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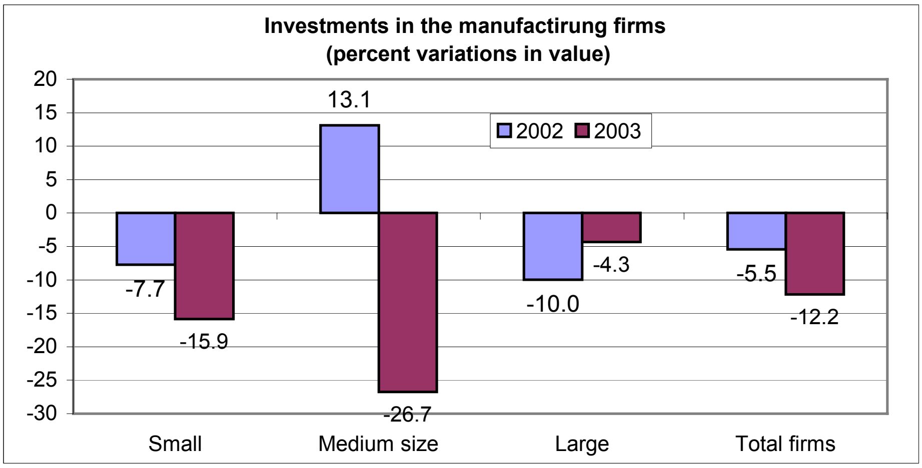
BI-ANNUAL ISAE INVESTMENT SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

Reference period: November 2002

- **According to the November ISAE Investment Survey - to which 800 out of the 4,000 extractive and manufacturing firms of the ISAE panel replied – the nominal expenditure for investments should diminish by 5.5% in 2002. The contraction is particularly strong for large firms (-10%) and it is smaller for small firms (-7.7%); while medium-sized firms declare they had a considerable investment rise worth 13.1 per cent**
- **The present uncertainty on the prospects of the Italian and international cycles also has a negative impact on the forecasts for next year: at present, ISAE respondents expect for 2003 a further, strong contraction of their nominal expenditure, which at present is worth –12.2%. That figure may be reviewed in 2003, when more detailed information on demand trend are available**
- **Besides, that figure is probably also influenced by margins of unutilised capacity, particularly in some sectors. Hence, it is sometimes very difficult for ISAE respondents to provide reliable data on their future expenditure trend. A similarly negative picture for 2003 emerges from the cyclical survey carried out in September by the Bank of Italy, whereby more than 75% of manufacturing firms are not raising their expenditure for investment goods for 2003**
- **According to 52% of respondents, their investment plans registered no substantial change in 2002; 25% of the remaining share report their plans were modified upwards, while 23% report a downward change. Both upward and downward reviews are mainly due to a different demand trend compared to the original expectations: larger-than-expected investments were favoured by an easier access to financial sources and by more favourable economic policy provisions**
- **With regard to the investment composition, according to the ISAE sample, most expenditure in 2002 and 2003 was aimed at productive capacity enlargement within the existing productive plans. Among rationalisation expenditure, a major role is played by the automation and mechanisation of the present productive process**



Next Investment Survey shall be diffused in **May 2003**
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

According to the November ISAE Investment Survey - to which 800 out of the 4,000 extractive and manufacturing firms of the ISAE panel replied – the nominal expenditure for investments in the manufacturing and extractive sectors should diminish by 5.5% in 2002[1]. The contraction is particularly strong for large firms (-10%) and it is smaller for small firms (-7.7%). Medium-sized firms declare they had a considerable investment rise worth 13.1%.

Most ISAE respondents declare they have not substantially modified their expenditure plans in 2002: this is out of keeping with the information coming from a similar Survey carried out by the Bank of Italy in September, whereby most firms reviewed their investment plans downwards during 2002.

According to the ISAE Survey, the main reason why investment plans were modified – for those who did modify them – is a demand trend different from the expected one. The upward revisions were also influenced by the larger financing possibilities and by favourable economic policy measures.

Also the present uncertainty on the prospects of the Italian and international cycles has a negative impact on the forecasts for 2003: ISAE respondents expect for 2003 a further, strong contraction of their nominal expenditure, which at present is worth, –12.2%. The fall expected for 2003 is particularly strong for medium-sized firms (26.7%), which in 2002 registered a considerable growth in their accumulation process. The decrease is also substantial for small firms (-15.9%) and is smaller for large firms (-4.3%) which have already signalled an expenditure contraction in 2002.

