ISTITUTO DI STUDI E ANALISI ECONOMICA
Piazza dell'Indipendenza, 4 00185 Roma tel.: + 39-06444821 fax: + 39-0644482325

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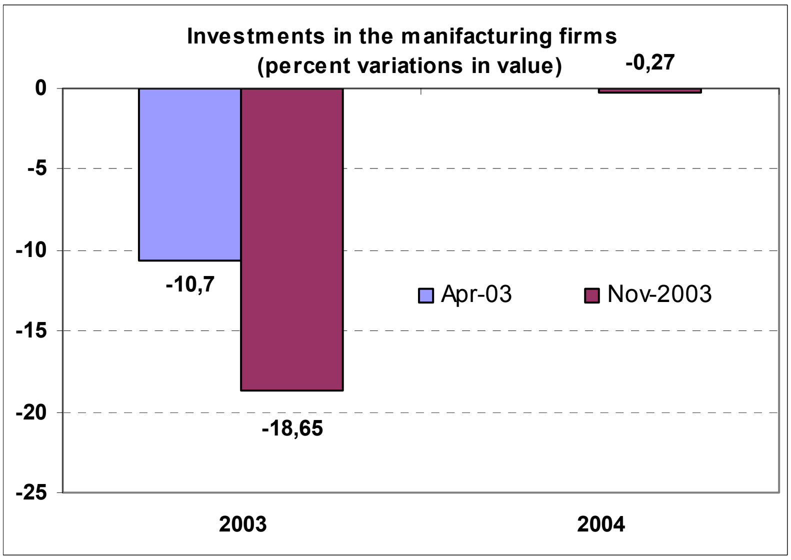
TEL.: **06-444821**

IN 2003 MANUFACTURING AND EXTRACTIVE FIRMS REPORT AN INVESTMENT CONTRACTION AND EXPECT A SUBSTANTIAL STABILITY FOR 2004

- **According to the ISAE respondents, in 2003 investments in the manufacturing and extractive sector decreased by 18.7% in nominal terms, thus marking a downward adjustment compared to the April forecasts. For the next year, for the first time since April 2001, firms do not expect a marked expenditure contraction foreseeing a substantial stability on the 2003 levels; those expectations mirror the positive trends observed for medium-sized and large firms**
- **Those indications are in keeping with the Survey carried out by the Bank of Italy in September 2003, as well as with the ISAE Surveys. In particular, ISAE Surveys outlined a low degree of plant utilisation in 2003 and showed that order books and expectations on production have grown in the past few months**
- **The 2003 adjustments were particularly influenced by an unexpected trend of demand. Indeed, a major influence was exerted also by "other reasons", probably linked to the strong uncertainty characterising the Italian and international economic cycles in 2003**
- **According to the ISAE respondents, a major role among the investment-influencing factors in 2003 and 2004 is played by the availability of financial means and by technical and technological factors**
- **Firms confirm that most investments in 2003 and 2004 are aimed at the replacement and renewal of obsolete plants**



Next Bi-Annual Investment Survey will be published in April 2004.
Next ISAE surveys are scheduled as follows:
December 18, 2003: *ISAE Monthly Consumer Survey (Reference month: December)*
December 22, 2003: *ISAE Monthly Business Survey on Manufacturing and Extractive Firms (Reference month: December)*
January 7, 2004: *ISAE Monthly Business Service Survey (Reference month: December) and ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: November)*

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 (representing around 27% of the overall expenditure for investments) between October and November 2003. The Survey, concerning firms which have really made investment, comprises about 790 out of the 4,000 firms involved in the ISAE monthly panel; in terms of employees, those firms account for about 47% of the overall panel.

According to the ISAE respondents, in 2003 investments in the manufacturing and extractive sector decreased by 18.7% in nominal terms, thus marking a downward adjustment compared to the April forecasts. For the next year, for the first time since April 2001, firms do not expect a marked expenditure contraction foreseeing a substantial stability on the 2003 levels; those expectations mirror the positive trends observed for medium-sized and large firms.

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Those indications are confirmed by the replies on the investment-influencing factors: according to the ISAE respondents, a major role is played in 2003 and 2004 by the demand trends. Indeed, the availability of financial means and technical and technological factors are labelled as "stimulating" by most respondents.

With regard to the main targets, firms confirm that most investments in 2003 and 2004 are meant for the replacement and renewal of obsolete plants.

Pre-balances for 2003 and forecasts for 2004

On the basis of the ISAE respondents, in 2003 investments in the manufacturing and extractive sector decreased by 18.7%, a fall which exceeds the May 2003 forecast (10.7%). That indication is in keeping with the information coming from the usual cyclical Survey carried out in September by the Bank of Italy, as well as with the outcome of the ISAE Surveys. Indeed, according to the former, the investment plans of the industrial sector run short of forecasts, while, according to the latter, a reduction was observed in the degree of plant utilisation, which eventually had a negative impact on investment programmes.

