ISTITUTO DI STUDI E ANALISI ECONOMICA
Piazza dell'Indipendenza, 4 00185 ROMA TEL.: + 39-0644482.1 FAX: + 39-0644482229

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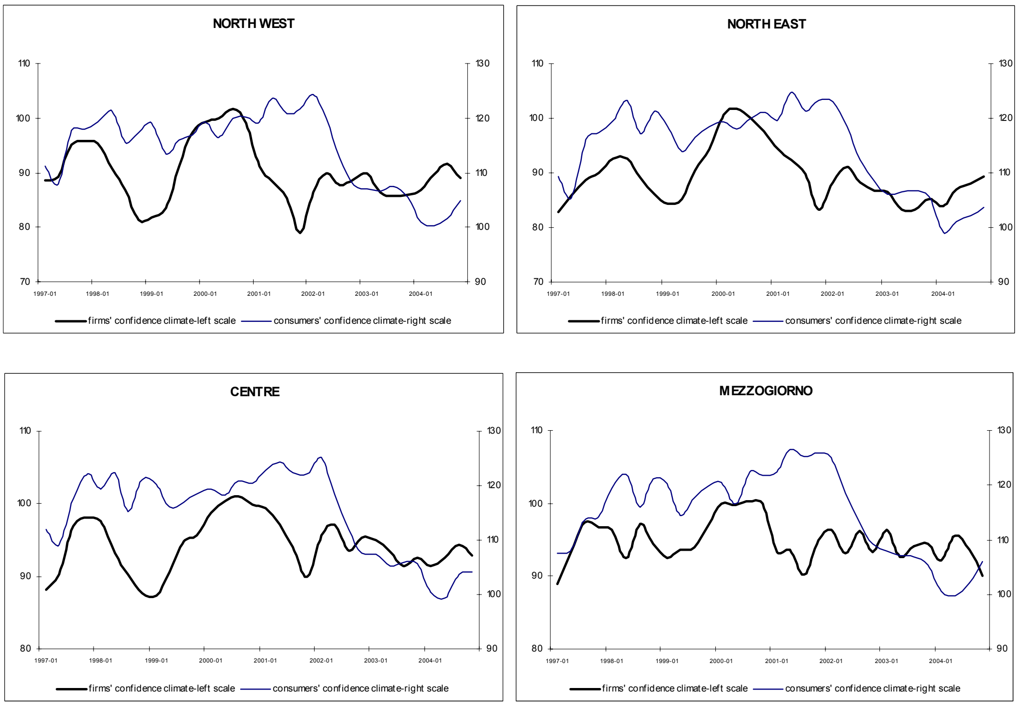
TEL.: **06/444821**

IN THE FOURTH QUARTER 2004, THE CONSUMERS' CONFIDENCE HOMOGENEOUSLY IMPROVES THROUGHOUT THE WHOLE COUNTRY; THE MANUFACTURING FIRMS' CONFIDENCE IMPROVES IN THE NORTH-EAST, WHILE IT FALLS IN OTHER GEOGRAPHICAL PARTITIONS

- **The consumers' confidence climate shows wide-spread signals of improvement throughout the whole country: in the North-west and in the North-east the seasonally adjusted confidence indicator grows from 101.5 and 102.2 to 104.9 and 103.7 respectively. In the Centre, the index passes from 103.6 to 104.1 and in the *Mezzogiorno* – where the leap is more marked - the index grows from 102.1 to 106**
- **The manufacturing firms' confidence indicator improves for the third time in a row in the North-east, where the seasonally adjusted index rises from 88 to 89.3. In the North-west and in the Centre-South, the entrepreneurs' confidence definitely worsens: the indicator decreases from 91.8 to 89.3 in the North-west, while it falls from 94.3 to 92.6 in the Centre and from 93.7 to 90.2 in the South**
- **An analysis of the manufacturing firms' confidence trend in the past four years shows that the national indicator – after the sudden fall registered between the early-2000 and the late-2001 – underwent a moderate recovery until the mid-2002 and than had a standstill in the two following years**
- **However, that trend is not homogeneous throughout the whole national territory: data from the North-west and the Centre are substantially in keeping with the national average, while confidence has been showing a moderate recovery in the North-east since the early-2004 and it has registered a fall in the *Mezzogiorno,* reaching the trough observed data in the late-2001**

