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IHS Markit Italy Business Outlook

Italian business confidence sinks to seven-year low

Key findings:

- Weakest output growth forecasts since late-2012
- Hiring intentions joint-lowest since February 2014
- Capex plans remain strong

Data collected October 11-28

Business confidence among Italian private sector companies has weakened, according to the latest IHS Markit Italy Business Outlook survey, with optimism regarding future activity, employment and profitability falling from the previous survey in June.

Overall, the net balance of companies expecting to record an increase in activity over the coming 12 months is +20%, down from +29% and the lowest since October 2012. That said, Italian business activity expectations are higher than the eurozone average and compare favourably with negative sentiment in Germany.

Notably, optimism among service providers is now at a seven-year low, in part due to concerns over a potential increase in VAT as well as uncertainty over political and economic conditions.

Manufacturers also report a fall in optimism from June. Their net balance has dropped to +21% in October from +28% and is close to February's over six-year low.

Political instability, US trade policy and concerns over weaker customer demand were all reported by manufacturers as threats to the outlook.

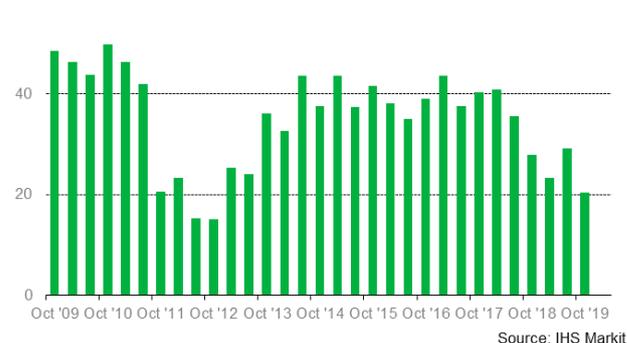
However, both manufacturers and service providers are hopeful that activity will rise in the coming 12 months. Expectations of a recovery in exports, improved marketing efforts and greater capacity investments have been reported as reasons to be confident.

Corporate earnings

The reduction in confidence regarding output during the October survey period is reflected in weaker profitability sentiment. Forecasts for profits in the coming 12 months have fallen from June and are the lowest in seven years.

Italy business activity expectations

% of companies expecting an increase in next 12 months minus % expecting a decline



Source: IHS Markit.

There is a notable contrast at the sector level, with manufacturers less optimistic than their peers in the service sector. Just +4% of manufacturing firms expect profitability to rise in the next year, down from +12% in June and the lowest since October 2012.

Employment & Investment Plans

In line with the weaker growth forecast for business activity, hiring optimism among Italian private sector businesses has weakened to the joint-lowest since February 2014. Manufacturers predict a stagnation of employment. The net balance among service providers is meanwhile +8% in October, down from +11% in June.

In spite of the noticeably weaker sentiment towards activity and profitability, companies retain fairly elevated expectations for investment in October.

Unchanged from June's +16%, the net balance for capex spending is the joint-highest in the survey's history (which started in late-2009).

Optimism for capex investment has dipped slightly from June among manufacturers, whilst services sentiment is the highest in 12 years.

The positivity regarding capex spending did not transfer to research and development, however, with optimism slightly lower than in June. At +12%, the net balance of Italian private sector businesses forecasting greater

R&D spending nonetheless compares favourably with a eurozone average of +14%.

Inflation Expectations

Non-staff costs are set to rise over the coming year; however, with the net balance at +14%, down from +15% in June and a one-and-half year low, inflation expectations are subdued. That said, there are divergences at the sector level, with the net balance of manufacturers expecting a rise in non-staff costs the highest in one year. By contrast, the net balance of service providers expecting greater non-staff costs is the lowest in one year.

Overall staffing costs are forecast to increase more strongly by comparison. The net balance is +23%, with similar expectations among service providers (+24%) and manufacturers (+20%).

