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Survey of Industrial and Service Firms

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This report was prepared by a committee composed of Andrea Alivernini, Marco Bottone, Tatiana Cesaroni, Caterina Di Benedetto, Elena Mattevi, Giuseppina Papadia and Alfonso Rosolia. The Bank's branches assisted in the survey and were responsible for the collection of the data.

The data are used exclusively for the purpose of economic analysis and have been handled and processed in aggregate form. We would like to thank all the firms that agreed to take part in the survey, providing the necessary information in the course of long and complex interviews.



## THE MAIN FINDINGS of the Survey of Industrial and Non-Financial Private Service Firms 2015

In 2015 **turnover** grew by 4 per cent at constant prices, which is high compared with past results and in line with firms' expectations as reported in the previous year's survey; about two thirds of firms saw their sales volume increase in 2015 compared with just over half in 2014.

**Sales prices** maintained modest growth. Firms reported a change of about 1 per cent on average, as in the last two years; more than half of the firms reported no change or a negative variation.

Spending on **investment** regained strength, in line with firms' expectations as reported in the 2014 survey.

Firms' expected investment spending **to continue to grow** in the current year, at a rate of more than 2 per cent, benefiting from signs that sales are consolidating and a slight improvement in banks' lending standards.

The further **growth in sales** estimated for the whole of this year should be more evenly distributed among firms; those expecting a decline in growth think it will be less marked than in past years.

For firms with 10 or more workers in **the construction sector**, the contraction of production under way since 2008 came to a halt, which was a better result than expected by firms in 2014. The stagnation of production overall reflects the net balance of growth in production – an increase in public works set against a fall in the private sector. Firms expect production to decrease again in 2016.

## Non-construction industry and non-financial private services

### *Turnover and production inputs*

The survey showed that in 2015 the total turnover of firms in non-construction industry and non-financial private services with 20 workers or more grew at a rate close to 4 per cent at constant prices. This is high compared with past results and in line with firms' expectations as reported in the previous year. The rate of growth was similar for both sales abroad, which accelerated compared with 2014, and for the domestic market, which had been declining since 2008 (Figure 1). The expansion involved all the main business categories, but was stronger: in the sector of non-financial private services; for firms in the North and in the South and Islands; for firms more oriented towards the domestic market; and for smaller firms (Table 1). Firms met the greater demand by increasing workers' hours, which nevertheless remain below the level recorded prior to the global financial crisis. The more intensive use of the labour force was common to both industry, where workers' hours grew at the same rate as last year, and to services; it involved firms oriented towards the domestic market and also exporters; and increased hours were seen throughout the country.

The number of people employed remained at the level of the previous year; the contraction that began in 2008 came to a halt. Employment trends were uneven and the modest growth in non-financial private services was driven by: the favourable performance of firms in the North; the more export-oriented businesses; and by larger firms. The contraction in non-construction industry was however more widespread, with stable conditions seen only in the chemical and basic metal and engineering sectors. There was a slight increase in employment in the South and Islands.

The degree of overall utilization of installed production capacity, surveyed only for non-construction industry, increased: in 2015 two thirds of the entire sector's output was produced by firms that were utilizing more than three quarters of installed capacity; the previous year firms that had utilized plants to a similar extent accounted for little more than half of total production.

### *Price formation and profits*

The upturn in turnover, at constant prices, was accompanied by still modest growth in sales prices. In 2015, firms reported an average change in prices of around 1 per cent, in line with that recorded since 2013. Since 2013, more than half of firms has reported either no change or a drop in their prices and only about a quarter has declared increases of more than 2 per cent

(Figure 2.a). If the average change in sales prices is weighted by the value of the turnover recorded, it has been negative since 2013, with a particularly marked decline in 2015; in the last two years the change in sales prices of about three quarters of the turnover in the sectors surveyed was no more than 1 per cent; it was nil or negative for half of sales (Figure 2.b). Price performance on foreign markets and on the domestic market reported by firms was basically the same.

