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Markit Italy Business Outlook

Italian business confidence strengthens in opening quarter

Key findings:

- Firms revise up growth forecasts
- Employment set to rise
- Highest output price expectations since June 2011

Data collected February 10-24

Italian companies are at their most confident for two years, according to the latest Markit Business Outlook survey. Firms have revised up their growth forecasts for both business activity and profits to the highest seen since February 2015, while employment is also expected to rise in the year ahead.

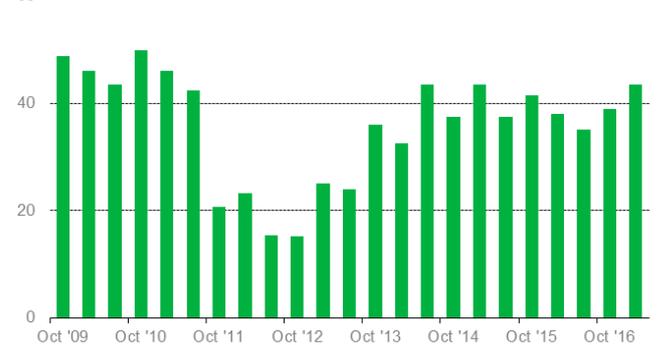
A net balance of +43% of Italian companies predict a rise in business activity over the next 12 months, which is up from +39% in October last year and in line with the eurozone average. Manufacturing and service providers alike expect output levels to rise, with the latter forecasting the stronger rate of growth.

Rising business revenues are set to boost profitability, according to February's survey, despite higher cost expectations for the year ahead. A net balance of +32% of firms is predicting an increase in profits, a level not exceeded since October 2010. Rising costs are set to be passed on by businesses in the form of higher prices charged for goods and services, with the respective net balance of +15% the highest since June 2011.

A range of factors are expected to support growth in the coming 12 months, including entry into new markets abroad, research and development of new products and services, fiscal relief, and growing pipelines of new work. Conversely, the biggest threats to the outlook are political instability (at home and abroad), unfair competition, higher oil and raw material prices, new bureaucracy, tax pressures, and credit constraints.

Italy business activity expectations

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



Source: IHS Markit.

Business confidence has also improved at the eurozone level since last October, with the net balance of firms expecting an increase in business activity rising to +43% (from +35%), its highest for six years. There are also stronger forecasts for profits, employment and prices.

Employment set to rise, albeit modestly

For the eleventh survey in a row, the number of Italian firms planning to raise staffing numbers exceeds those forecasting job losses. However, the resulting net balance is down slightly since October and points to only modest employment growth overall. At +14%, it is also below the eurozone average of +22%. By sector, manufacturers (+17%) are more confident about enlarging workforce numbers than their services counterparts (+12%).

Lower capex expectations

Businesses have also pared back their forecasts for capital expenditure since October. That said, as is the case with employment, the latest net balance (+13%) is the second-highest seen since comparable data were first collected in late-2009.

On a more positive note, manufacturers' expectations for R&D are at a post-financial crisis high.

Inflation expectations revised higher

February's survey shows a net balance of +27% of Italian companies expecting a rise in average input prices in the year ahead. That is up marginally from +26% in October and the highest since June 2015. Whereas manufacturers are now predicting stronger cost inflation than previously forecast (+45%, up from +29%), service providers have lowered their expectations (+21%, down from +24%).

On the other hand, there has been a broad-based upward revision to output price forecasts, with the overall net balance up to +15%, its highest since June 2011.

Comment:

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

“Confidence among Italy’s businesses has improved since October last year, according to latest Business Outlook data, corroborating the signal being sent from the PMI surveys which have shown a positive start to the opening quarter for the private sector economy.

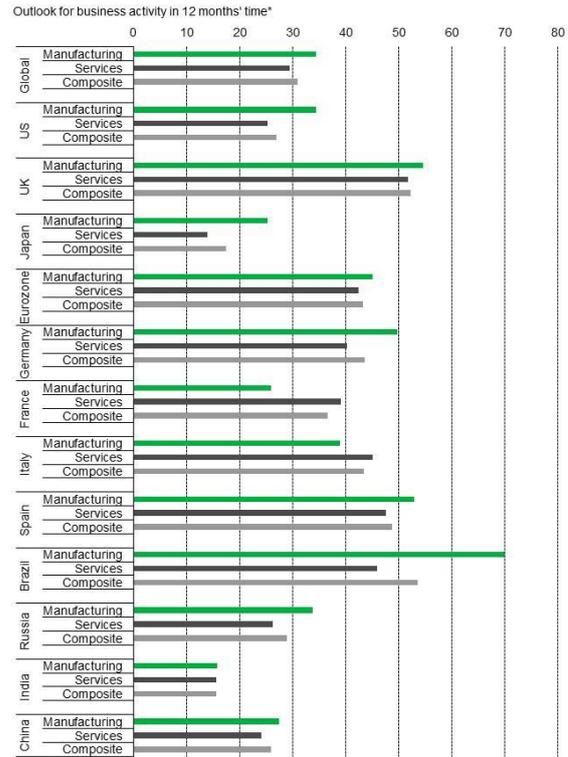
“Growth forecasts for business activity, new orders and revenues have all been upwardly revised, and in the case of profits sentiment is at its joint-highest level since late-2010.

“Italian firms, and manufacturers in particular, anticipate costs burdens to rise in the year ahead, but they are confident of being able to protect profit margins by charging higher prices. Expectations on this front are the highest since June 2011, though the inflationary outlook in Italy is more subdued than across the euro area as a whole.”

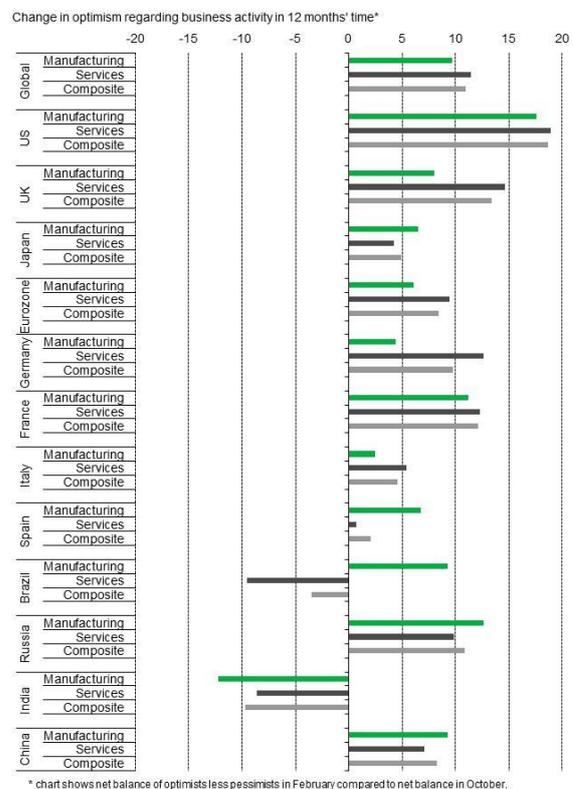
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Full data available on request from economics@ihsmarkit.com

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 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 10 and 23.

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 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 6,600 firms.

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