BANCA D'ITALIA
EUROSISTEMA

Statistics

Survey of Industrial and Service Firms

3 July 2017

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Main results

According to the Bank of Italy survey conducted between March and May of this year, in 2016 the total turnover of firms in non-construction industry and non-financial private services with at least 20 employees increased again, although at a slower pace compared with the previous year. Sales volumes grew for manufacturing and service firms, but not for those in the energy and mining and quarrying sectors.

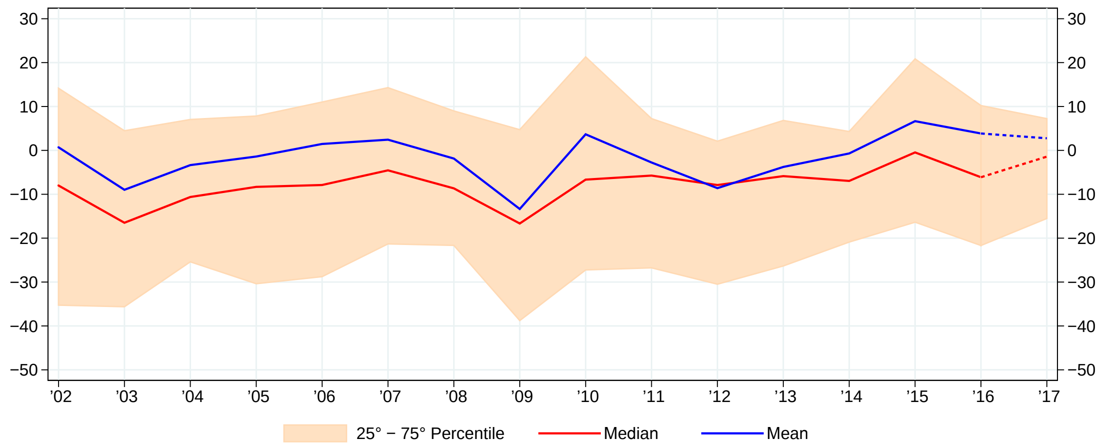
The positive trend in sales stimulated employment growth; however, the degree of capacity utilization in the manufacturing sector remained stable, with ample room for growth. Own prices increased again modestly partly owing to the still subdued growth in demand.

Firms expect the growth in sales to strengthen in 2017 and own prices to increase further, mainly on account of higher commodity prices.

Investment spending continued to grow, albeit at a slower pace than the previous year, due to a slowdown in the service sector and a contraction in the energy and extraction sectors (as forecast by firms in the previous survey), which weakened the impulse of the strong improvement in the manufacturing sector. Total investment growth in 2016 was almost entirely driven by smaller firms, which seem to have brought forward some expenditures in order to benefit from incentive measures which were expected to expire at the end of the year.
Firms' investment plans for 2017 suggest a further, albeit less intense, growth in spending mostly driven by greater capital accumulation by large firms.

After stagnating in 2015, construction firms' output began to decline again in 2016, reflecting a drop in public works and the need to adjust to the new requirements of the most recent public procurement law.

Investment (1)
(*percentage changes*)



Note: (1) Not including the construction sector; calculated at constant prices using deflators found in the survey. Statistics weighted by firm distribution and investment spending. Dotted lines indicate firms' expectations for 2017.

Reference period: 2016

Survey of industrial and service firms[1]

Non-construction industry and non-financial private services

The recovery in turnover continued except in the energy sector …

In 2016, sales volumes continued to grow for firms with 20 workers or more, albeit at a slower pace than the one reported in 2015 (0.3 per cent from 3.7 per cent last year; Table 1). Similar growth rates were recorded in both foreign and domestic markets (Figure 1). Last year's expectations already factored in a slowdown in sales, due to the strong contraction in the energy and extraction sectors and to the deceleration in retail trade, tourism, and basic metal and engineering sectors following their significant growth in 2015. However, the slowdown exceeded expectations. Other contributory factors were the contraction in the chemical and textile/clothing sectors and the abrupt halt in the metal and engineering sectors, which were not anticipated in the preceding survey. The gap between expected sales and actual sales was widespread and particularly large for firms active primarily in the domestic market.