FIRMS' CONFIDENCE CLIMATE (INDICES 2000=100) AND CONSUMERS' CONFIDENCE CLIMATE (INDICES 1980=100) (seasonally adjusted data)



Next ISAE surveys are scheduled as follows:
February 22, 2005: *ISAE Monthly Consumer Survey (Reference month: February)*
February 23, 2005: *ISAE Monthly Survey on Manufacturing and Extractive Firms (Reference month: February)*
February 28, 2005: *ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: January) and ISAE Monthly Business Service Survey (Reference month: February)*
March 1, 2005: *Comparative Business Surveys for Italy, Germany and France (Reference month: February)*

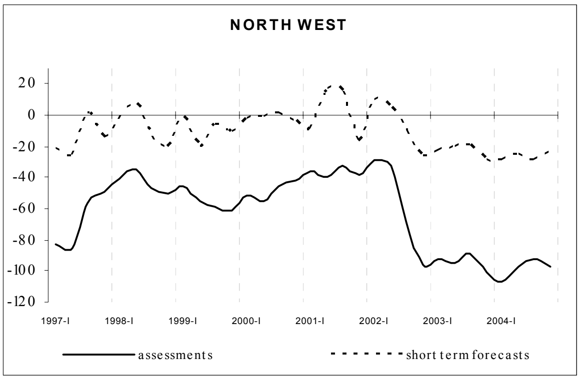
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site www.isae.it)

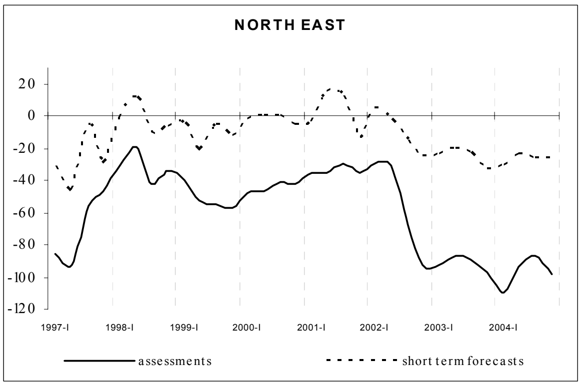
General results

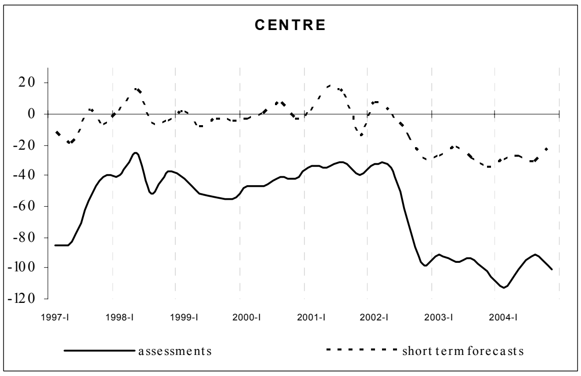
On a quarterly basis, ISAE breaks down by geographical partitions the data coming from its own monthly Business and Consumer Surveys for Italy carried out on samples of about 2,000 consumers and 4,000 manufacturing and extractive firms respectively; On average, the consumers' confidence climate in the fourth quarter shows wide-spread signals of improvement throughout the whole country: in the North-west and in the North-east the seasonally adjusted confidence indicator grows from 101.5 and 102.2 to 104.9 and 103.7 respectively. In the Centre, the index passes from 103.6 to 104.1 and in the *Mezzogiorno* – where the leap is more marked - the index grows from 102.1 to 106. Among the confidence-building series, the improvement comes in particular from forecasts on the country's economic situation, while confidence in the future opportunities and in the present convenience to save is recovering all over the country.