Besides - apart from the uncertainty of the recovery - that figure is also influenced by margins of unutilised capacity, particularly in some sectors. Hence, it is sometimes very difficult for ISAE respondents to provide reliable data on their future expenditure trends. A similarly negative picture for 2003 emerges from the September Survey carried out by the Bank of Italy, whereby more than 75% of manufacturing firms are not raising their expenditure for investment goods in 2003.

More favourable signals – running counter what outlined so far – come from data on the investments' targets: both in 2002 and in 2003, most expenditure should be allocated to enlarge the existing productive capacity.

Modifications to investment plans in 2002

Most respondents (52%) declare that their investment plans registered no substantial change in 2002; 25% of the sample report their plans were modified upwards, while 23% report a downward variation. For 29% of respondents, the upward revisions were due to a better-than-expected demand trend; for another 29% they are caused by favourable economic policy provisions. 58% of the sample report that "other reasons" – maybe fiscal policy measures – also played a role. Conversely, downward revisions were mainly determined (77% of cases) by a worse-than-expected demand trend.

Most entrepreneurs operating in basic products and in steel and iron declare their have upwardly reviewed their expenditure plans (56% and 59% of the sample respectively) thanks to investment-prompting policies. Conversely, in the food industry,

[1] Indications emerging from the ISAE Survey are not comparable with the trend of fixed gross investments surveyed by the National Accounting: 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.

firms declare they have downwardly reviewed their original expenditure plans.

Looking at data broken down by firm dimension, small and large firms have not modified their 2002 investment plans (46% and 56% of respondents respectively). Medium-sized firms (between 100 and 500 employees), however, have upwardly reviewed their decisions (50% of respondents); in this case too fiscal investment-prompting policies are the main reasons why firms decided to invest more than originally foreseen.

Investment-influencing factors

The ISAE Investment Survey analyses the main factors influencing firms when taking investment decisions. Both in 2002 and in 2003, the most relevant factor seems to be demand, which is considered "very important" in both years from 69% and 62% of the sample respectively. In 2002, technological development and labour availability stimulated investments according to 45% of respondents, while 28% of sample feel financial sources had no relevant influence. However, the availability of financial means and profit expectations have a negative impact on the forecasts for 2003, as they limit investment decisions according to 22% of the sample (2% in 2002). A positive role will be played by technical factors, such as the technological development and manpower availability (according to 85% of respondents).

Investment targets

According to the ISAE respondents, in 2002 investment aimed at obsolete plant renewal accounted for 28% of the overall expenditure: the share of firms which allocated its expenditure for plant renewal amounts to 37% of the sample.

Rationalisation interventions play a particular role in the food sector (30% of the whole expenditure); plant renewal is a fundamental investment target for extractive firms (58% of expenditure) and for food firms (45% of the whole expenditure). With regard to expenditure for productive capacity enlargement, this is a major target for iron and steel industries (43% of total expenditure) and for mechanical firms and firms producing means of transportation (49%).

Expenditure for plant renewal in 2002 are particularly important for small and medium-sized firms, for which that expenditure accounts for 35% and 43% of the total amount in 2002 respectively. In large firms, most investments (42% of the total figure) are aimed at productive capacity enlargement.

According to the ISAE respondents' forecasts, in 2003 34% of investments shall be allocated for productive capacity enlargement, 31% for obsolete plant renewal and 24% for rationalisation. The remaining share (11%) of investments will be devoted to enhance safety, favour pollution control and the like. In 2003, productive capacity enlargement will be the main target of investments of mechanical firms (46% of their expenditure); while firms producing basic products, iron and steel, consumption good processing and extractive firms will allocate most of their investments for obsolete plant renewal. In terms of firm dimensions, in 2003 most investments of small and medium-sized firms (35% and 41% of the total expenditure respectively) will be aimed at obsolete plant renewal; 38% of large firms' total expenditure will be devoted to productive capacity enlargement.

With reference to the reasons underlying rationalisation investments, both in 2002 and in 2003, the need for automation and mechanisation of the existing productive process prevails (79% and 83% of firms in both years). Conversely, 51% of respondents in 2002 and 45% in 2003 wish to introduce new productive technologies: indeed, the propensity to spend for new technologies is almost exclusively a characteristics of larger firms and is concentrated in mechanics and basic products.

With reference to capacity enlargement, 82% and 77% of the sample (in 2002 and in 2003 respectively) declare they have included that item in the current productive plans. 45% and 48% of respondents (in 2002 and in 2003 respectively) also allocate funds to introduce new products on the market. Product innovation is mainly pursued by large firms (87% of the sample) and by medium-sized firms (55% of firms) and to a lesser extent by small firms; indeed, only 40% of the sample declare they want product innovation.