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IHS Markit Italy Business Outlook

Italian business confidence dips amid COVID-19 uncertainty

Key findings:

- Both manufacturers and service providers record weaker activity expectations than in June
- Companies expect to scale back on staffing levels over coming 12 months
- Profit expectations joint-lowest since late-2012

Data collected October 12-27.

The latest IHS Markit Italy Business Outlook survey signalled a weaker level of confidence among firms with regards to activity over the coming year, amid concerns surrounding the coronavirus disease 2019 (COVID-19) pandemic.

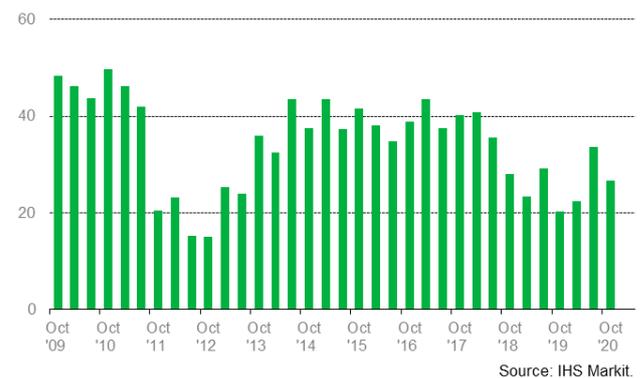
The net balance of firms who expect activity to increase over the next 12 months dipped from +34% in June to +27% in October. The latest reading signalled a moderation of firms' confidence, and was subdued in the context of the long-run series average of +34%, albeit higher than both the eurozone (+18%) and global (+26%) averages.

At the sector level, both monitored sectors recorded a moderation of output expectations, the sharper of which was recorded by goods producers. Nonetheless, service providers noted a weaker overall level of confidence (net balance: +23%) than their manufacturing counterparts (+37%).

Where firms were confident, this was linked to hope of an end of the COVID-19 pandemic - which hinged on the creation of a vaccine - an associated global economic recovery and improved client demand, as well as government financial assistance in the form of tax reliefs and fiscal bonuses.

However, coronavirus was also overwhelming cited as a threat to growth over the coming year. Some companies were concerned about the longevity of the pandemic, in addition to the durability and timeliness of the economic recovery.

Italy business activity expectations



Source: IHS Markit.

Employment & Investment Plans

At the same time, Italian companies expect to scale back on staffing levels over the coming year. The net balance of firms who anticipate higher employment fell further into negative territory (-3%) and was the lowest since February 2013. Panellists cited heightened uncertainty and worries of a slow economic recovery.

Sector data highlighted divergence, however. Services firms forecasted a reduction in employment, with the net balance the lowest for eight years, outweighing the positive, and improved, net balance for the manufacturing segment (+5).

Despite the weaker outlook for activity growth, Italian companies anticipate an increase in both their capital expenditure and spending on research and development (R&D) over the coming 12 months. The net balances were little-changed from June, at +6 and +4% respectively.

Corporate earnings

Profit expectations also moderated, according to the latest data. The net balance of firms who anticipate higher profits during the year ahead moved towards neutral territory and was the joint-lowest for eight years (+9%), alongside October 2019. Italian services firms recorded a more subdued outlook for profitability than

manufacturers. That said, the overall reading contrasted with a negative eurozone net balance of -4%.

Inflation Expectations

Although firms anticipate a reduction in employment, average wages are expected to increase over the coming year, with the net balance of firms who forecast a rise in staff costs rising to +13% in October.

Non-staff costs are also expected to rise, with the net balance (+16%) the highest since February 2019.

Meanwhile, Italian companies intend to cut their average output prices between now and October 2021. The respective net balance moved into negative territory for the first time on record (-2%).

Comment:

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

“The latest Business Outlook data indicated that the ongoing COVID-19 pandemic weighed heavily on Italian firms’ confidence. Although still positive, the net balance of companies anticipating higher activity over the coming year declined from June and was historically subdued.”