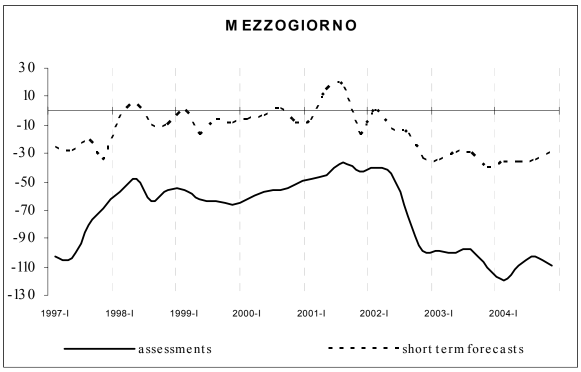
The manufacturing firms' confidence indicator improves for the third quarter in a row in the North-east, where the seasonally adjusted index rises from 88 to 89.3. In the North-west and in the Centre-South, the entrepreneurs' confidence definitely worsens: indeed, the indicator decreases from 91.8 to 89.3 in the North-west, while it falls from 94.3 to 92.6 in the Centre and from 93.7 to 90.2 in the South. Among the confidence-building series, in the North-east firms signal an order-book recovery and a substantial stability of their production trend; in other partitions, order books are decreasing, while the production trend remains stable; inventories are growing in the North-west and in the Centre-South while they diminish in the North-east after the standstill registered in the past two quarters.

CONSUMERS - ASSESSMENTS AND SHORT TERM FORECASTS ON GENERAL ECONOMIC SITUATION
(RAW DATA)









SOURCE: ISAE

ISAE Consumer Survey

North-west

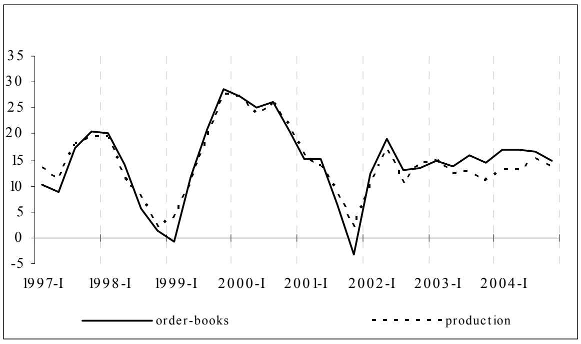
The North-western consumers' confidence climate grows for the second quarter in a row, passing from 101.5 to 104.9. In particular, breaking down components (raw data), the balances of future opportunities (from -66 to -56) and present convenience (from 74 to 83) to save are rising, as are forecasts on the general economic situation (the balance growing from -29 to -23). Conversely, assessments on the general economic situation are worsening (the balance decreasing from -92 to -97), as are evaluations on the respondents' own situations (from -42 to -45) and forecasts on employment (from 32 to 41), towards which Italian households show a darker approach for the second quarter in a row. Also assessments on the convenience to purchase durables are falling from -96 to -99.

North-east

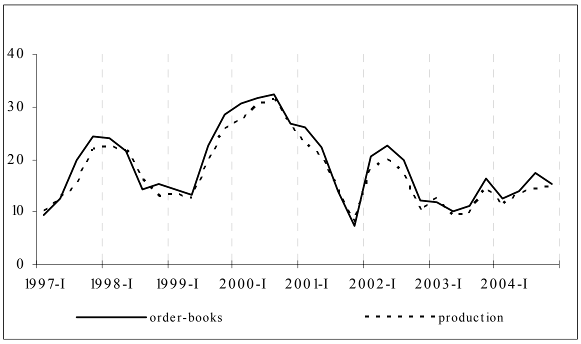
The North-eastern confidence climate grows again for the third quarter in a row: the seasonally adjusted index passes from 102.2 to 103.7. Among the confidence-building series, all variables concerning saving improve, as evaluations on both future opportunities (the balance passing from -66 to -56) and the present convenience to save (from 74 to 83) are rosier; even assessments on the convenience to purchase durables are rising (from -98 to -97). Conversely, all variables referring to the general economic framework and to the respondents' own situations are worsening: Italian consumers provide unfavourable assessments on the general economic situation (the balance falling from -87 to -99) and negative forecasts on unemployment (from 30 to 43) and on the general economic situation (from -.26 to -27); with regard to the respondents' own situations, assessments on the economic situation (the balance decreasing from -37 to -46) and on the households' situations (from 19 to 10) are worsening: while the balance of forecasts shows a smaller contraction (from -7 to -8).

