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IHS Markit Italy Business Outlook

Optimism surges in February as restrictions look set to ease

Key findings:

- Confidence towards activity strongest for six years as lockdown expected to ease amid ongoing vaccine roll out
- Profit expectations sturdiest since mid-2018
- Robust inflationary pressures expected over the coming year

Data collected February 11-23.

The latest IHS Markit Italy Business Outlook survey signalled a noticeably stronger level of confidence at Italian companies during February, as hopes of looser coronavirus disease 2019 (COVID-19) restrictions and an economic recovery grew in line with the potential easing of lockdown restrictions. Predictions of higher output also tied in with a more optimistic outlook towards profits and employment, as well as expectations of robust inflationary pressures.

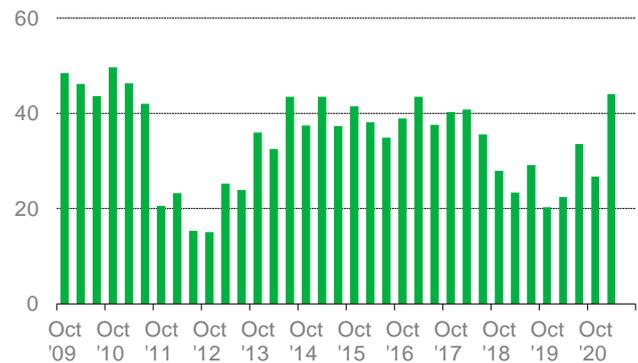
The net balance of firms who anticipate higher output over the coming year improved noticeably from last October's reading of +27%, to a six-year high of +44% in February. Both manufacturers and services firms recorded upgraded sentiment, although the former remained more upbeat, with the activity net balance the highest on record (+52%).

Moreover, activity expectations in Italy were third only to the UK (+57%) and Ireland (+46%) across the twelve monitored countries for which comparable data are available, and subsequently the net balance was well above the global average (+32%).

Confidence in February stemmed mainly from hopes of an end to the pandemic and a solid economic recovery, although panellists also noted opportunities in the form of government fiscal support, improved consumer confidence, and a rebound in export demand.

That said, some respondents remained concerned of the lasting impact of the pandemic and of further lockdowns.

Italy business activity expectations



Employment & Investment Plans

In line with the expected upturn in activity, employment expectations for the year ahead turned positive in February. At +8%, the net balance was the highest for over a year-and-a-half and slightly elevated in the context of the series history, but nonetheless the lowest across Europe. Goods producers were much more upbeat (+21%) than services firms (+3%).

Meanwhile, the outlook for investment improved during February. The net balance of Italian companies expecting to raise their spending on both R&D and Capex over the next 12 months was the highest in their respective series history (+16% and +20%), as firms seek to maximise growth opportunities and rebound from the economic blow caused by the pandemic. The sectoral trends for output and employment were again evident with respect to investment plans, however, as manufacturers recorded a much more positive outlook for both R&D and Capex over the next year.

Corporate earnings

Italian companies also recorded a brighter outlook for profits over the coming 12 months in February. The net balance of firms predicting greater profitability rose from +9% at the end of 2020 to +23% in February, and was the highest for over two-and-a-half years. Italian firms

were also more optimistic regarding profits than both the European (+12%) and global (+19%) averages.

Inflation Expectations

Inflation expectations increased sharply during February, with ongoing supply chain disruptions, shortages and logistical issues noted by panellists as key threats. The net balance of firms predicting greater non-staff costs (+22%) was only just below the previous peak in mid-2010, while for labour costs, the net balance (+23%) was the joint-highest in the short series history. As a result, firms expect to raise their average selling prices over the next year. February's net balance for output prices contrasted with the negative figure last October (-2%), but was in line with the series average (+10%).

Comment:

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

“The latest Business Outlook data highlighted a surge in optimism among Italian firms, with hopes that the potential easing of lockdown measures will provide a solid economic recovery. Activity expectations were the strongest for six years, with firms subsequently anticipating higher profits and a need to take on additional staff.”

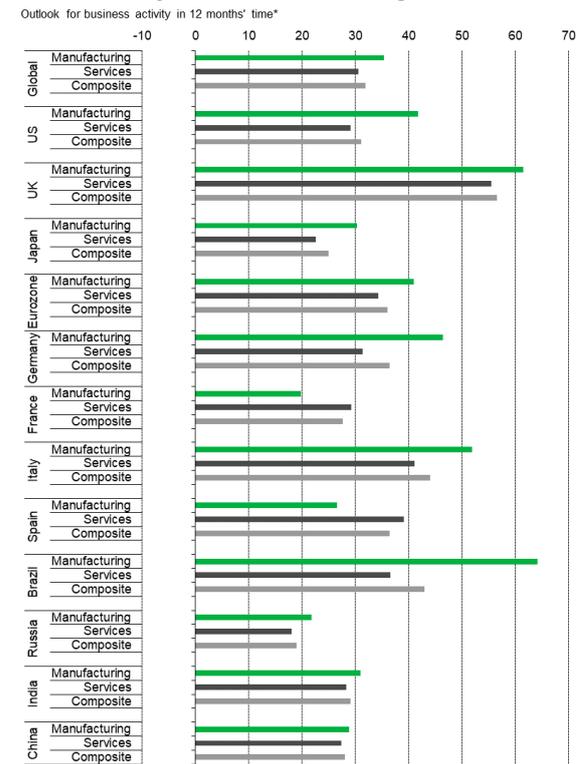
“Inflationary pressures were a key concern, however, as firms anticipate sharp increases in both staff and non-staff costs, in part due to ongoing supply chain issues. As a result, average charges levied by Italian firms are expected to rise over the next 12 months.”

“On the whole, the latest outlook data signal a robust level of confidence among firms, albeit resting on the success of the vaccine roll out and looser COVID-19 restrictions. Sector disparities were evident, but unsurprising, as weaker confidence at services firms is to be expected given they have generally suffered more heavily with restrictions. Nonetheless, Italian companies were among the most optimistic globally for activity, profits and investment prospects: a clear sign that firms see light at the end of the tunnel and expect the economy to recover from the pandemic in the next 12 months.”

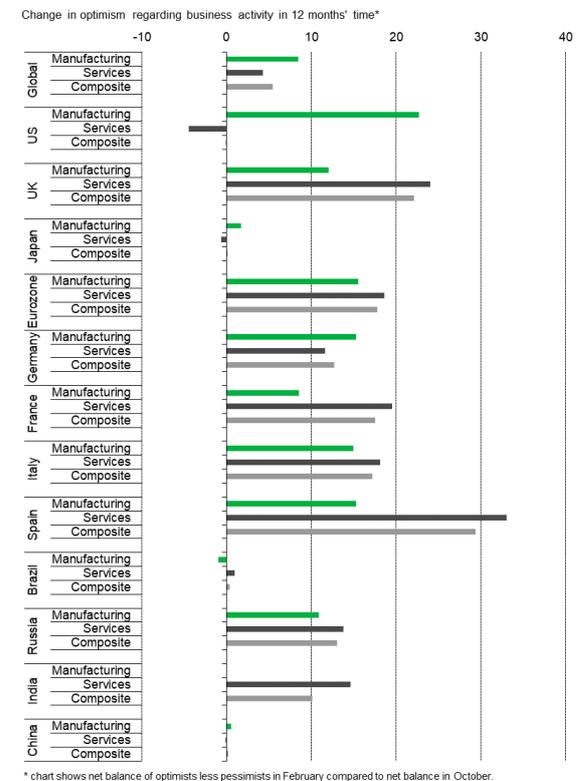
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since 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 2 and 25.

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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