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IHS Markit Italy Business Outlook

Business confidence dips to lowest for a year in October

Key findings:

- Confidence towards activity over the next 12 months falls to lowest since October 2020
- Profit and employment forecasts moderate
- Expectations of higher non-staff costs hits fresh series record

Data collected October 11-26.

The latest IHS Markit Italy Business Outlook survey pointed to a steep moderation in optimism towards activity in the next 12 months, with confidence the weakest for a year. Expectations towards hiring and profits also moderated considerably, with the respective net balances the lowest since February.

Meanwhile, firms expect costs to rise at an unprecedented pace over the coming 12 months amid ongoing supply chain disruptions, material shortages and logistical challenges, reflected in the net balance for non-staff costs climbing to a fresh record high, while that for staff costs remained little changed from June's peak.

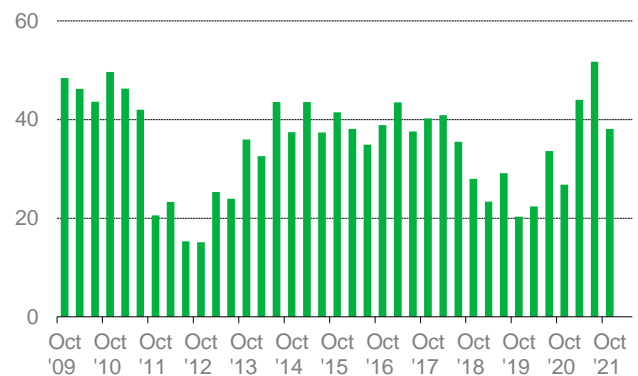
The net balance of private sector firms who expect business activity to increase over the next 12 months fell from June's survey record reading of +52% to +38% in October. This signalled a moderation in growth expectations, with the latest reading the weakest for a year, albeit still historically elevated.

Although some firms remained hopeful of a sustained economic rebound and improved client demand, others noted threats to growth prospects stemming from supply issues, material shortages, inflationary pressures, and a possible resurgence in COVID-19 cases with subsequent lockdown measures.

At the sector level, manufacturers were noticeably more downbeat towards activity over the coming year, with the net balance (+30%) the lowest since February 2020.

Expectations towards activity in Italy were above the global average (+31%), and matched the eurozone average in October (+38%).

Italy business activity expectations



Source: IHS Markit.

Employment & Investment Plans

Firms also downgraded their employment and investment forecasts during October, in line with the weaker outlook for activity. At +15%, the net balance for employment fell sharply from the record high recorded in June (+23%), and was the lowest across the eurozone nations for which comparable data are available. Nonetheless, the latest figure was well above the series average, suggesting that firms remained confident of expanding their staffing levels over the next 12 months.

Investment plans followed a similar trend, with the respective net balances falling from series record readings in June. That said, the net balances for both Capex and R&D spending remained among the highest on record, with latest figure for R&D the highest globally, as firms downgraded investment forecasts only slightly and remained confident of boosting investment significantly over the next year.

Corporate earnings

A weaker outlook for business activity was also reflected in a reduced level of optimism towards profits over the coming year. The net balance of firms expecting greater earnings in the next 12 months fell to +23% in October,

from a record high of +35% in June and matching that in February. Profit forecasts nonetheless remained historically upbeat, with the net balance for Italy well above both the global (+12%) and Eurozone (+14%) averages.

Inflation Expectations

October data pointed to a further uplift in inflation expectations at Italian companies, with firms expecting costs to rise due to ongoing supply issues, material shortages, greater energy costs, difficulties finding staff and logistical challenges. The net balance for non-staff costs hit a fresh survey record in October, pointing to expectations of an unprecedented increase in costs, while that for staff costs remained little changed from June's peak.

Subsequently, Italian companies expect to raise their own prices over the next 12 months. The net balance of firms expecting higher average charges (+23%) was the highest since February 2011, albeit below the global and eurozone averages of +33% and +38%, respectively.

Comment:

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

“The October Business Outlook Survey highlighted a moderation in sentiment at Italian companies towards business activity over the year ahead. Although firms do anticipate higher output in the next 12 months, the net balance for activity dipped to the lowest since October 2020, with firms also downgrading both profit and employment forecasts due to ongoing supply issues, shortages, and soaring costs.”

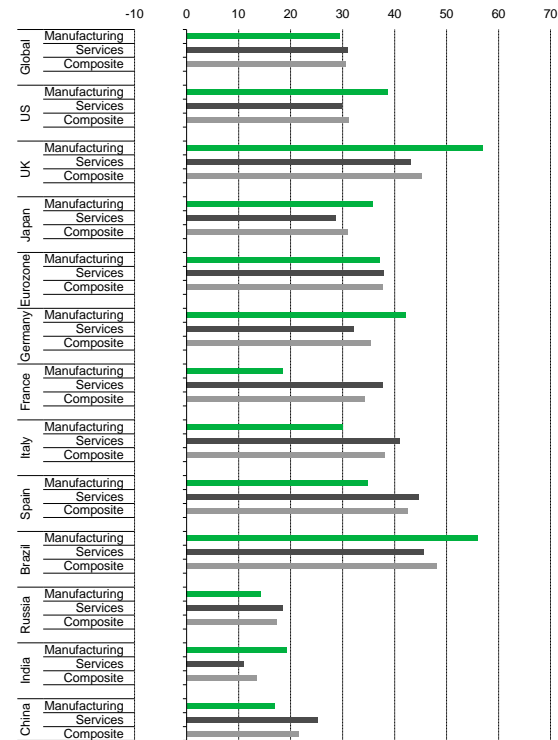
“Indeed, the latest data also pointed to expectations of unprecedented cost pressures, with the balance for non-staff costs hitting a fresh survey record and that for staff costs falling only slightly from its recent peak. Clearly firms are not expecting a resolution to the supply crisis and severe inflationary pressures anytime soon, and Italian companies expect these issues to weigh on the performance of the economy, particularly in the manufacturing sector.”

-Ends-

Full data available on request from economics@ihsmarkit.com

Business optimism in October

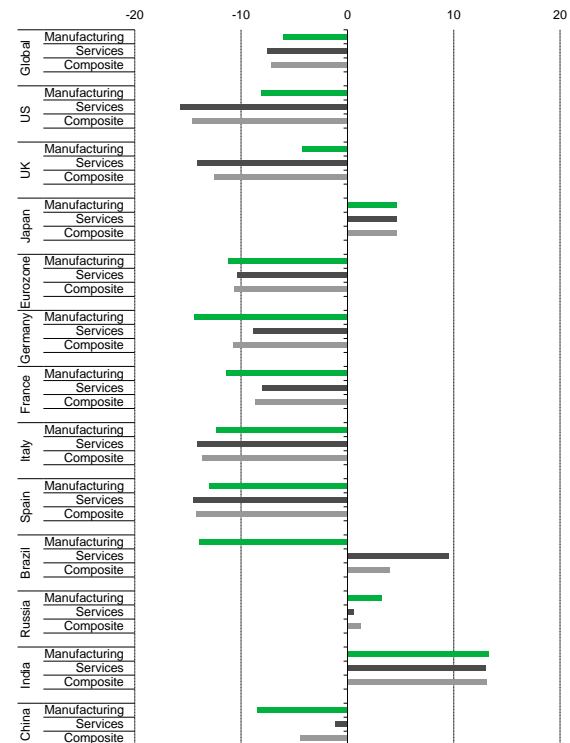
Outlook for business activity in 12 months' time*



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

How business activity expectations have changed since June

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



* 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 11 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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