The investment contraction mainly concerned small firms (-36.1%) and – to a smaller extent – firms with 50-250 employees (-28.3%). Conversely, positive indications come from larger firms, which point to a positive variation rate of their nominal expenditure equalling 3.5%.

Forecasts for 2004 are substantially non negative for the first time since April 2001: indeed, the overall expenditure remains substantially stable on the 2003 levels. Going in details, a recovery is expected in the gross fixed capital formation of medium-sized (+4.1%) and of large firms (+4.2%). Figures remain negative for small firms (-11.1%), which however show better figures than those concerning the 2003 pre-balances.

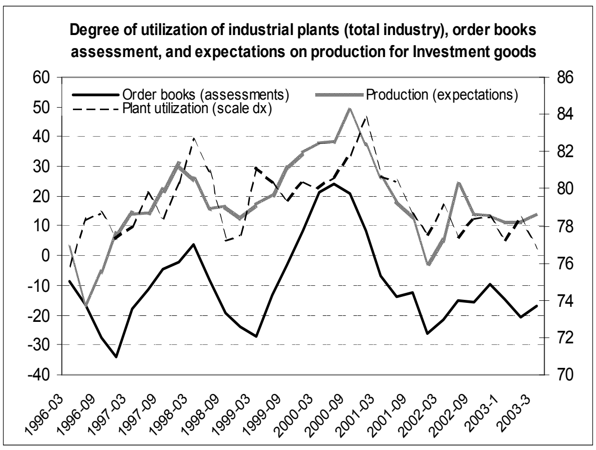
In this case too, indications are in keeping with the Bank of Italy data, signalling a substantial stability in investments for 2004, and with the ISAE Monthly Surveys, highlighting a rosier trend in order books and expectations on production for investment goods over the past few months.

Variations to investment plans for 2004

Most ISAE respondents (59%) declare they did not review their investment plans in 2003. Among those who increased their investments, 40% consider the demand structure variation as the major factor determining the expenditure rise. Conversely, 42% of respondents points to other (not specified) reasons. Indeed, demand played a major role also for those who reduced their investment plans (51% of replies), though "other reasons", probably linked to the uncertain growth prospects, negatively affected that decision (27%).

However, some sectors showed an opposite trend: 57% of respondents operating in paper, printing and publishing increased their investment plans (while 20% reduced their plans), particularly because of "other reasons" (72%) and of economic policy reasons (21%). Similarly, 44% of respondents operating in mechanics increased their investment expenditure in 2003, mainly thanks to demand structure changes (55% of replies) and to other factors (40%).

Finally, with reference to the firm dimensions, most small (41%) and medium-sized firms (42%) augmented their expenditure for investments. Conversely, 21% of large firms reduced their expenditure compared to the forecasts for 2003. In any case, the demand evolution and "other reasons" played a major role.



Investment-influencing factors

The ISAE Investment Survey also analyses the main factors influencing firms' investment decisions. Among those factors the current and expected demand evolution played a fundamental role in determining both the outcome for 2003 and forecasts for 2004. In 2003, 47% of firms consider demand evolution as very important, and 30% of respondents considered it as stimulating. In 2004 that factor was considered very important by 54% of respondents and stimulating by 27% of the sample.

Technical factors follow suite: they are mainly linked to the technological development, to the availability of manpower and to the capacity to adapt to new technologies. Those factors are considered very important by 34% of firms for 2003 and by 32% for 2004, while they are considered stimulating by 41% of respondents both for 2003 and for 2004. The availability of financial means is considered important by 29% of respondents and stimulating by 39% for 2003; with reference to the prospects for 2004, that factor is considered very important by 32% of respondents and stimulating by 33%. Indeed, "other reasons" seem not to affect so much the final outcome, as 46% consider they were of little importance for 2003 and 48% for 2004.

Main investment destinations

With regard to the main investment destinations for 2003, the Survey shows that most expenses (35% as against 34% in the previous Survey) are absorbed by obsolete plant replacement or renewal. According to ISAE respondents, that percentage should grow to 36% in 2004. Indeed, 24% of expenditure was aimed at rationalisation investment in 2003 (25% expected in 2004) and 28% to the production capacity enlargement. Expenditure meant for "other reasons" – such as security and pollution control - fall from 13% in 2003 to 11% expected in 2004. That item seemed to be important for 2003, particularly for firms operating in paper, printing and publishing (33%), but forecasts for 2004 diminish to 13%.

Turning to single sectors, expenditure for obsolete plant renewal and replacement play a major role according to firms operating in the textile sectors, in clothing, shoes and leather, in the chemical sector, rubber and plastics, in means of transportation and food. Conversely, in paper, printing and publishing, “other reasons” account for the main item in 2003 while rationalisation does for 2004. In the extractive industry, expenditure mainly refers to capacity enlargement (in 2003) and to plant rationalisation and replacement (in 2004). In the mechanical sectors, expenditure for capacity enlargement prevails both for 2003 and for 2004 (as in the manufacturing sector).

Looking at firms by dimension, investments for obsolete plant replacement and renewal prevail for all firm dimensions, and this confirms to be the main reason underlying manufacturing firms’ investment decisions.