MANUFACTURING FIRMS - EXPECTATIONS ON ORDER-BOOKS AND PRODUCTION
(s.a. data)

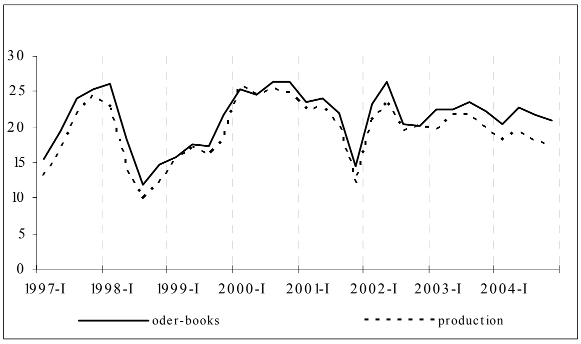
NORTH WEST



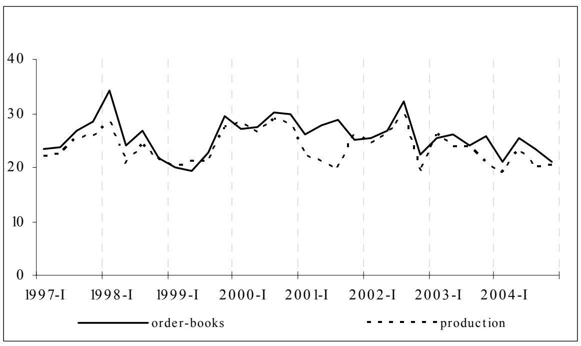
NORTH EAST



CENTRE



MEZZOGIORNO



SOURCE: ISAE

Centre

In Central regions, households' confidence is improving: the seasonally adjusted index increases to 104,1 from 103,6. Also in this partition a rosier approach to saving contributes to the confidence growth: indeed, assessments on the future saving opportunities remain stable (at -67), while evaluations on the present convenience to save improve from 67 to 70. Households are optimistic in their forecasts on the general economic situation (the balance passing from -31 to -20). Conversely, assessments on the respondents' own situations (the balance falling from 11 to 4, thus getting close to the depressed levels of the first quarter 2004) and on the households' financial situations (from -40 to -50) are clearly worsening. Forecasts on the households' financial situations remain unchanged (at -6), while a considerable pessimism is expressed in evaluations on unemployment: the balance rises to 40 (33 in the previous quarter) which is close to the figure of the first quarter 2004.

Mezzogiorno

In the fourth quarter 2004, the seasonally adjusted confidence climate of households from *Mezzogiorno* considerably rises from 102.1 to 106. In this case too, the index improvement is mainly due to rosier assessments on the respondents' own situations: indeed, balances on the present convenience (the balance rising from 70 to 88) and on future opportunities (from -89 to -77) to save improve. Also forecasts on the households' financial situations are recovering (the balance from -11 to -9), though the value remains on historically depressed levels. As it happens in other partitions, forecasts on the general economic situation are also increasing (the balance passing from -36 to -29). Quite the reverse, households from *Mezzogiorno* consider both the general and their own personal and financial situations as negative (the balances passing from -102, -52 and 1 to -110, -56 and 2 respectively). Even intentions to purchase durables are worsening: the balance goes down to -105, thus remaining on the depressed levels registered ever since the fourth quarter 2002.

ISAE Business Survey on Manufacturing and Extractive Firms

North-west

The results of the ISAE Surveys referring to the foruth quarter 2004 point to a worsening entrepreneurs' confidence in North-western regions, where the indicator falls from 91.8 to 89.3, after four improving quarters in a row. Indeed, entrepreneurs consider the demand level as decreasing (the seasonally adjusted balance diminishing from -11 to -14) and the worsening affects both foreign (from -10 to -16) and domestic (from -15 to -17) markets. The order-book deterioration goes alongside with a considerable stock rise for the second quarter in a row (the balance passing from 6 to 10). Negative signals also come from assessments on production (from -8 to -9) and from order-book expectations (from 17 to 15). Production expectations remain substantially stable at 15 (on the levels of the fourth quarter 2002). The seasonally adjusted variable – surveyed on a quarterly basis – indicating the degree of plant utilisation slightly grows from 76.3 to 76.6.

