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IHS Markit Italy Business Outlook

Stronger manufacturing sector underpins rise in business confidence

Key findings:

- Expectations for activity and new business improve
- Record high plans for capital expenditure signalled at manufacturers
- Manufacturing jobs confidence hits survey high

Data collected October 12-26

Business confidence amongst private sector companies in Italy has strengthened, with activity, new business, and profitability all forecast to increase over the coming 12 months.

Manufacturers are particularly upbeat, in part due to rising foreign demand and a boost to investment from the Industry Plan 4.0 programme. Plans for capital expenditure and employment in manufacturing are both at their highest levels in the survey history.

The net balance of companies expecting to record an increase in activity over the coming 12 months was +40%, up from +38% and broadly in line with the average for the Eurozone (+41%).

Both sectors recorded an improvement in confidence regarding activity. The manufacturing net balance improved to +41% (from 37%), whilst for services the net balance was at +40%, up from +38%.

Corporate earnings

Growth in activity is closely linked to expected gains in new business, which in turn will bolster revenues and profitability. Companies have been encouraged by recent gains in new contracts, with the burgeoning post-crisis economic recovery in Italy reported to be supporting growth – and subsequently sentiment.

Firms operating in the manufacturing sector are particularly confident of a rise in demand from abroad and, as such, are more confident than their service sector counterparts.

Italy business activity expectations



Optimism surrounding profitability in manufacturing is at the highest level seen since June 2014.

In contrast, there are concerns that local/geo-political uncertainty, low cost-competition from abroad and social instability (e.g. Brexit) are threats to growth and, as such, are weighing on confidence.

Employment & Investment Plans

With growth in new work, activity and profitability broadly forecast, companies in Italy are also predicting an increase in employment over the coming 12 months. However, there is some contrast between sectors.

Whilst service providers are expecting a slightly slower rate of growth than the previous survey's record level, the expected gain in manufacturing was the best seen since data were first collected in October 2009.

Meanwhile, encouraged by the government's Industry Plan 4.0, planned capital expenditure amongst manufacturers is the strongest recorded in the survey history (net balance: +27%). Conversely, worries over credit lines and rising costs placed some restriction on service providers' capex plans.

Inflation Expectations

On a broader theme, companies are concerned over the impact on their business of rising costs over the coming 12 months.

A net balance of +25% of companies are forecasting an increase in input prices over the coming 12 months (down from +26%).

Competitive pressures are likely to weigh on the pricing power of service providers, but manufacturers are more confident of increasing their own charges. The net balance of +32% was the highest recorded level since February 2011.

Comment:

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

“The latest Business Outlook survey highlights what appears to be an emerging two-speed economy in Italy. Whilst service providers are confident that growth will be recorded in activity, new business and profitability, and that jobs will be created in the sector, optimism was generally lower than seen in manufacturing.”

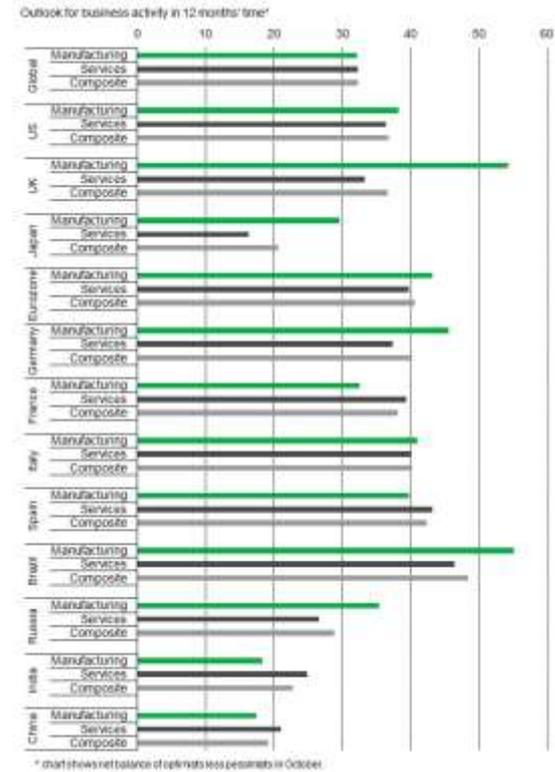
“Indeed, sentiment regarding capital expenditure and employment plans was strikingly different between the two sectors, with manufacturers at their most confident for these two metrics in the eight years that data have been collected. The government’s Industry Plan 4.0 programme is helping to support confidence, whilst strong growth abroad is forecast to further bolster exports over the coming 12 months.”

“Meanwhile, the survey also provided some evidence of emerging pipeline price pressures in the Italian economy, with the highest manufacturing net balance for output prices signalled by the survey since February 2011.”

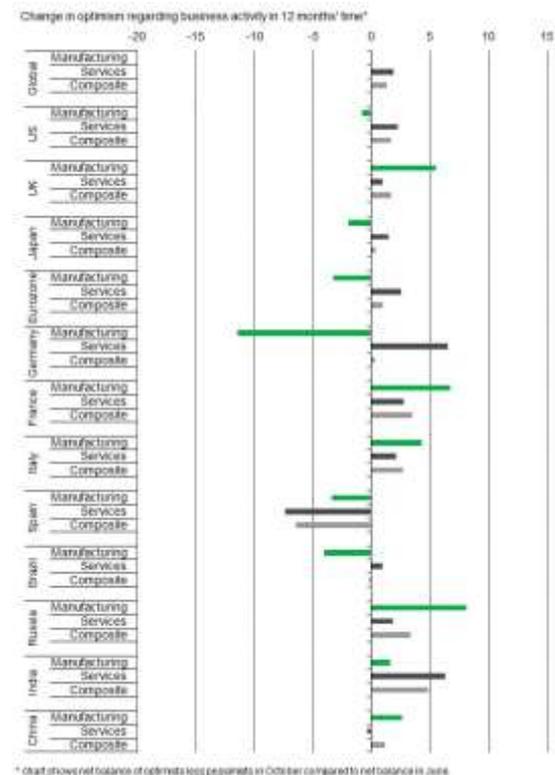
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Full data available on request from economics@ihsmarkit.com

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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