Table 1

Main developments in 2016 and expectations for 2017 (1)
(*percentage changes*)

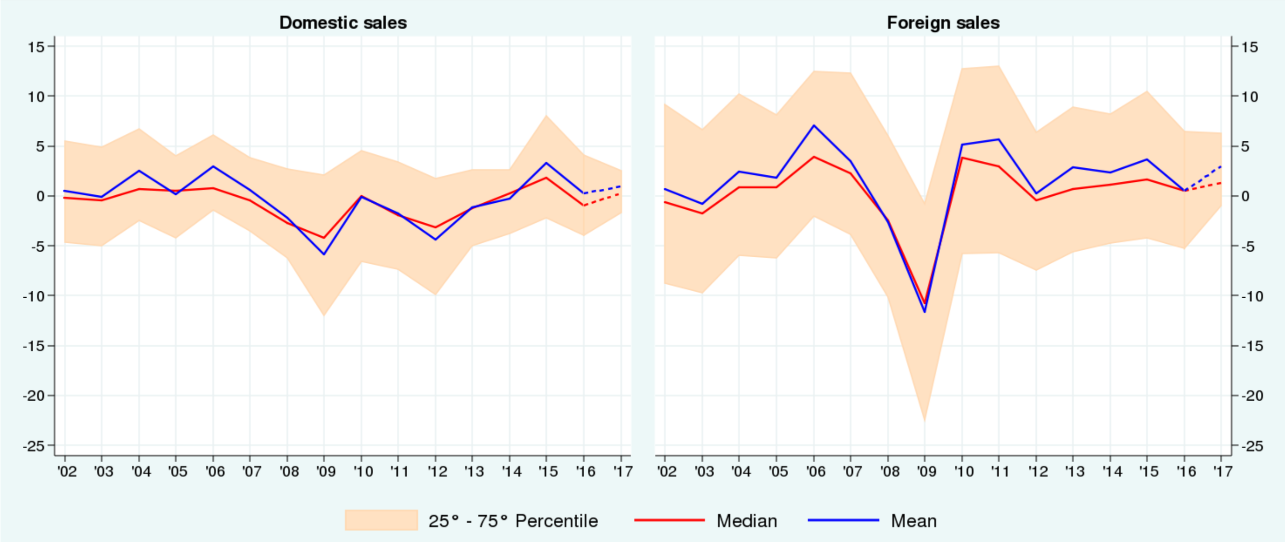
	Turnover (2)		Investment (2)		Employment	
	2016	2017	2016	2017	2016	2017
Sector						
Manufacturing	0.6	2.4	6.9	4.7	0.6	0.7
Energy and mining	-3.3	-1.2	-3.6	8.0	-0.8	-1.8
Non-financial services	1.1	1.4	4.0	0.2	1.1	0.9
Geographical area						
North-West	0.6	1.8	4.7	3.5	0.4	0.6
North-East	0.9	1.6	6.8	3.3	1.3	1.1
Centre	-1.1	0.4	-0.3	0.7	0.5	0.8
South and Islands	0.9	2.1	11.3	6.5	1.3	-0.2
Number of workers						
20 - 49	1.0	1.5	15.6	-2.5	0.0	1.2
50 - 199	0.8	1.3	6.9	1.9	0.8	-0.1
200 - 499	-0.7	0.3	-1.6	8.6	1.3	0.3
500 and over	-0.1	2.2	-0.3	3.9	1.1	1.1
Share of turnover from exports						
Less than one third	-0.2	0.8	2.6	3.1	0.8	0.5
Between one third and two thirds	1.6	3.3	5.6	0.1	0.4	1.0
More than two thirds	1.5	2.5	10	3.3	1.0	1.0
Total	**0.3**	**1.4**	**3.9**	**2.8**	**0.8**	**0.7**

Note: (1) Data weighted by population weights. (2) Based on elementary winsorized data; values at constant prices calculated on the basis of the average deflators found in the survey.