Figure 1

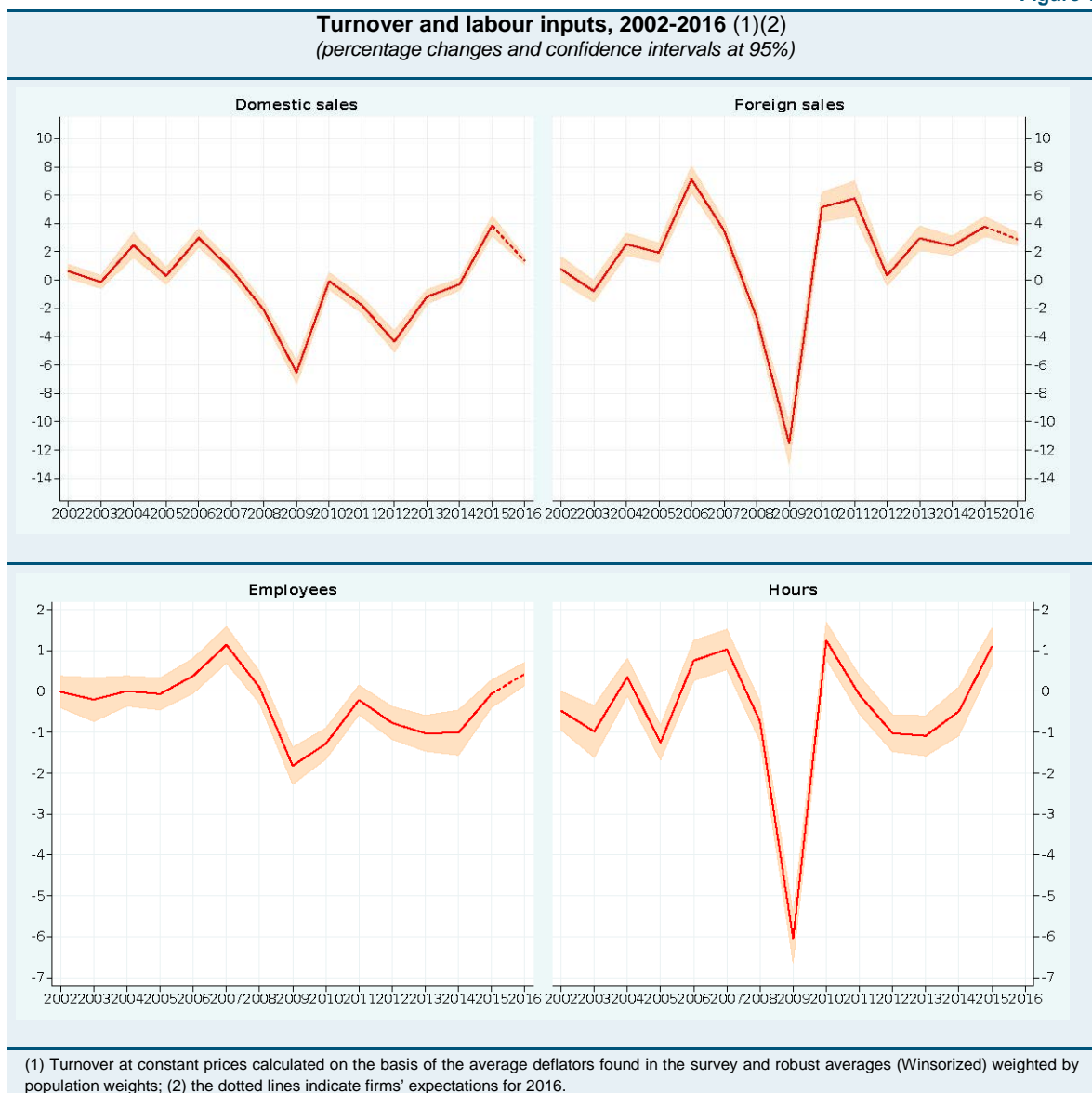




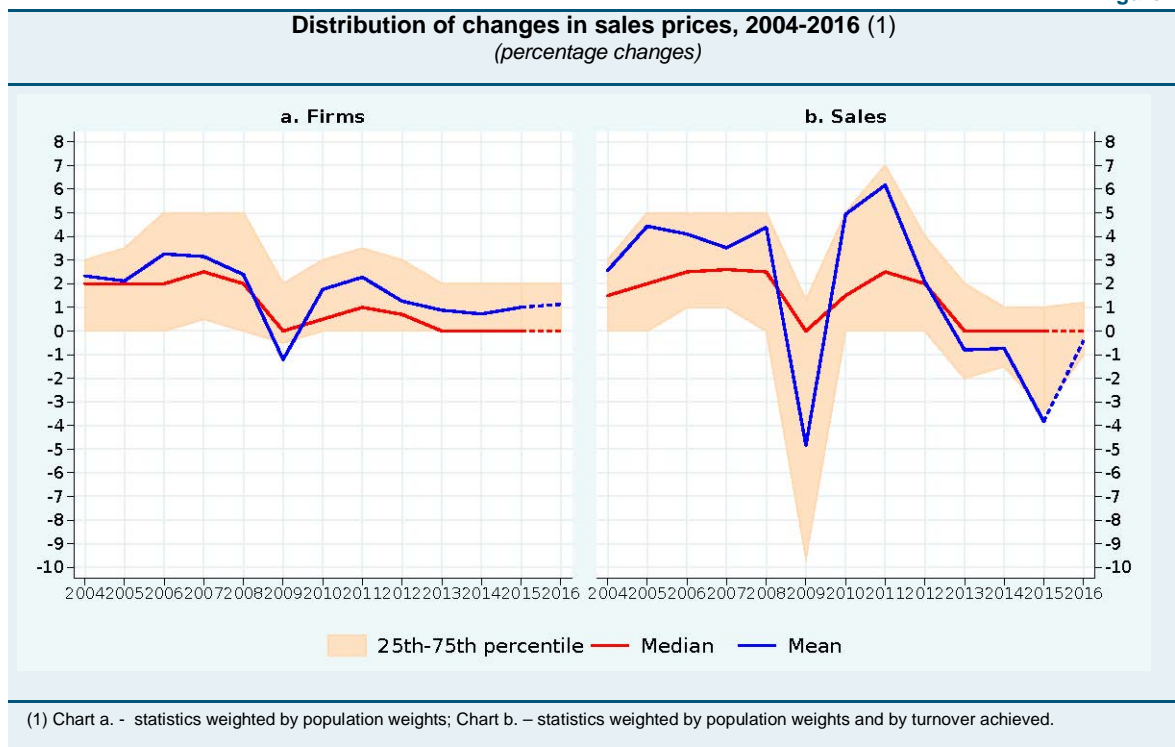
Table 1

<b>Main developments in 2015 and expectations for 2016</b> (percentage changes)						
	Turnover (1)		Investment (1)		Employment	
	2015	2016	2015	2016	2015	2016
<b>Sector</b>						
Non-construction industry	2.8	2.2	3.3	2.6	-0.5	0.4
Non-financial services	4.9	1.2	8.9	2.1	0.3	0.5
<b>Geographical area</b>						
North-West	4.7	1.9	2.8	3.7	-0.2	0.2
North-East	4.0	1.6	6.1	-1.6	0.6	1.0
Centre	1.7	1.4	10.8	4.0	-0.4	0.4
South and Islands	5.3	2.2	6.9	0.1	-0.3	-0.1
<b>Number of workers</b>						
20-49	4.4	1.3	2.6	0.2	-0.4	0.6
50-199	3.8	1.7	5.6	-3.0	-0.3	-0.4
200-499	3.0	1.4	4.0	-4.3	0.2	1.1
500 and over	4.0	2.3	8.9	7.2	0.3	0.6
<b>Share of turnover from exports</b>						
Less than one third	4.4	1.4	6.5	2.8	0.1	0.3
Between one and two thirds	2.3	1.9	9.1	1.9	-0.2	0.9
More than two thirds	3.0	2.9	1.8	0.9	-0.4	0.2
<b>Total</b>	3.8	1.7	6.4	2.4	-0.1	0.4

(1) Robust averages (Winsorized) weighted by population weights; calculated at constant prices using the average deflators found in the survey.

Firms attribute their stagnating sales prices mainly to weak demand and price changes for raw materials. Weak demand is considered to be the main reason by more than a third of firms, which represent only a quarter of total turnover; changes in raw materials prices are considered to be the main reason by one fifth of firms, which represent one third of total turnover. Competitive pressure was perceived as an important factor by only one tenth of firms, all of which had a similar share of turnover; inflation and exchange rate expectations and financial aspects were not perceived as particularly important factors (Table 2).

Figure 2



The growth in production was accompanied by improved operating results. The share of firms reporting they had made a profit increased once more, to almost 70 per cent, a similar value to that prevailing before the global financial crisis; it was just over 60 per cent in 2014. The frequency of firms with operating profits has grown extensively, albeit unevenly in that the increase was greater for companies with fewer than 50 workers, those in the North, and exporting firms.