At regional level (raw data only), a marked worsening of evaluations on order books and on the order-book and production trends is emerging in all administrative regions. The only favourable indication comes from *Piemonte-Valle d'Aosta*, where entrepreneurs deem their production level is slightly rising (though remaining negative in sign, the balance passes from -11 to -5).

North-east

North-eastern entrepreneurs' confidence grows from 88 to 89.3: indeed, assessments on the order-book level improve (the balance – though remaining negative – passes from -12 to -10), while expectations on production remain unchanged (the seasonally adjusted balance equalling 14 for the thirds quarter in a row); inventories are diminishing after three months' stagnation (from 9 to 7). With regard to order books, the recovery concerns both foreign and domestic markets (the balances passing from -14 and -19 to -13 and -14 respectively). Also assessments on production are improving: balance passes from -8 to -5. The only negative signals stem from order-book expectations (from 17 to 15). Even the degree of plant utilisation (seasonally adjusted data) grows from 76.7 to 77.3.

The trends observed in geographical partition are not homogeneously spread at regional level: looking at raw data, an overall improvement is emerging in *Friuli Venezia-Giulia*, where the balances of assessments on the order-book level (the balance of total order books passing from -21 to -13, while the one referring to the domestic market rises from -23 to -14 and the one concerning the foreign market grows from -27 to -21) and on production (from -19 to -9) are growing. Entrepreneurs from *Friuli* foresee a worsening both in order books (from 15 to 10) and in production (from 12 to 3). Pessimism is diffused among entrepreneurs from *Trentino Alto Adige*, where both assessments (from 0 to -3) and forecasts (from 12 to 9) on order books are diminishing. Also expectations on production are negative: the balance falls from 10 to 4, thus getting close to the trough of the late-2002.

<u>Centre</u>

In Central regions the confidence climate of manufacturing firms is falling after two quarters' growth: it diminishes from 94.3 to 92.6 owing to a fall in the balances of order books (from -13 to -15) and of the production trend (from 18 to 16); inventories are slightly growing as against the previous quarter (from 3 to 4). Also assessments on production and forecasts on order books are worsening (from -10 and 22 to -12 and 21 respectively). Even the degree of plant utilisation – passing from 77.8 to 76.5 in seasonally adjusted terms - contributes to this doom picture.

Turning to single regions, (raw data), the only improving variable is represented by assessments on production in *Umbria* (the balance passing from -3 to -1) and in *Lazio* (from -7 to -5). In all other regions both evaluations and forecasts on order books and production are negative, with the only exceptions of *Marche* - where a substantial stability is observed in the balance referring to foreign (the balance equalling -24) and domestic demand (-15) - and of *Lazio*, where the balance on the overall order books remains stable at -9.

<u>*Mezzogiorno*</u>

The entrepreneurs' confidence in the *Mezzogiorno* of Italy is worsening more than in the other geographical partitions: indeed, the seasonally adjusted confidence indicator decreases from 93.7 to 90.2, thus reaching again the depressed levels of the third quarter 2001. Alongside with a contraction in assessments on the order-book level (the balance falling from –15 to –21) and with a considerable stock rise (the balance passing from 4 to 9), stability is observed in production expectations (the balance decreasing from -7 to -12) and in order-book forecasts (from 23 to 21). Also the degree of plant utilisation deteriorates from 72.3 to 71.9.

At regional level (raw data), an improvement is registered in balances concerning production expectations: the balance rises from 18 to 19 in *Abruzzo*, from 0 to 25 in *Basilicata*, from 22 to 26 in *Calabria* and from 20 to 21 in *Sardegna;* besides, *Sicilia* is the only administrative region where two balances are improving: namely assessments on domestic demand (from -17 to -9) and on production (from -12 to -4). In all other regions a diffused worsening is observed both in assessments and in forecasts concerning all the surveyed variables. In particular, entrepreneurs from *Molise* express a harsher worsening compared to other regions: evaluations on production fall from -8 to -18 and expectations on order books (from 28 to 7) and production (from 25 to

11) have been registering a considerable fall for the first time since the fourth quarter 2002.