[1] This report and the statistical appendix were prepared by Marco Bottone, Tatiana Cesaroni, Matteo Mongardini, Lucia Modugno and Giuseppina Papadia. The survey was carried out directly by the Bank's branches.
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 statistical appendix and the methodological note are available at the following webpages:
https://www.bancaditalia.it/pubblicazioni/indagine-imprese/2016-indagine-imprese/dati_2016_eng.zip?language_id=1
https://www.bancaditalia.it/pubblicazioni/indagine-imprese/2015-indagine-imprese/en_survey_methodology_invind.pdf?language_id=1

Figure 1

Turnover (1)
(*percentage changes*)



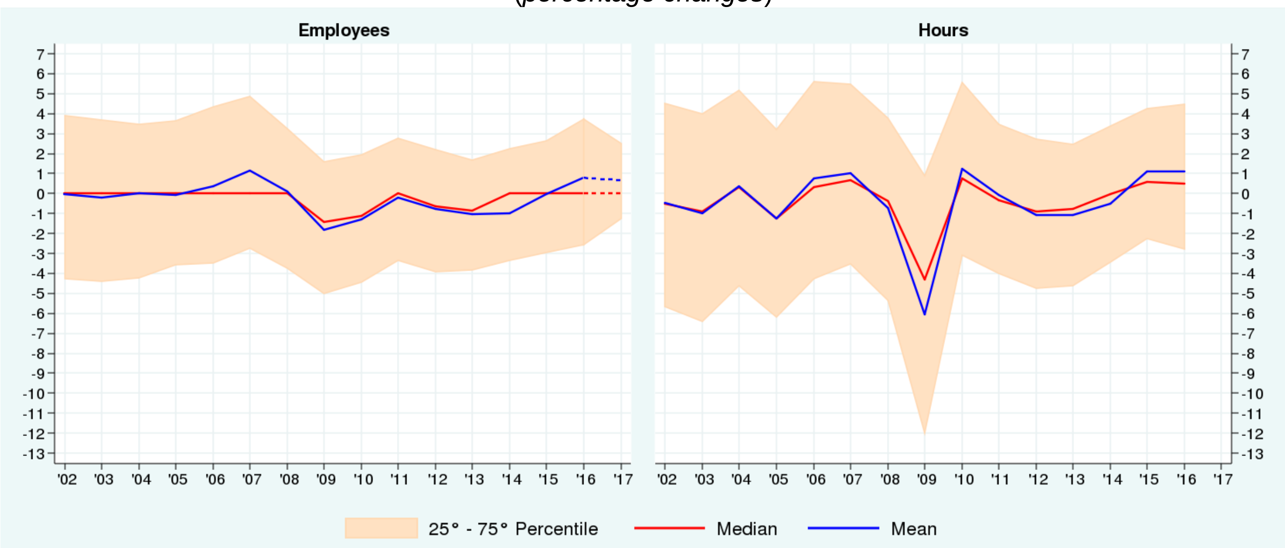
Note: (1) Values at constant prices calculated on the basis of the average deflators found in the survey; based on elementary winsorized data. The dotted lines indicate firms' expectations for 2017. Data weighted by population weights and turnover.

... and, for the first time since 2009, growth was accompanied by an increase in the number of workers

The expansion in production, just under 1 percentage point when excluding the energy sector, generated a new increase in the total number of hours worked, which rose further in manufacturing and grew at a similar pace to that of the previous year in the non-financial private services sector. For the first time since 2009, the increase in the number of people employed was partly due to the rise in the total number of hours worked, which took place largely according to the plans developed by firms the previous year (Figure 2): the stronger growth in employment in services, where labour demand had already picked up in 2015, was met with a contraction in the manufacturing sector, especially for firms more oriented towards foreign markets.

Figure 2

Labour inputs (1)
(*percentage changes*)



Note: (1) The dotted lines indicate firms' expectations for 2017. Data weighted by population weights and for the value of the variables analysed.

Installed production capacity in the non-construction industry, the only sector in which this information is surveyed, was utilized for at least 80 per cent by about 40 per cent of firms, still far from the nearly three fourths recorded in the two years preceding the global financial crisis but in constant growth from the minimum reported in 2012.