Table 2

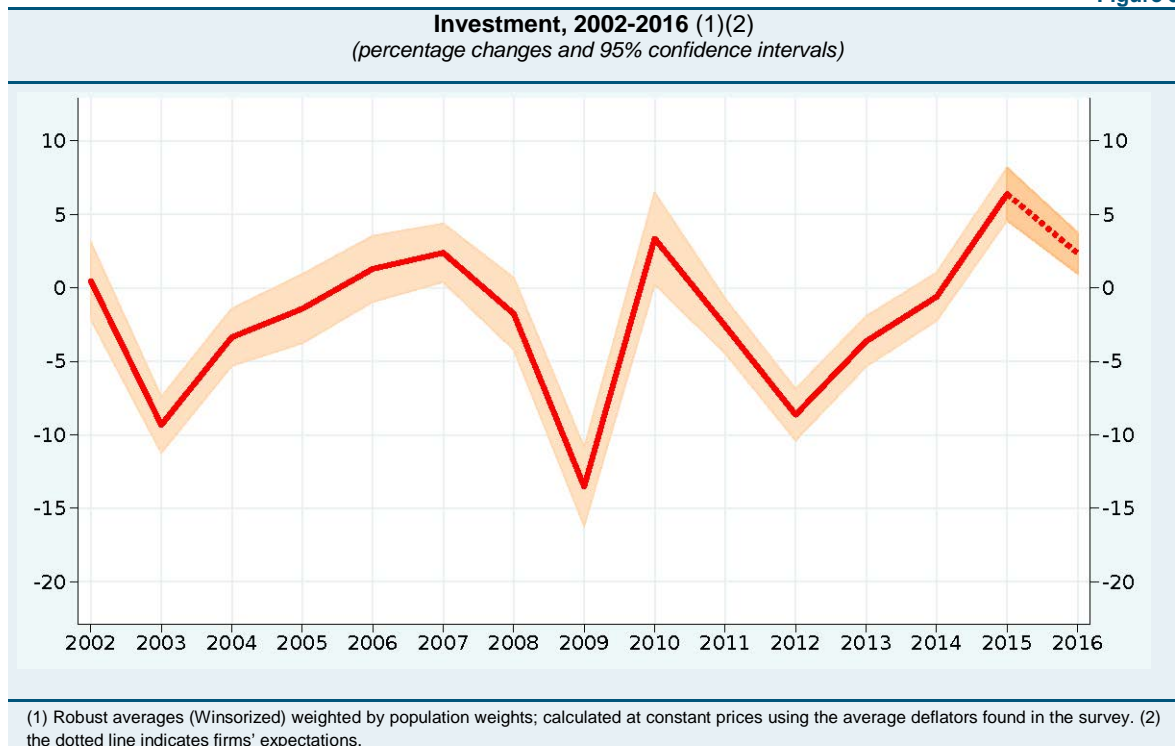
<b>Reasons for changes in prices 2014/2015</b> (percentage changes and per cent)				
	Firms (1)		Turnover (2)	
	Median change (3)	Share	Median change (3)	Share
Changes in overall demand	0.0	34.2	0.0	25.2
Changes in raw materials prices	0.0	22.0	-5.0	33.9
Pricing policies of your main competitors	0.0	11.3	0.0	11.4
Changes in labour costs	1.5	5.9	0.0	2.1
Inflation and exchange rate expectations	0.1	1.5	0.2	1.3
Interest expenses and sources of external financing	3.0	0.7	1.0	0.4
No answer	0.0	24.2	0.0	25.7
<b>Total</b>	0.0	100.0	0.0	100.0

(1) Statistics weighted by population weights; (2) Statistics weighted by population weights and for turnover achieved; (3) median change in prices of those giving this reason for a change as the most important.

### *Investment, outlook and financial conditions*

The survey shows that in 2015 capital accumulation regained momentum (Figure 3). Total expenditure on investment, after contracting almost uninterruptedly since 2008, grew by more than 6 per cent at constant prices. The result, in line with the spending plans reported in 2014, is higher than that deduced, for the same sectors, from the preliminary estimates of the national accounts, which also include companies with fewer than 20 workers. About half of the expansion recorded by the survey reflects the investment activities of a few large companies in the private non-financial services sector, based in the Centre and in the North-West, and predominantly geared towards the domestic market. However, capital accumulation has intensified appreciably in the North-East and the South and Islands as well. Overall, the greater pace of accumulation mainly reflects increased spending by firms that, while continuing to make investments in previous years, had gradually been reducing their outlay. According to their business plans, investment spending would continue to grow this year, although at the slower pace of around 2.5 per cent. The accumulation rate would be more intense for: firms geared more to the domestic market; larger firms; and those in the North-West and the Centre. The opinions of industrial firms alone were that investment spending would continue to grow, at constant prices, at a rate only slightly lower than last year. Accordingly, this year the technical production capacity of the entire sector would grow by around 6 per cent, a slightly faster rate than last year, partly driven by a further increase in the proportion of companies expecting an expansion.

Figure 3



According to the firms, the positive performance of capital accumulation in 2015 reflects only minimally the tax incentives on the depreciation of capital goods introduced by the 2016 Stability Act, but the effectiveness of this measure increases with reference to spending plans for 2016: only about 8 per cent of firms thought that spending in 2015 benefited from the measure, presumably because it only entered into force in October; instead plans for 2016 were revised upwards as a result of the measure by one fifth of firms.

