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BI-ANNUAL ISAE INVESTMENT SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: February-March 2003

- **ISAE carried out its usual Bi-Annual Investment Survey on Manufacturing and Extractive Firms between February and March 2003. The Survey, concerning firms which have made investments, comprises about 750 out of the 4,000 firms involved in the ISAE monthly panel; in terms of employees, those firms represent about 45% of the overall panel**
- **According to the Survey, investments in the manufacturing and extractive firms diminished in 2002 by 7.2%, which is more than the estimated fall in the October-November 2002 (-6.2%). For 2003, firms foresee to further reduce their expenditure for investments by 10.7%. In this case, the estimated amount was increased compared to the figures assumed in Autumn 2002 (-12.3%)**
- **Those indications are in keeping with those coming from ISAE Surveys on Manufacturing and Extractive Firms, whereby the order-book level and expectations on production of investment goods producers reached the lowest levels of the present cyclical phase. Besides, according to the ISAE Survey of April 24, the degree of plant utilisation of the I quarter 2003 fell in the whole manufacturing sector, reaching the low figures of IV quarter 1996**
- **The diffused pessimism of the negative investment expenditure trend in 2003 is probably influenced by the fact that the Survey was carried out in a period of strong uncertainty on the prospects of the international economic situation, owing to the war in Iraq**
- **However, most respondents (38% of the sample) are optimistic on their investment prospects for 2003. Favourable indications come in particular from large-sized firms and from firms operating in mechanics and in the food sector**
- **With regard to investment destinations, the Survey highlights that a large share of the expenditure for 2003 (35% of the total amount) is aimed at plant renewal; 30% is used within the rationalisation process, 26% for the enlargement of the existing capacity and the remaining 9% for other reasons (safety, pollution control, and others)**
- **Moreover, respondents seem to indicate an accelerating trend in the process and product innovation: an increasing share of firms indicate that they make investments aimed at introducing new production techniques and at launching new products on the market**
- **Finally, the share of leasing-based investments slightly rises in 2002: according to respondents, they accounted for 10.9% of the overall expenses (9.1% in 2001). However, the share of firms declaring they resorted to leasing in 2002 decreases from 35 to 32%**

Next ISAE surveys are scheduled as follows:

May 21, 2003: *ISAE Monthly Consumer Survey (Reference month: May)*

May 27, 2003: *ISAE Monthly Business Survey on Manufacturing and Extractive Firms (Reference month: May)*

May 29, 2003: *ISAE Monthly Business Service Survey (Reference period: May) and ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: April)*

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

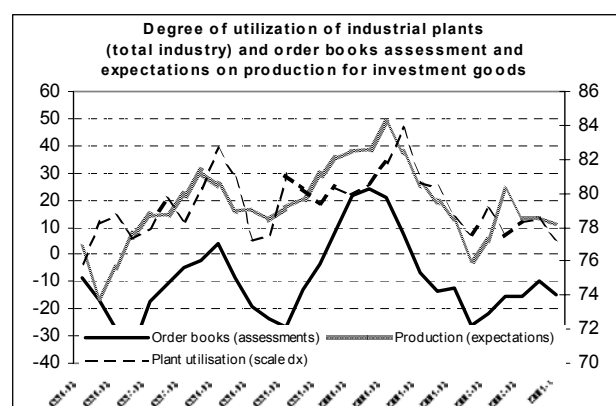
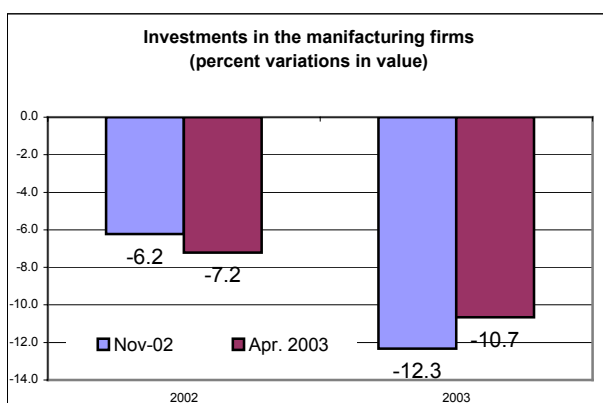
ISAE carried out its usual Bi-Annual Investment Survey on Manufacturing and Extractive Firms between February and March 2003. The Survey, concerning firms which have really made investments, comprises about 750 out of the 4,000 firms involved in the ISAE monthly panel; in terms of employees, those firms represent about 45% of the overall panel. The Survey gathers both quantitative (amount of investments made and planned; prices of investment goods) and qualitative information (foreseen expenditure for next year, destination of expenditure, resort to leasing). Please notice that indications concerning investments cannot be immediately compared to National Accounts data. Indeed, according to the latest available data, referring to 2000, investments in the manufacturing and extractive sector only account for 27% of the overall expenditure.

On the basis of the information provided by respondents, the nominal expenditure for investments in the manufacturing and extractive sector diminished in 2002 by 7.2%, which is a larger contraction than the one foreseen in October-November 2002 (-6.2%). For 2003, firms foresee to further reduce their expenditure for investments by 10.7%. In this case, the estimate increased compared to the assumption made in Autumn 2002 (-12.3%).

