively). The share of firms considering their exports were affected by negative factors falls from 33 to 30%. Among the negative factors, the impact of delivery delays, administrative problems and price rises is growing. In the first two cases, the firms' concerns might be linked to demand pressures, given the ongoing international recovery. Conversely, price tensions are due to the euro appreciation.

The Survey also provides information on the main competitors of Italian firms on the international markets: indeed, in the IV quarter, the share of firms signalling a strong competition from countries other than the industrialised ones (namely the European countries and the United States) strongly rises (from 39 to 50%). Maybe those countries also comprise China and the main Asiatic countries. Competition from France (which 24% of the sample consider a strong competitor, as against 28% of the previous Survey) is diminishing to the benefit of Germany (from 48 to 49%), of Benelux (from 4 to 6%) and of the United Kingdom (from 11 to 18%).

With reference to the geographical targets, 61% of exports (65% in the previous Survey) are aimed at EU countries, Germany in particular (18% of exports), as well as France (16%) and the United Kingdom (7%). Also the share of the other EU countries is decreasing (from 20 to 16%). Among non-European countries, the weight of the United States is slightly growing (from 8 to 9%), signalling that in this phase the favourable effect of the US recovery acceleration seems to slightly prevail on the negative effect of the exchange rate appreciation.

