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IHS Markit Italy Business Outlook

Business confidence deteriorates to five-year low

Key findings:

- Business activity sentiment lowest since June 2013
- Hiring plans weakest in two years
- Input cost expectations lowest since June 2014

Data collected October 12-26

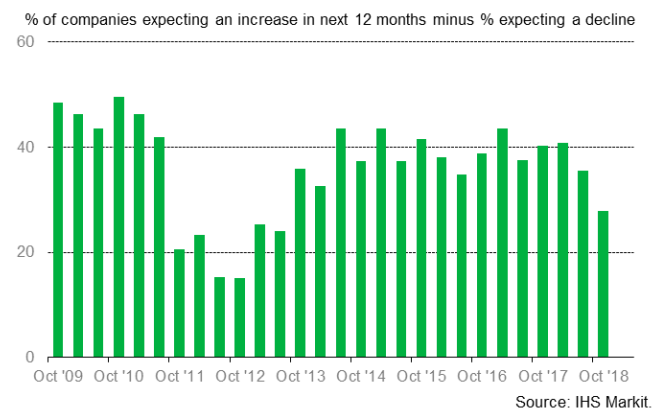
Business confidence amongst Italian private sector companies has deteriorated in October to a five-year low, with output, new business and profitability all forecast to increase at weaker rates over the coming 12 months.

A net balance of +28% of Italian companies predict a rise in business activity over the next 12 months, down from +36% in the previous survey period and the lowest since June 2013. Despite this, Italian business activity expectations are broadly in line with the eurozone average and other key European economies of Germany and France. Manufacturers and service providers have similar output expectations with the latter showing a marked deterioration in their outlook since June.

Softer growth of new orders and business revenues are likely over the coming year, with firms downgrading their outlook for profitability accordingly. A net balance of +20% of firms predict an increase in profits, the lowest since February 2016.

Expectations of greater customer numbers and decreases in taxation were cited by Italian private sector businesses as reasons to be optimistic for output over the year ahead. Conversely, uncertainty about domestic political stability and weakening demand both at home and abroad are set to weigh on growth in the coming 12 months.

Italy business activity expectations



Corporate earnings

The reduction in confidence regarding output during the October survey period is linked to softer sentiment on business revenues. Companies are set to be negatively affected by rising input costs, fears of an economic downturn in Italy and uncertainty over global trade flows. Forecasts of business revenues have hit their lowest levels since June 2013.

Employment & Investment Plans

With weaker growth forecasts for activity, new work and business revenues, planned investment expenditure among private sector businesses in Italy has eased during the October survey period. On the sector level, there are differing trends between the manufacturing and service sectors, with the latter seeing confidence regarding capital expenditure at a two-year high. Manufacturers, on the other hand, slowed their capital investment expectations to the lowest in five years.

On the employment front, hiring optimism among Italian private sector businesses has weakened to a two-year low with fewer manufacturers and service providers planning to increase staffing numbers over the next year.

Inflation Expectations

Encouragingly, cost inflationary pressures look set to ease. A net balance of +22% of companies are forecasting increases in input costs over the coming 12 months, down from +25% in the previous survey period and the lowest since June 2014. Both manufacturers and service providers have reduced their input cost expectations with manufacturers continuing to expect greater input price inflation than their service sector counterparts.

October saw a slight pick-up in the net balance for selling prices. At the sector level, manufacturers continue to forecast greater selling prices than service providers. Anecdotal evidence from panellists indicates that firms are taking the initiative to pass through increased raw material costs onto their customers.

Comment:

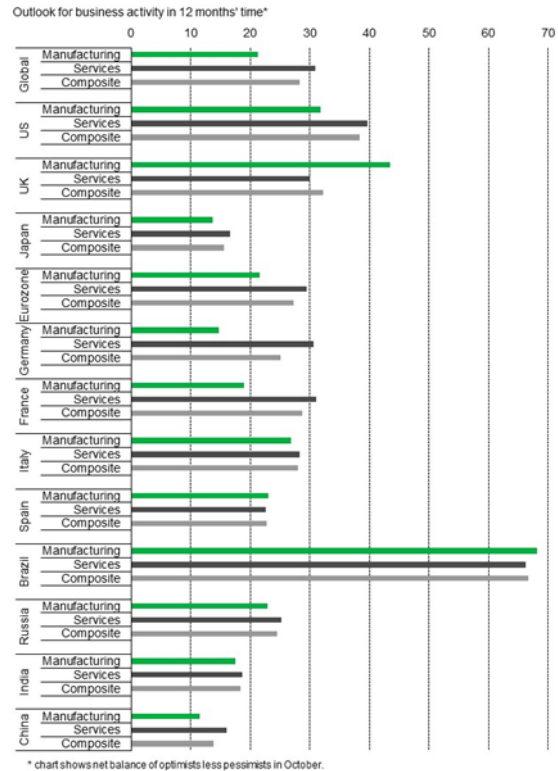
Commenting on the Italy Business Outlook survey data, **Amritpal Virdee**, Economist at IHS Markit, said:

“Weakening to the lowest level since June 2013, Italian business confidence has eased since the summer. Concerns over domestic political stability and global trade flows are weighing on growth prospects. A less positive demand environment has led companies to scale back plans for hiring and investment. There is some respite on the price front, however, with input cost expectations at a four-year low.”

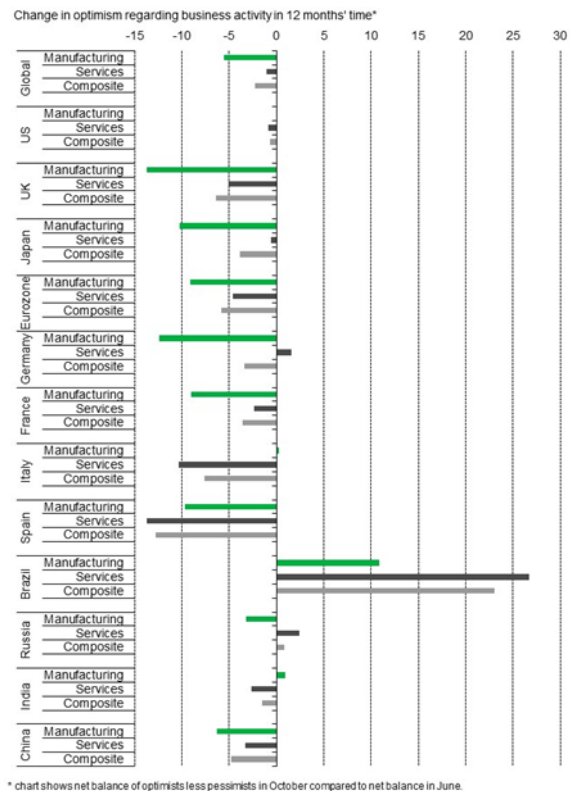
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since 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 12 and 26.

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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