“More worryingly, perhaps, is that firms anticipate a further reduction in employment, whilst confidence surrounding profitability was the joint-weakest for eight years amid predictions of lower charges.”

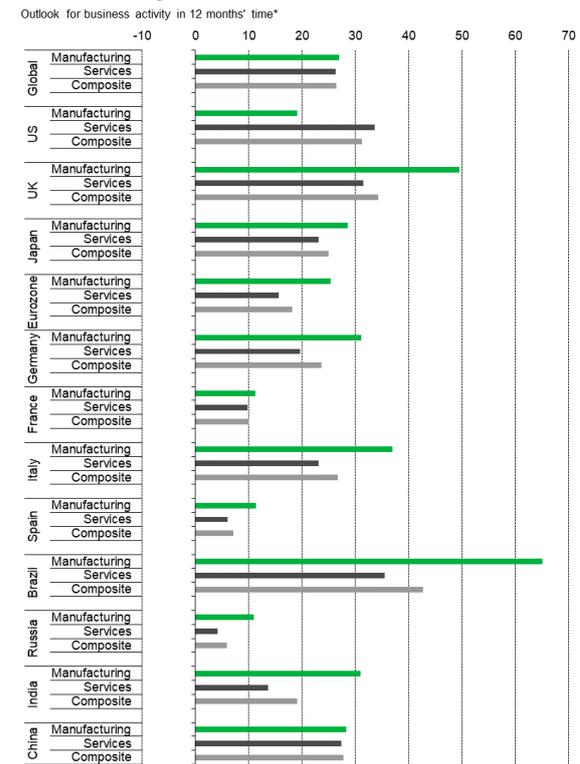
“Forecasts show that firms are concerned not only about the far-reaching economic implications of the pandemic, but about their ability to ride out the financial blow. Service providers were particularly downbeat, which is unsurprising as containment measures tend to hit them harder than the goods producing segment.”

“With further lockdown restrictions now in force as cases rise across Europe, the pandemic looks to be here to stay for the short-term at least. Uncertainty is widespread among companies, and until the virus is under control and the economy fully open, measures to tackle the pandemic will continue to take a toll on the Italian economy. That said, firms see light at the end of the tunnel and are confident conditions will improve.”

-Ends-

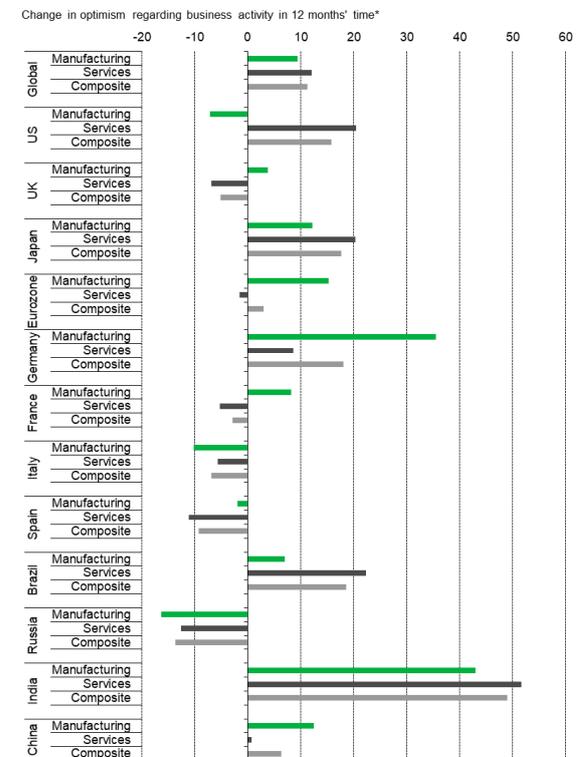
Full data available on request from economics@ihsmarkit.com

Business optimism in October



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

How business activity expectations have changed since June



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

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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 October 9 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 7,000 firms.

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