Total spending on investment has benefited from signs that sales are consolidating and that the conditions for access to credit are improving slightly. For the current year, firms expect further growth of around 2 per cent in overall turnover, given the still modest growth of sales prices. Following the exceptional growth recorded in 2015, any further increase would reflect a greater similarity of firms' growth trends overall. Both in 2015 and in 2016 (on the basis of firms' expectations) about 40 per cent of businesses recorded a drop in sales; however, in 2015, the poor performance of these firms subtracted around 2.5 percentage points from the growth of overall turnover while, according to expectations, it would only account for a reduction of about one percentage point this year. In contrast, the increase in sales on the part of the other 60 per cent of firms contributed about 6.5 percentage points to aggregate growth in 2015 and only 2.5 percentage points this year.

Among the industrial firms, those that expect to increase their production capacity believe that a better outlook for demand is the main factor behind this choice. Accordingly,

they also expected to increase the degree of installed production capacity being used. The share of total production realized by firms planning to use at least three quarters of their capacity should rise to about 75 per cent; in 2007-2008, before the global financial crisis, it stood at just over 80 per cent.

Businesses perceive a slight improvement in borrowing conditions overall, mainly due to favourable interest rates and the greater availability of financing; the share of firms requesting new loans began to grow again, albeit slightly, presumably due to the improvement in demand prospects, and there were fewer firms whose applications for credit were totally or partly denied.

## Construction firms

In 2015, the total output of construction firms with 10 or more workers remained, at constant prices, basically the same as the previous year, interrupting the contraction under way since 2008. This was greater than firms' expectations last year when they thought there would be a reduction of more than one percentage point. The stagnation of total output is the result of the growth in public works (1.1 per cent) and the decline in the private sector (-0.8 per cent). The increase, which was also unexpected, in public works' production was driven by firms in the South and Islands and by those with fewer than 200 workers. Despite the better-than-expected trend in production, employment has once again contracted, especially in smaller firms, even if at a slower pace than before.

As in recent years, about half of the companies reported a net profit for the year, while more than a quarter recorded a loss; the results were decidedly better for businesses in the Centre and the South and for larger firms. Businesses considered that borrowing conditions overall had improved slightly. The share of firms that had contacted an intermediary to negotiate a loan was larger, rising to around one third; just under half of all applications were rejected. The share of those who did not apply for a loan because they expected it to be turned down fell further, to just over 1 per cent.

Firms expected total production to start declining again this year, although those in the North-East and the South and Islands and medium-sized firms were more optimistic. The downturn is expected to affect production both in public works, especially for businesses in the North-West and for larger firms, and in the private sector. Despite the perceived improvement in borrowing conditions, the balance between those expecting to increase their debt and those who expect to reduce it became even more negative.

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The Statistical Appendix, available on the Bank of Italy's website, gives a more in-depth look at the survey findings in the following tables:

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Remote access to the micro data is possible using the remote processing system known as BIRD (Bank of Italy Remote access to micro Data). More information is available on the following website: <http://www.bancaditalia.it/statistiche/basi-dati/bird>

## GENERAL INFORMATION

I. - Unless indicated otherwise, figures have been computed by the Bank of Italy.

II. - Symbols and Conventions:

— the phenomenon in question does not occur;

.... the phenomenon occurs but its value is not known;

.. the value is known but is nil or less than half the final digit shown.

Figures in parentheses in roman type () are provisional, those in parentheses in italics () are estimated.

III. - The tables are identified both by a number and by an alphanumeric code that defines the content of the table in the database in the electronic archive in which information to be released to the public is held. A similar code identifies the different aggregates shown in each table.

IV. - The methodological notes in the last part of the Supplement are identified by electronic codes that refer to the tables and, within each table, to the individual aggregates. Notes that refer to a single observation are also identified by the date of that observation.

## SUPPLEMENTS TO THE STATISTICAL BULLETIN

**Money and Banking** (monthly)

**The Financial Market** (monthly)

**The Public Finances, borrowing requirement and debt** (monthly)

**Balance of Payments and International Investment Position** (monthly)

**Financial Accounts** (quarterly)

**Payment System** (half yearly)

**Public Finance Statistics in the European Union** (annual)

**Local Government Debt** (annual)

**Household Wealth in Italy** (annual)

**Sample Surveys** (irregular)

**Methodological Notes** (irregular)

*All the supplements are available on the Bank of Italy's site ([www.bancaditalia.it](http://www.bancaditalia.it)).*

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