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IHS Markit Italy Business Outlook

Italian business confidence remains subdued in first quarter

Key findings:

- Firms revise up growth forecasts, but expectations remain historically subdued
- Employment plans remain positive
- Output price expectations at near seven-year low

Data collected February 12- 25

Business confidence amongst Italian private sector companies has improved slightly at the start of 2020, according to the latest IHS Markit Outlook Survey. Optimism regarding activity, profits and employment is up marginally from the previous survey last October.

The net balance of companies forecasting an increase in activity over the coming 12 months has risen from +20% last October to +22% in February. Improved global demand conditions, less competition from abroad and hopes of political stability were noted as reasons to be confident.

The majority of survey responses were collected prior to the outbreak of the coronavirus disease 2019 (COVID-19) virus in Italy, however, with the adverse impacts likely to weigh on sentiment in the coming months.

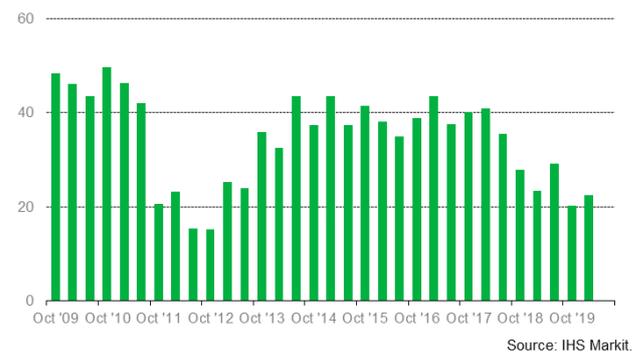
At the broad sector level, manufacturers remained more upbeat (+26%) than their service sector counterparts (+21%).

That said, business confidence remains historically subdued, and the improvement in Italy is the smallest across the nine monitored countries that reported an uptick in February. The net balance is the second-lowest since October 2012, and Italian firms are less optimistic than the eurozone average (+25%) for the first time in a year.

Corporate earnings

Expected gains in activity remain synonymous with forecasts of higher profits, with expectations improving slightly from October's recent low of +9% to +11%. The latest figure compares favourably with the both eurozone (+7%) and global (+8%) averages.

Italy business activity expectations



Source: IHS Markit.

Nonetheless, confidence with regards to profits remains among the lowest seen in the series more than ten-year history.

Employment & Investment Plans

The latest outlook data point to job creation being boosted by the increase in confidence for future activity. The overall degree of hiring optimism remains subdued, however, rising only slightly to +7% from October's recent low of +6%. Moreover, expectations are weaker than both the eurozone (+9%) and global (+11%) averages.

Sector data indicate that goods producers are more likely to take on additional workers than service providers.

Meanwhile, capital spending plans have been revised down in both the manufacturing and service sectors. That said, the net balance remains positive (+14%) and is the third-highest globally, with only Brazil and Ireland recording a brighter capex outlook.

R&D spending is also expected to rise, with the net balance (+10%) the highest across the six monitored European countries, despite moderating from last October. Sector data highlight divergence, with sentiment among Italian manufacturers improving slightly, while services R&D intentions have dipped to +8% from +11% last October.

Inflation Expectations

Amid job creation plans, Italian private sector companies foresee higher staff costs in the year ahead. The net balance of firms that expect staff costs to increase has slipped to +18%, however, which is among the lowest of the 12 monitored countries for which comparable data are available. At the sector level, manufactures are expecting the steeper rise in wage bills. Concurrently, non-staff cost inflation expectations remain unchanged at +14% in February, and are the joint-lowest since early-2018.

Italian businesses intend to raise average output prices to compensate for higher costs over the next 12 months. Albeit still positive overall, the net balance is the lowest since June 2013. Sentiment with regards to charges is among the lowest of the 12 monitored countries for which comparable data are available.