The indications provided by respondents are in keeping with those coming from the latest ISAE Surveys on Manufacturing and Extractive Firms, whereby the balances concerning the order-book levels and production expectations of investment goods producers in the I quarter 2003 fell on low levels. Besides, in that same quarter – according to the Survey of April 24 – the degree of utilisation of industrial plants reached the minimum figures of IV quarter 1996. The pessimistic forecast for 2003 may be influenced by the lapse of time in which the Survey was carried out, namely in a period of strong uncertainty on the international economic prospect, because of the war in Iraq.

Small-sized firms are particularly pessimistic on the prospects of investments for 2003, as they estimated they will reduce investments by 22%, compared to the figure of -19% expected in Autumn 2002. The estimated fall for firms with 50-249 employees equals 12% (which is higher than the expected -22% forecast in the previous Survey), the one of large-sized firms (+ than 250 workers) equalling 3.7%, which is smaller than what initially forecast last Autumn (-5.9%).

The forecast of price variation for investment goods in 2003 as against 2002 equals 1.5%, which is increasing compared to the forecast for the previous year (0.7%).



Forecasts for 2004

More favourable indications come from the early (qualitative) forecasts on the investment trend for 2004: the share of firms expecting to raise their expenditure (38% of the sample) exceeds the number of those expecting a reduction (34%). Indeed, 28% of respondents assumes their investment remain unchanged. In particular, large-sized firms seem to be optimistic (66% of which foresee to raise expenditure); more caution prevails among small and medium-sized firms, which in the majority of cases expect a decreasing expenditure for next year.

Turning to single sectors, the optimistic approach emerges in particular in mechanics and in the food sector (54% and 56% of favourable replies). Among sectors not foreseeing to increase their expenditure in 2004, the more pessimistic assessments come from extractive industries, from industries processing metallic and non-metallic minerals and from the transport equipment (62 and 56% of negative replies respectively).

Main investment destinations

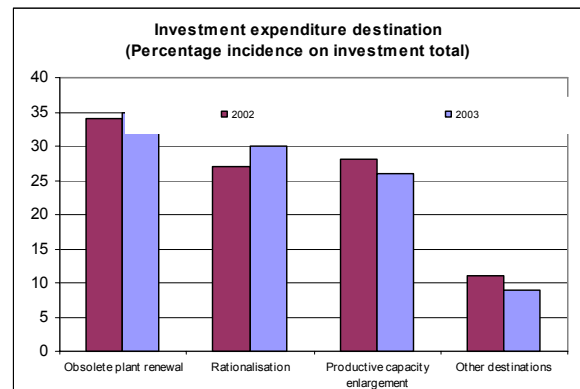
With regard to the main investment destinations, the Survey shows that most expenses for 2003 are absorbed by obsolete plant renewal. Finally, ISAE respondents seem to show an accelerating trend in process and product innovation. An increasing share of respondents declare they will make investments aimed at introducing new production technologies and at launching new products on the market.

Going in detail, investment aimed at obsolete plant renewal account for 35% of overall expenses in 2003 (according to firms themselves, it was 34% in 2002); expenditure for rationalisation investments grows from 27% to 30%, while expenses aimed at enlarging production capacity, slightly diminishes (from 28% to 26%) as well as those concerning other objectives among which safety and pollution control (from 11% to 9%).

Obsolete plant renewal is a particularly important reason to make investments in extractive firms (47% of expenses) and in manufacturing firms (44% of the total). Conversely, interventions for rationalisation play a particular role in textiles and in the chemical sector (40% of total expenditure), in mechanics (35%) in the transport

equipment (34%). With regard to expenses to enlarge production capacity, they emerge in particular in the sectors of paper and press (38%) and in transportation (32%).

Breaking down data by firm size, investments for obsolete plant renewal mainly concern small firms (43% of total expenses), while 35% of the overall expenditure of large firms is aimed at rationalisation, while 28% of investments in medium-sized firms is aimed at enlarging production capacity.



Expenditure for rationalisation and enlargement of production capacity

The Survey also provides more detailed information on the real utilisation of the expenditure aimed at rationalisation and at enlarging production capacity. With regard to the rationalisation expenditure, most respondents (58%) declare the spend for rationalisation because of the need to introduce new production techniques (it was 56% in 2002). Compared to 2002, firms declaring they allocate that expenditure to the automation of the existing processes and to energy economising diminish (from 46% to 42%). In terms of dimensions, a high spending propension for the introduction of new production techniques characterises firms with 250 workers or more (where the share equals 68%, as in 2002), and, in terms of sector, the textile sector (80%) and mechanics (76%).

With regard to expenses for the enlargement of production capacity, 44% of respondents declare they are part of the existing production plans (62% in 2002). Conversely, the number of those spending to introduce new products on the market considerably rises from 27 to 35%. Product innovation is mainly privileged by large firms (47% of the sample); that percentage falls down to 24% among small and medium-sized firms.

Leasing

Finally, the Surveys provides, on a yearly basis – namely in the Survey carried out between February and March of each year -, some information on possible leasing for the purchase of machinery and equipment. 32% of respondents declare they have resorted to leasing in 2002, which is slightly less than in 2001 (35%). The incidence of leasing on the overall investments is however increasing and equalling 10.9% (9.1% in 2001). That form of financing is mainly used by small and medium-sized firms (with shares equalling 19.6% and 22.3% of investment respectively) and by firms operating in paper, press and in the manufacturing industry, in which it covers 24.9% and 26.6% of investment respectively.

