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IHS Markit Italy Business Outlook

Business confidence sinks to lowest in over six years

Key findings:

- Business activity outlook lowest since October 2012
- Profit expectations weakest since June 2013
- Input cost expectations at eight-year high

Data collected February 12-25

Business confidence amongst Italian private sector companies has deteriorated at the start of 2019, according to the latest IHS Markit Outlook Survey. Optimism regarding future activity, profits and employment have all declined significantly from the previous survey last October.

The net balance of companies forecasting an increase in activity over the coming 12 months has slipped to +23%, from +28% and the lowest since October 2012. Moreover, Italian business activity expectations are lower than both the eurozone and global readings for the latest survey.

The downturn largely reflects weaker confidence across manufacturing, where optimism for activity is the lowest since October 2012. At +19%, the net balance for activity is down by 8 percentage points and has fallen further below the long-run series average.

Political instability and increased price competition are some of the main threats to the year-ahead outlook, according to Italian manufacturers.

Service sector companies are a little more upbeat regarding these issues and as such the respective net balance is broadly in line with the previous survey at +25% (from +28% in October 2018).

Among the reasons to be confident, panellists cite expectations of a recovery of the Italian economy, greater export orders and investments in new product offerings.

Italy business activity expectations



Corporate earnings

The reduction in confidence regarding output over the coming year in February's survey is reflected in softer sentiment regarding profits. A net balance of +14% firms expect their profits to increase in the next 12 months, the lowest since June 2013.

Employment & Investment Plans

As a result of weaker forecasts for activity and profitability, companies are less optimistic in their expectations for future job creation. A net balance of +6% of firms forecast an increase in staffing numbers over the coming year, down from +13% in the previous survey and the lowest in five years.

Broadly similar levels of optimism for future employment are recorded amongst service providers and manufacturers, with both posting net balances almost half those of the previous survey.

Overall capital expenditure plans have improved slightly since the previous survey period, with the respective net balance edging up to +12%, from +11% in October 2018. Confidence among service providers is the joint-highest since late-2007; however, manufacturing sentiment has eased to its lowest in six years.

Inflation Expectations

Business non-staff costs are widely forecast to increase during the coming 12 months, with the respective net balance edging up to an eight-year high of +19% from +16% in October 2018. Service providers expect greater cost inflation than their manufacturing counterparts, for the first time since comparable data first became available in late-2009.

A lower net balance of Italian companies are anticipating a rise in their own charges during the coming 12 months, reflective of efforts to boost sales. A net balance of +9% of firms anticipate an increase, down from the previous survey's +11% and the lowest since June 2016.

Comment:

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

“February’s Business Outlook survey signalled a further downturn in manufacturing sentiment and subdued optimism among service providers.

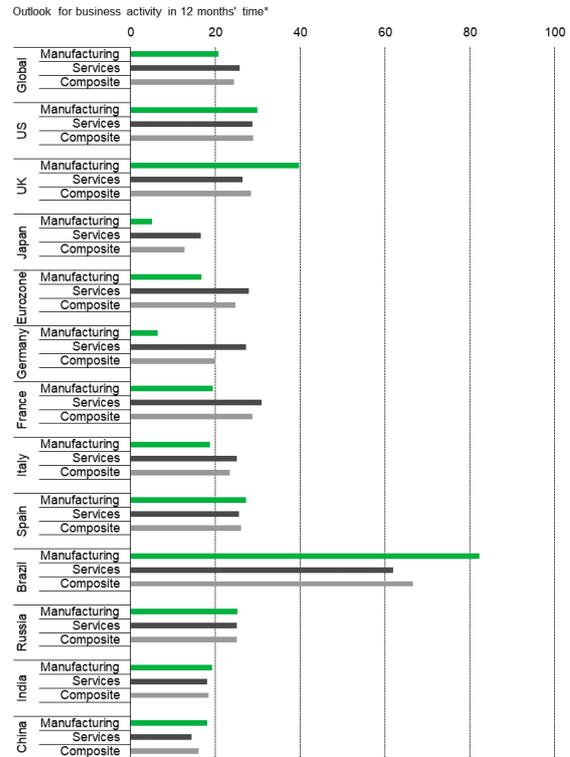
“A recurring theme from firms was the pernicious effect that domestic and Europe-wide political instability could have on their output. This, as well as concerns over the weakening domestic economy helped push the outlook for future business activity to the lowest since October 2012.

“Moreover, respite was not found on the price front with the net balance of firms expecting non-staff costs to rise at an eight-year high.”

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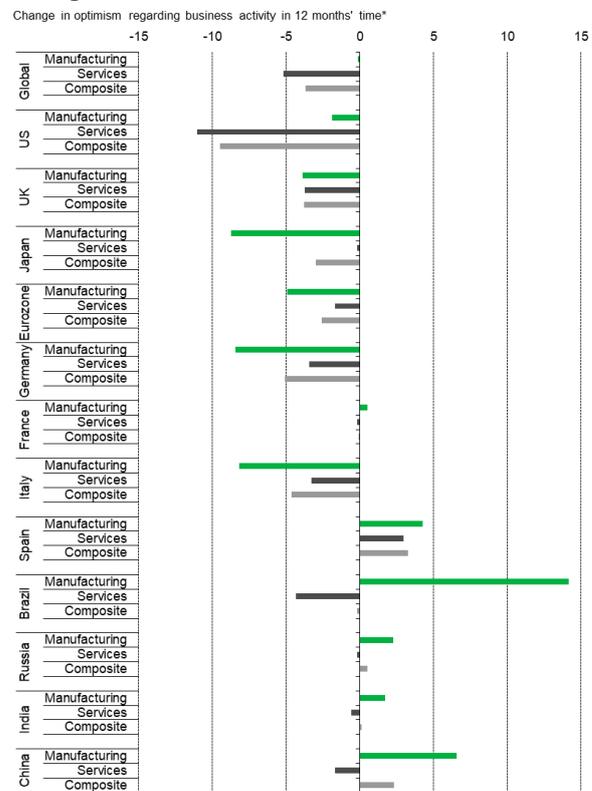
Full data available on request from economics@ihsmarkit.com

Business optimism in February



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

How business activity expectations have changed since October



* chart shows net balance of optimists less pessimists in February compared to net balance in October 2018.

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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 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, 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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