Meanwhile, greater cost burdens and a potential rise in VAT, are likely to lift output charges over the next 12 months. The respective net balance of +7% is up from +6% but still subdued in the history of the survey.

Comment:

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

“Business confidence in Italy weakened since the summer, in line with the general theme across the euro area and globally. With concerns over political instability and US trade policy weighing on sentiment, the net balance of Italian firms expecting an increase is the lowest since October 2012.

“Though falling from June, the outlook for profitability over the coming year is still positive, in turn supporting prospects for investments. Sentiment regarding capex spending is the joint-highest in the survey’s history.

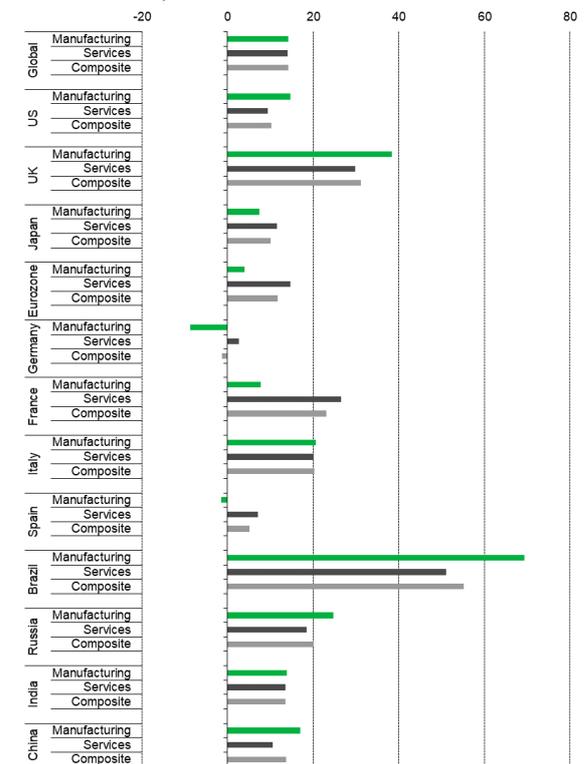
“One disappointing result, is the reluctance firms are showing towards staff hiring, with employment expectations the joint-lowest in over five years.”

-Ends-

Full data available on request from economics@ihsmarkit.com

Business optimism in October

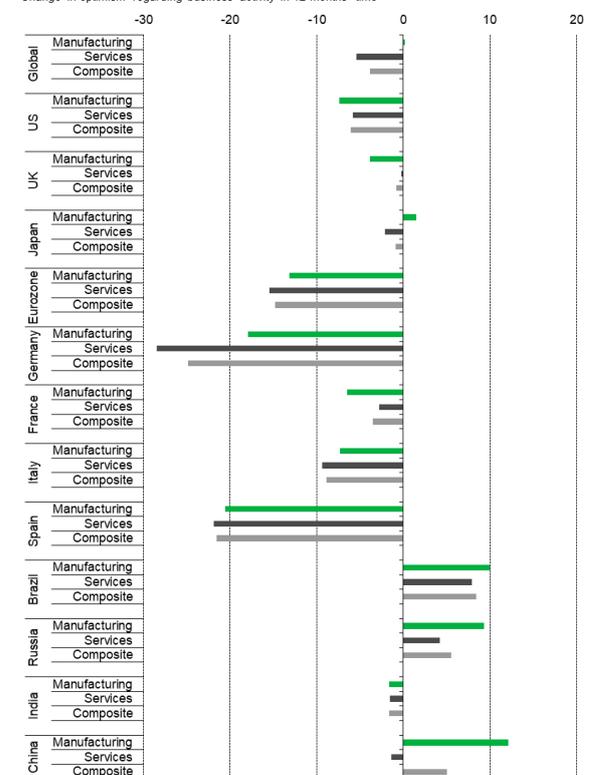
Outlook for business activity in 12 months' time*



* 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 9 and 30.

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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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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