FOCUS – MANUFACTURING FIRMS' CONFIDENCE IN THE MAIN GEOGRAPHICAL PARTITIONS: A COMPARISON WITH AVERAGE NATIONAL DATA

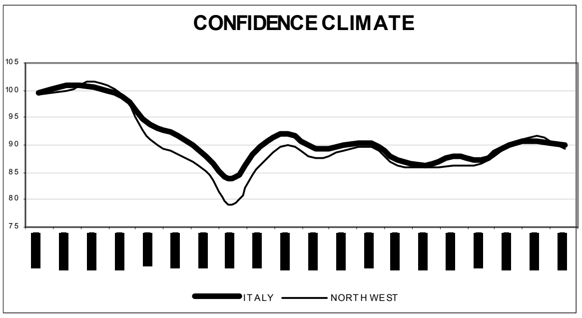
Since October 2004, ISAE has been publishing the new series of its Monthly Survey on Manufacturing Firms on the basis of new computation procedures (see Malgarini M., Margani P and B.M. Martelli, "Re-engineering the ISAE Manufacturing Survey", *ISAE Working Paper*, no. 47, January 2005). In the light of this novelty, the cyclical trend of the quarterly confidence climate of manufacturing firms in each geographical partition over the past four years was analysed and compared to national data. To this end, Table 1 describes the sample structure of the Survey in terms of value added, number of firms and number of employees.

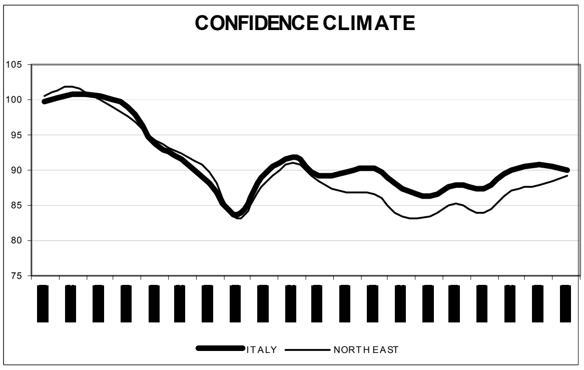
TABLE 1
THE SAMPLE STRUCTURE OF THE SURVEY ON MANUFACTURING FIRMS BY GEOGRAPHICAL PARTITIONS

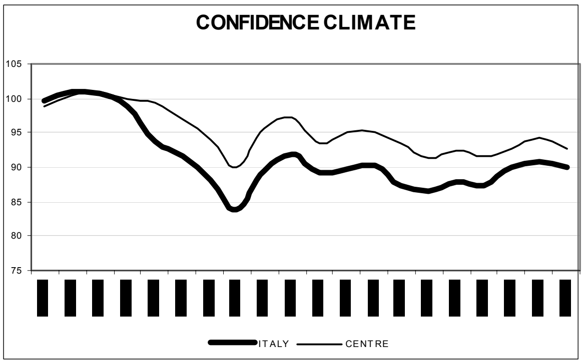
VARIABLES	NW	NE	C	M
VALUE ADDED	43,2	30,1	16,2	10,5
NO. FIRMS	19,3	27,9	23,8	29,0
NO. EMPLOEES	42,8	24,5	16,7	16,0

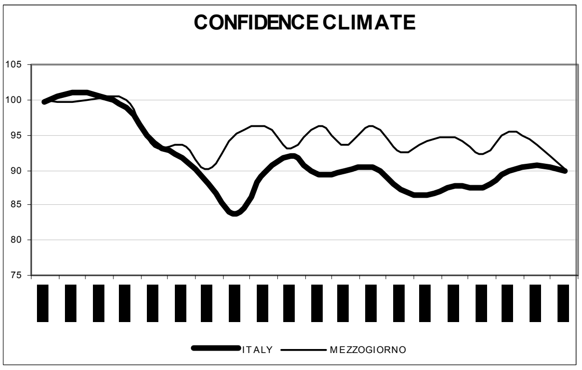
The value added weights stem from official ISTAT data referring to the year 1999 and are those which were used for the aggregation of elementary data on firms in the ISAE Survey. Admittedly, North-west is a major partition in terms of value added and number of employees; with reference to the number of firms, a greater number of firms emerges in the *Mezzogiorno, as* Southern firms are more heterogeneous, which implies the need for over-sampling. Admittedly, the sample described represents the Italian manufacturing structure characterised by a concentration of large firms (both in terms of number of employees and of value added) in the North-Centre and by the presence of small and medium-sized firms in the South. On the basis of those remarks, what follows is a description of the confidence climate trends in the four geographical partitions compared to national average data. To this

