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IHS Markit Italy Business Outlook

Italian business expectations dip to lowest for a year

Key findings:

- Forecasts for business activity growth scaled back
- Record confidence towards future job creation
- Moderate inflationary pressures expected

Data collected June 12-27

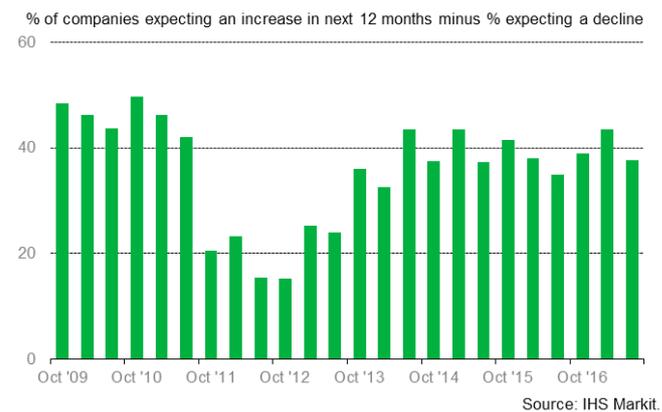
Businesses in Italy have revised down their near-term growth forecasts since the start of the year, according to the latest IHS Markit Business Outlook survey. However, the gloomier outlook for business activity and profits masks stronger expectations for future employment growth, which are the most optimistic since comparable data were first collected in late-2009.

The survey – which takes place every four months and monitors sentiment across both the manufacturing and service sectors – shows that Italian companies generally expect business activity to increase over the next 12 months. The net balance of firms expecting growth is the lowest for a year, however, at +38% from a two-year high of +44% in February. This signals a degree of optimism that is slightly above the historical trend level (+36%) but below the eurozone average (+40%).

Italian businesses have meanwhile grown increasingly confident towards job creation prospects, with a survey-record net balance of +18% of firms expecting to raise employment in the year ahead, up from +14% in February.

Political instability is viewed as one of the main threats to business performance over the next 12 months, along with competition from abroad, fiscal pressures, new regulations and bureaucracy. On the other hand, factors that are expected to boost growth prospects include a sustained economic upturn (at home and abroad), entry into new markets, investment, technological innovation and new products.

Italy business activity expectations



Profit forecasts revised down

Reflective of lower expectations for business activity growth, profit forecasts have also been revised down since February. The respective net balance has fallen from +32% to +26% in June, though this is nevertheless higher than those for Germany, France and the UK. At the sector level, Italian manufacturers anticipate a stronger increase in profitability than their service sector counterparts.

Moderate cost pressures expected

One of the reasons for Italian firms' relatively upbeat assessment of future profits is a moderate outlook for cost pressures. A net balance of +26% of firms expect average input prices to increase in the next 12 months, which compares with +27% in February and a European average of +37%.

Anticipated cost pressures among manufacturers are much lower than previously forecast (+27%, from +45%), while for services firms the opposite is true (+25%, from 21%), due in part to higher expected wage growth.

Strong competition looks set to manifest itself in a lack of pricing power among businesses. Average prices charged for goods and services are forecast to rise only modestly, with the respective net balance down from February's +15% to +10%.

Subdued outlook for capex

Capital expenditure is expected to rise only slightly in the next 12 months. A net balance of +11% of firms plan to increase capex, which is the lowest for a year and the below the European (+15%) global (+14%) averages.

Manufacturers (+23%) are more optimistic regarding capex than services firms (+7%), with the former also set to raise spending on research and development (+27%).

Comment:

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

“Expectations among Italian businesses had been strongly positive at the start of the year, and it seems that optimism was vindicated as both survey and official data have so far surprised on the upside.”

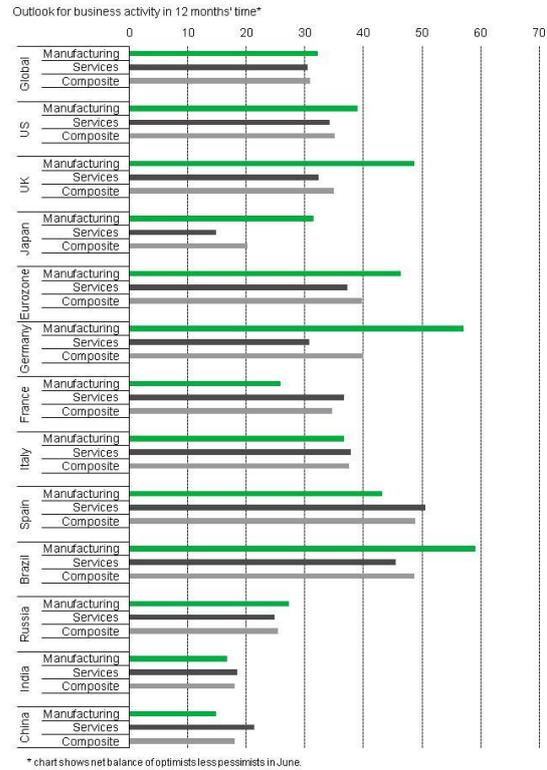
“Firms have somewhat scaled back their expectations at the mid-way point in the year, amid a backdrop of ongoing political uncertainty and fears of strong competition from abroad, and perhaps also as payback from the solid start to the year. Latest IHS Markit forecasts show growth halving to 0.2% in Q2, and GDP rising 1.2% over the year as a whole.”

“The pick of the latest numbers is the employment net balance, which is at a survey-record high and points to tentative signs of improvement in labour market conditions. This is encouraging given the still-high jobless rate and low nominal wage growth that continue to undermine Italian consumer spending.”

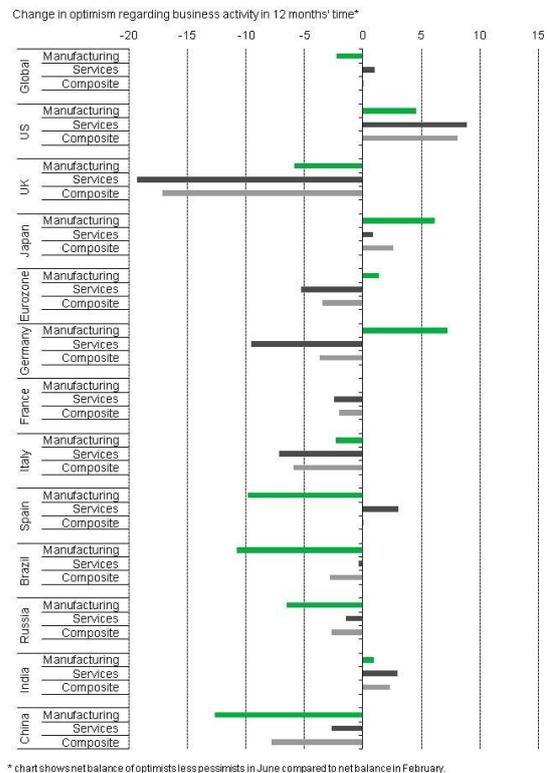
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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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 June 12 and 27.

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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