Comment:

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

“Italian business expectations remain notably weak at the start of 2020, as the current geopolitical backdrop and risks stemming from the COVID-19 outbreak has firms’ confidence firmly subdued. Though a slightly greater proportion of Italian businesses foresee an increase in activity over the coming 12 months than in October last year, the improvement is softer than those seen across the eurozone as a whole and globally.

“Nonetheless, firms still predict higher profits and job creation in the year ahead, helped in part by softer inflation expectations, with respondents also citing lower competitive pressures as a potential driver of growth. A smaller proportion of firms expect costs to rise than in October, while expectations for output charges is at a near seven-year low.

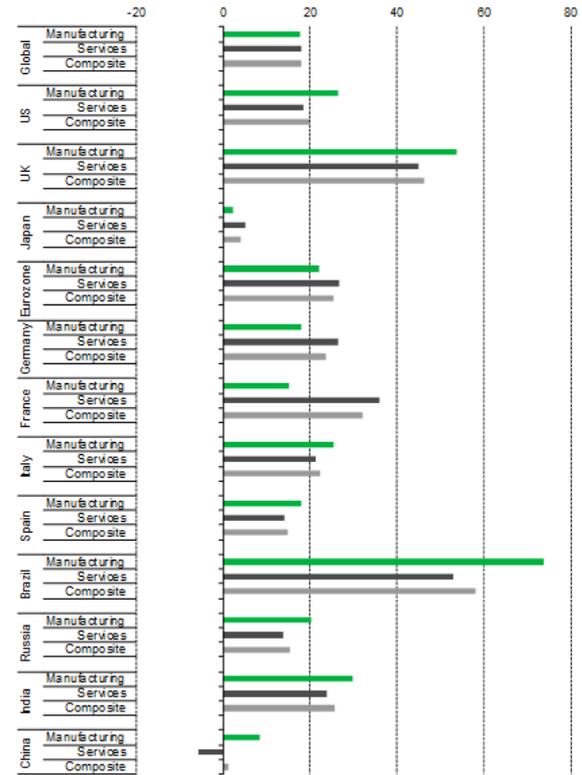
“Weak export demand and the adverse effects of the coronavirus outbreak are key concerns according to the latest outlook report, and it is important to note that a majority of survey data were collected prior to the escalation of the outbreak in Italy, with fallout from the virus likely to dampen confidence further in the coming months.”

-Ends-

Full data available on request from economics@ihsmarkit.com

Business optimism in February

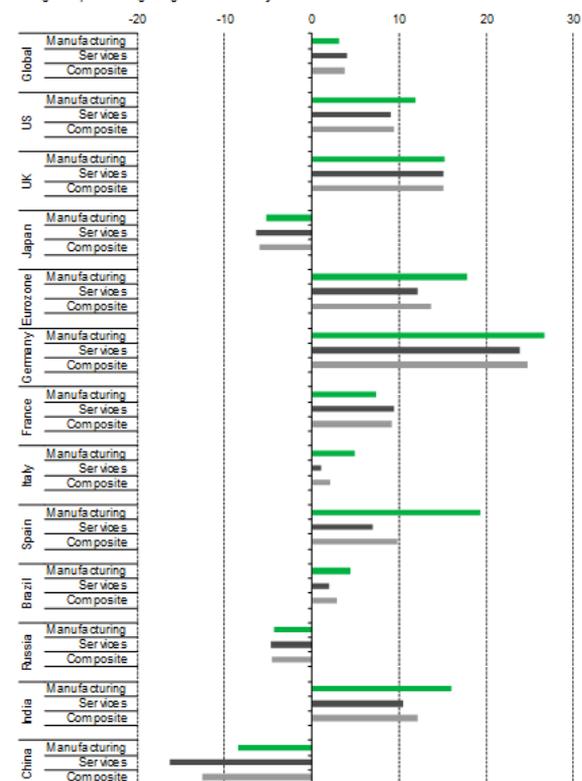
Outlook for business activity in 12 months' time*



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

How business activity expectations have changed since October

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



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

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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 February 12 and 27.

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, fax, 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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