MANUFACTURING FIRMS' CONFIDENCE IN ITALY AND IN THE MAIN GEOGRAPHICAL PARTITIONS









Source: **ISAE - Seasonally adjusted data** end, the Graphs in the previous page show the confidence climate trends in the geographical partitions compared to national average data. Looking at the trends since 2000, with reference to the national levels, it is possible to distinguish – in first approximation and on the basis of the mere graphical analysis - three main cyclical phases, namely:

i) in phase one, starting in the second quarte 2000, the index undergoes a sudden fall and reaches its trough in the foruth quarter 2001;

ii) in phase two, a modest recovery emerges and lasts till the second quarter 2002;

iii) after that, the index enters a phase of standstill, apart from few cyclical, short-term, slight oscillations lasting up to the late-2004, which is indeed in keeping with the industrial production trend in that same period.

With reference to single geographical partitions, the firms' confidence shows a trend similar to the national average in the North, while trends are diversified in the Centre and South. In particular, making reference to the three cyclical phases, we may observe that:

i) in the lapse of time between the second quarter 2000 and the fouth quarter 2001, the index fall is common to all partitions, though with heterogeneous features. In the North-west, the indicator trough lies as in the national average, in the fourth quarter 2001, showing a larger contraction; in the North-east, the index trough coincides with the national average both in time and in intensity; in the Centre-South the fall is less intense compared to the national average, with the index deterioration in the *Mezzogiorno* that takes place in the third quarter 2001, advancing the index fall;

ii) The modest recovery observed at national level is common to all partitions, though the *Mezzogiorno* is in advance;

iii) the standstill lasting till the fourth quarter 2004 shows considerable discrepancies in the various partitions. In particular, in the North-west and in the Centre the trend is similar to the national average, with a small tendency to a gradual improvement in the North-west and to a gradual contraction in the Centre: in the fourth quarter, the indicator equals 89.3 in the North-west, which is close to the figures of the second quarter 2002, and 92.6 in the Centre respectively, which is close to the figures of the late-2003. Conversely, in the North-east, confidence gradually deteriorates up to the first quarter 2004, and then tends to improve in the three following quarters. In the fourth quarter 2004, the index equals 89.3, which is one of the highest values since the early-2001. Confidence in the *Mezzogiorno* remains substantially stable up to the fourth quarter 2003 and then registers a new fall in the three following quarter still it goes down to 90.2, which is the lowest figure since the third quarter 2001.

TABLE 2
MANUFACTURING FIRMS' CONFIDENCE CLIMATE
IN THE PAST FOUR YEARS

QUARTER	ITALY	NW	NE	C	M
2000-01	99.7	99.3	100.6	98.8	100.0
2000-02	100.9	100.0	101.7	100.4	99.7
2000-03	100.6	101.6	100.1	101.0	100.3
2000-04	98.8	99.1	97.6	99.8	100.0
2001-01	93.8	91.1	94.3	99.4	93.3
2001-02	91.7	88.3	92.4	97.1	93.6
2001-03	88.1	85.3	89.7	94.0	90.2
2001-04	83.8	79.1	83.2	89.9	95.1
2002-01	89.5	86.2	88.2	95.7	96.3
2002-02	91.9	89.9	91.1	97.2	93.1
2002-03	89.3	87.7	88.3	93.5	96.1
2002-04	89.8	89.0	86.7	95.2	93.5
2003-01	90.3	89.8	86.5	95.0	96.3
2003-02	87.3	86.4	83.3	93.5	92.6
2003-03	86.4	85.9	83.3	91.4	94.1
2003-04	87.8	86.2	85.3	92.5	94.6
2004-01	87.4	86.5	83.9	91.5	92.2
2004-02	90.0	89.7	87.0	92.6	95.5
2004-03	90.7	91.8	88.0	94.3	93.7
2004-04	89.9	89.3	89.3	92.6	90.2

Source: ISAE, seasonally adjusted data.