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IHS Markit Italy Business Outlook

Business confidence climbs to all-time high in June

Key findings:

- Optimism improves sharply to survey record high, with services companies particularly upbeat
- Employment and profit expectations also highest on record
- Companies expect unprecedented increase in costs over next 12 months

Data collected June 11-25.

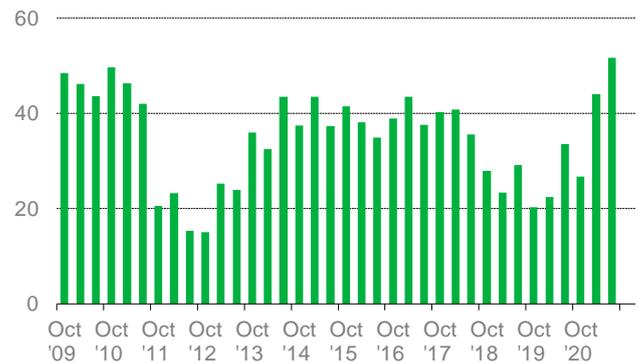
The latest IHS Markit Italy Business Outlook survey highlighted a surge of optimism among Italian companies towards output over the coming 12 months. Business confidence improved sharply since earlier in the year and was the strongest recorded since data were first collected in October 2009. Expectations towards hiring and profits were also the most positive on record in June, with the former seeing a particularly stark improvement from the prior reading in February.

However, concerns surrounding ongoing supply disruptions and rising material prices were reflected in expectations of steep inflationary pressures, with companies anticipating an unprecedented rise in costs over the coming year.

At +52% in June, the net balance of private sector firms who expect business activity to increase over the next 12 months rose sharply from February's +44% and was the highest on record. Confidence stemmed primarily from hopes of a solid economic recovery amid looser lockdown measures and firmer demand conditions. Service providers were particularly upbeat (net balance +55%), although sentiment at goods producers remained among the strongest on record, despite moderating from February's all-time high.

Activity expectations across Italy were also well above the global average in June (+38%), and higher than the average net balance for the monitored European Union countries (+48%).

Italy business activity expectations



Employment & Investment Plans

Italian private sector companies also improved their forecast for hiring over the coming year. The net balance of firms who expect to take on additional staff climbed to an all-time high of +23% in June, with both manufacturers and service providers improving their forecasts from February. The expected economic recovery also coincided with stronger predictions for investment. At +27% in June, the net balance of companies who anticipate greater Capex investment in the next 12 months was the highest on record, while expectations for R&D spending held firm at a series record +20%.

Corporate earnings

With a record proportion of private sector companies expecting higher output over the coming year, June data also pointed to a joint record high profit forecast. The net balance for profits rose steeply from +23% to +35%, matching the series record set in October 2010.

Moreover, across the 12 countries for which comparable data are available, only the UK recorded stronger profit expectations in June, with the net balance at Italian firms much higher than both the global (+20%) and European Union (+22%) averages.

Inflation Expectations

Improved profit forecasts were recorded despite expectations for a squeeze on margins due to steep inflationary pressures over the coming year. Italian private sector companies expect both staff and non-staff costs to rise over the next 12 months, with the respective net-balances of +33% and +35% the highest on record. Manufacturers expect to see a rapid increase in costs, reflecting greater exposure to supply constraints and material shortages.

As a result, more firms predict they will raise their output prices over the year ahead to maintain profitability. The net balance for output charges (+19%), was the highest for a decade, although below the global average of +26%.

Comment:

Commenting on the Italy Business Outlook survey data, **Lewis Cooper**, Economist at IHS Markit, said:

“June Business Outlook Data pointed to an unprecedented level of confidence at Italian companies, with firms expecting a sustained economic upturn over the next year amid the easing of COVID-19 restrictions and the reopening of many sectors of the economy. The 12-month outlook for business activity, employment and profits were all the strongest seen since comparable data were first available in 2009.