Sales prices continued to increase moderately, but with strengthened signs of recovery

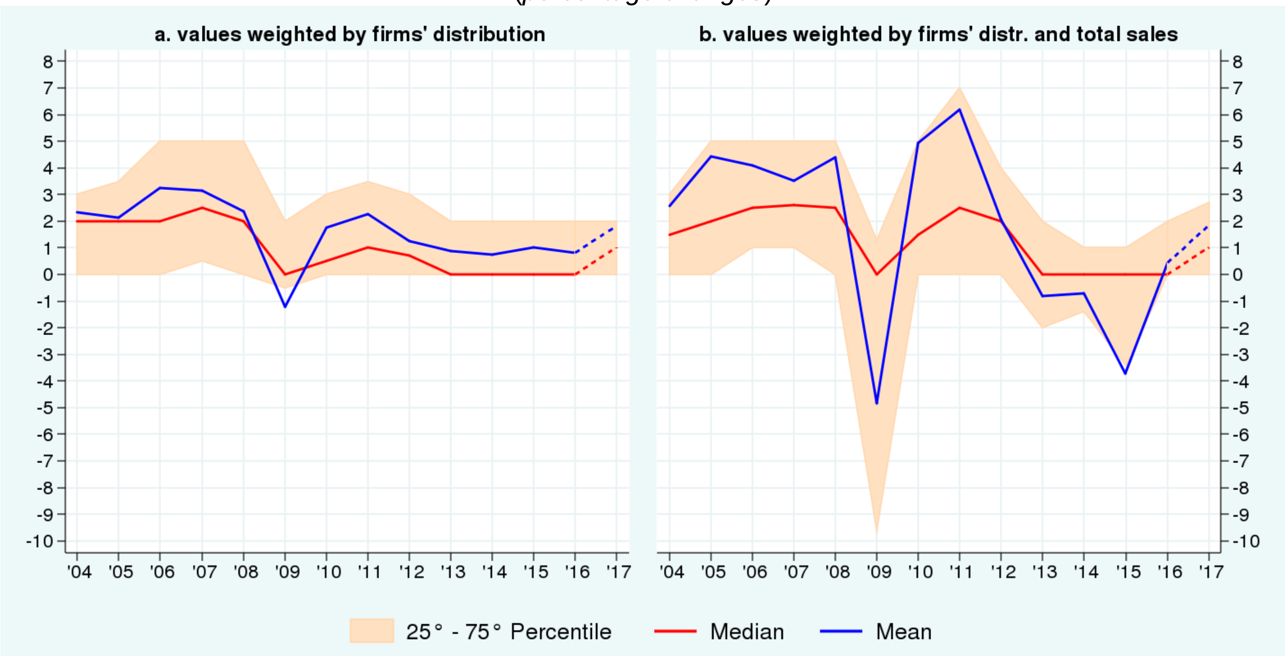
Given the still modest level of demand and ample idle production capacity in the manufacturing sector, sales prices continued to grow moderately overall, by just under 1 percentage point on an annual basis, in line with the growth reported in the previous three years (Figure 3.a). As in that period, the change in own prices was nil or negative for more than half of firms and at least 2 per cent for just over one quarter. However, contrarily to what was recorded in the previous three-year period and the expectations reported in the previous survey, the average change in sales prices weighted by the value of recorded turnover became newly positive after three years, albeit at just under 0.5 percentage points (Figure 3.b). Contributing factors were the rebound in prices in the energy sector, presumably buoyed by the prices of raw materials, and the slight increase in services following the sharp drop in 2015. In the manufacturing sector prices instead remained stable, interrupting a three-year fall.

The share of turnover associated with a reduction in sales prices fell by about 14 percentage points overall, to 22 per cent, while that associated with a price increase of 2 per cent or more rose from 19 to 25 per cent. These developments affected the main business sectors to varying degrees.

Even in the face of modest sales volumes and prices, the share of firms that reported a profit in 2016 grew to 73 per cent, a historically high level. The growth in the share of profitable firms was seen in all the main business sectors and was similar among manufacturing firms primarily focused on foreign markets and those focused on the domestic market. The probability of closing the year with a profit grew especially among firms that reported an increase in turnover and employees in 2016.

Figure 3

Changes in own sales prices (1)
(*percentage changes*)



Note: (1) The dotted lines indicate firms' expectations for 2017.

Table 2

Reasons for changes in prices (1)
(*percentage changes and per cent*)

	2015/2016			2016/2017		
	average change (2)	median change (2)	share	average change (2)	median change (2)	share
Changes in overall demand ……………..	0.98	1.00	35.47	2.10	1.00	34.18
Changes in raw materials prices…………..	1.90	0.50	33.70	3.66	2.00	34.95
Changes in labour costs………………………	0.26	0.00	3.10	0.98	0.50	3.30
Pricing policies of your main competitors…	0.35	0.00	10.88	0.69	0.00	9.30
Inflation and exchange rate expectations …………	0.97	1.00	1.11	1.06	1.00	0.77
Interest expenses and sources of external financing…	-3.60	0.00	0.57	5.75	5.00	0.53
No answer …………………………………………..	0.40	0.00	15.17	1.46	0.00	16.97

Note: (1) Statistics weighted by population weights and by recorded turnover. – (2) Price changes of firms indicating it as the most significant factor.

Firms' expectations still signal a slight increase in the level of activity

For 2017, firms of manufacturing and non-financial private services expect a slight acceleration in sales volumes, which are instead expected to continue to contract in the energy and mining sector. The expansion in employment levels is expected to increase and there will be a new rise in the use of productive capacity in manufacturing. Firms expect their own prices to pick up and, weighted by the value of recorded turnover, to increase on average to just under 2 per cent (to 2.4 per cent excluding the energy sector); firms expecting a growth rate above 1 per cent account for about 50 per cent of the overall turnover.

Firms that believe that changes in the cost of raw materials are the main factor underlying the pattern of their sales prices in 2017 represent more than a third of the value of the sales realized; they expect an average price increase of more than 3 per cent. Firms that believe that demand is the main driver of price dynamics also represent about a third of sales, but they expect an average increase in sales prices of just over 2 per cent (Table 2).

Investment growth was weaker than in 2015 …

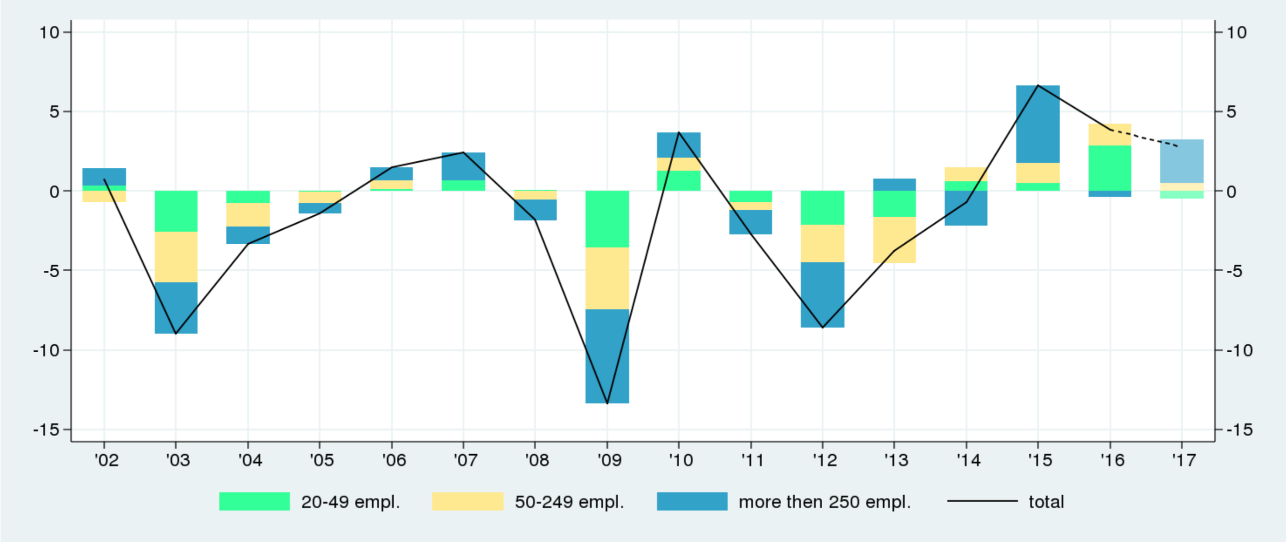
In 2016, capital accumulation continued, albeit at a pace that was less intense overall than in the previous year (respectively 3.9 and 6.7 per cent). The deceleration reflected the slowdown of investments in the services sector (from 9.3 to 4.0 per cent) widely anticipated by the firms in the previous survey, and the contraction in the energy sector (from 3.9 to -3.6 per cent), counterbalanced by the strong acceleration in the manufacturing sector (from 3.0 to 6.9 per cent). The share of firms that did not make investments in the last two years (6 per cent) fell slightly, but remained twice as high as the share recorded before the crisis.