“Record readings were also registered with respect to costs, however, with ongoing supply disruptions and material shortages cited as principal concerns for Italian companies over the coming 12 months and firms predicting sharp increases in both staff and non-staff costs.

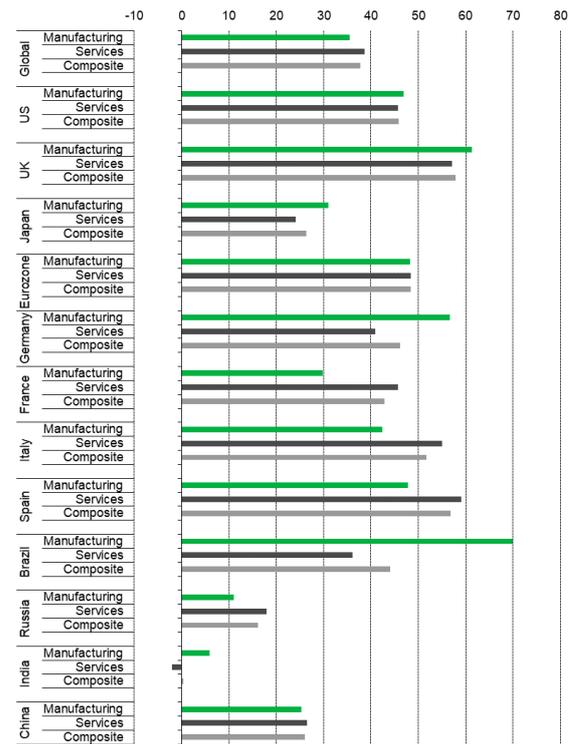
“All in all, the latest data point to a mostly positive picture for the Italian economy over the next few months. Firms expect a further lift to output from the release of pent-up demand, as lockdown measures are loosened and international travel returns. Inflationary risks will be a key concern, especially for manufacturers, and with surging costs expected to be passed through to customers in efforts to maintain profit margins, the economic recovery will likely be accompanied with strong inflationary pressures.”

-Ends-

Full data available on request from economics@ihsmarkit.com

Business optimism in June

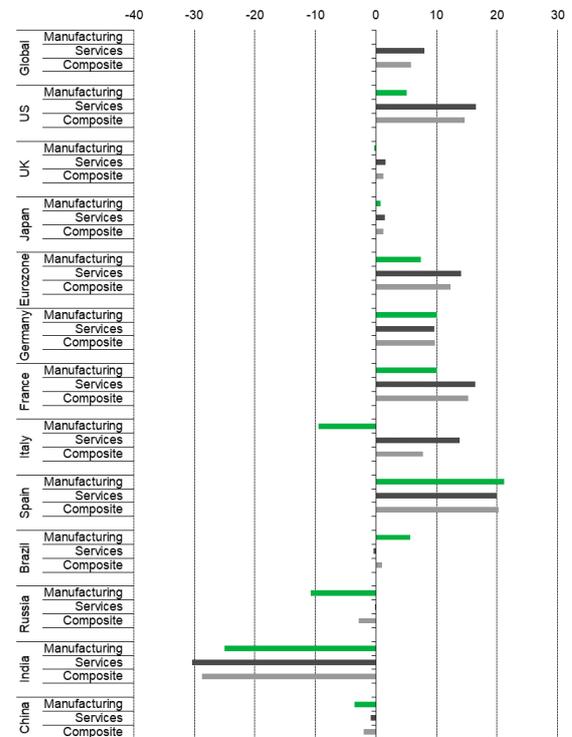
Outlook for business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in June.

How business activity expectations have changed since February

Change in optimism regarding business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in June compared to net balance in February.

For further information, please contact:**IHS Markit**

Lewis Cooper, Economist
Telephone +44 (0) 1491 461 019
Email lewis.cooper@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44 207 260 2234
Email joanna.vickers@ihsmarkit.com

Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between June 10 and 29.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

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