… but quite substantial among small firms

Overall, the growth in investments is largely attributable to firms with fewer than 250 employees. The pace was exceptionally intense among firms with fewer than 50 employees, presumably reflecting the expectation that important incentive measures, some of which were connected to firm size, would lapse by December 2016 as scheduled, although these were in fact subsequently extended (Figure 4). Some 45 per cent of firms made use of at least one of the measures in effect in 2016 (Nuova Sabatini, tax incentives, super-amortization). Super-amortization was the most popular incentive, used by 40 per cent of firms. In the manufacturing sector, four fifths of the additional expenditure made by firms with less than 50 employees pertained to those that utilized at least one incentive; the share was three-fifths among firms with more than 500 employees. Only 3 per cent of firms that used at least one incentive reported that without it they would not have made any investment; the share of those who would have invested less oscillated between 14 and 27 per cent, depending on the incentive and firm size. The share that would have invested less or not at all is higher among small firms.

Figure 4

Investments (1)
(*contributions to growth*)



Note: (1) Values at constant prices calculated on the basis of deflators observed in the survey. Statistics weighted by the weight of the number of firms and investment spending. The dotted line and the shaded area indicate firms' expectations for 2017.

Spending plans for 2017 anticipate a continuation of spending

According to firms plans, the overall expenditure will increase by 2.8 per cent in 2017, a slower pace than that of the previous year. The slowdown is the result of a growth in spending among firms with more than 500 employees and a contraction among those with fewer than 50, who presumably moved their expenditure forward to 2016 in order to benefit from the incentives which were subsequently extended. Among small firms, spending would increase only for those who reported being interested in the hyper-amortization launched at the end of 2016. Overall, nearly two thirds of the increased investments planned for 2017 will be made by firms reporting that they intended to utilize this measure.

Credit access conditions continued to improve

The demand for new loans appears stable overall. Between the second and first half of 2016, about 70 per cent of firms left their indebtedness unchanged, while about one fifth increased it. The outlook for the first half of 2017 remains largely unchanged. About one fifth of firms believes that credit access conditions improved in 2016; approximately three quarters finds them stable. The share of firms whose loan applications were denied fell further, to 14 per cent from 36 per cent in 2012. The assessments regarding credit access conditions and the demand for new loans did not vary significantly among the different types of firms.

Construction firms

Overall production declined again, with differing trends in public and private construction

In 2016 overall production of construction firms with at least 10 employees contracted for the ninth consecutive year. It was accompanied by a new drop in the employment level.

The fall in production was decidedly larger than firms anticipated in 2015 and wholly reflected the trend in the public works sector. The introduction of the new Procurement Code and its requirements presumably played a role: the new legislation affects about 80 per cent of construction firms; of these, about half reported having suffered a drop in commissions of public works in 2016, but most firms believe this to be temporary.

On the other hand, private production has presumably benefited from the increase in real estate investments on the part of industrial and service firms as well as from the further expansion in residential construction. The stock of unsold housing units fell by 16 per cent, similar to the fall of 18 per cent recorded last year. Overall production by firms prevalently active in the residential construction sector grew by 11 per cent.

Credit access conditions continued to improve

The improvement in credit access conditions continued; a further progress is expected for the first half of 2017. There was a decrease in the share of firms, especially in the private sector, interested in obtaining a loan even in the face of worse conditions. Compared with 2015, the share of firms requesting new loans increased; among these, 29 per cent saw their loan applications denied in whole or in part compared with 45 per cent in 2015. Among firms active solely in private construction, the share whose loans were denied in whole or in part fell from 64 per cent to 20 per cent.

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