BANCA D'ITALIA
EUROSISTEMA

Statistics

Survey of Industrial and Service Firms

1 July 2020

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Main results

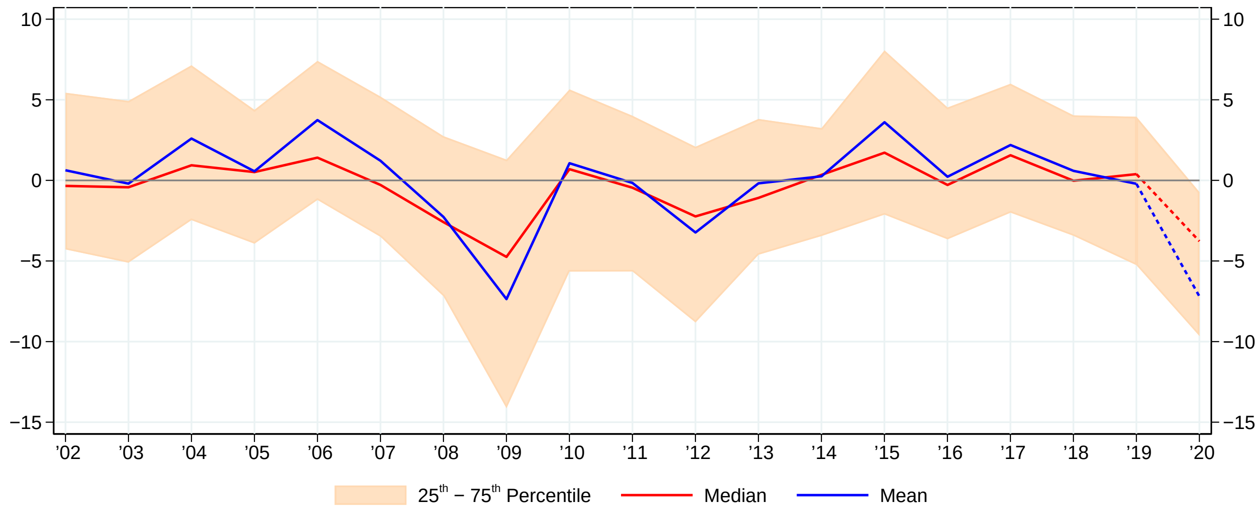
The survey was carried out between 29 January and 14 May, a period marked by the spread of the COVID-19 epidemic and by the containment measures taken by the Government. Starting from the second half of March, the traditional questionnaire was complemented by some additional questions intended to assess how the epidemic was affecting firms' business and how firms were responding to it.

According to the respondent firms, the health emergency has mainly entailed a sharp contraction in demand, especially domestic, for goods and services. Financial difficulties, which were reported very frequently but were deemed less significant than those arising from the fall in sales, are ascribable to delays in the recovery of payments and the need to meet current expenses.

During the year as a whole, firms' turnover is expected to fall by about 7 per cent, after stagnating in 2019; The drop appears to be concentrated in the first half of the year (-25.8 per cent) and sharper for firms in trade, in the accommodation and catering industry (-37.5 per cent), and in the textiles, clothing, leather and footwear sector (-32.2 per cent). The contraction in employment expected in 2020, equal to 1.3 per cent, is very small compared with the expected fall in sales, likely owing to the ample recourse to wage supplementation.

In 2019, the output of construction firms with at least 10 workers accelerated, driven by the positive performance of those involved in public works; employment also benefited from this, holding stable for the first time since 2006. However, both output and employment are expected to turn downwards again in 2020.

Turnover (1)
(percentage changes)



Note: (1) Does not include the construction sector. Data weighted by population weights and turnover. Dotted lines indicate firms' expectations for 2020.

Reference period: 2019

Survey of industrial and service firms[1]

Non-construction industry and non-financial private services

The traditional survey was complemented by a special questionnaire to measure the impact of the COVID-19 pandemic on firms' business

The 2019 edition of the Survey of Industrial and Service firms was conducted between 29 January and 14 May 2020 and involved 3,189 firms in non-construction industry and in non-financial private services with 20 or more employees and 425 construction firms with 10 or more employees. Starting from 16 March, the traditional questionnaire was complemented by some additional questions intended to assess how the epidemic and the measures taken to contain it were affecting and will affect firms' business.[2] This special survey on the impact of the coronavirus, which only covers non-construction industry and service firms, was also administered to the firms that had already submitted the traditional questionnaire; 3,503 firms took part, of which 2,836 also answered the traditional questions.[3] Overall, participation in both surveys was affected by the operational difficulties caused by the epidemic. However, the fall in the responses compared with previous years was limited when compared with the magnitude of the shock and the scope of the government measures and appears broadly homogenous across the main sectors and size classes and not correlated with the different degree of infection across regions.

Table 1

Main developments in 2018-2019 and expectations for 2020 (1)
(percentage changes)

	Turnover (2)			Investment (2)			Average employment		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Sector									
Industry excluding construction	0.2	-2.2	-6.9	6.6	1.8	-8.5	0.9	1.0	0.1
Non-financial services	1.0	1.6	-7.4	-1.3	13.0	-7.4	1.2	0.4	-2.3
Geographical area									
North-West	0.6	-0.6	-5.9	2.6	11.4	-5.8	0.8	0.2	-0.4
North-East	0.9	-0.4	-7.5	4.9	0.5	-12.2	1.6	1.7	-0.7
Centre	0.2	0.3	-8.3	0.4	6.4	-5.8	0.3	-0.4	-2.6
South and Islands	1.1	1.1	-9.9	7.3	6.0	-17.3	2.6	1.9	-3.3
Number of workers									
20 – 49	1.0	-0.5	-8.6	2.9	2.9	-12.2	1.0	0.5	-1.1
50 – 199	1.1	0.6	-7.9	3.9	4.8	-13.6	1.3	0.8	-1.4
200 – 499	-0.1	0.5	-5.7	10.7	2.4	-8.6	1.9	1.1	-1.1
500 and more	0.3	-1.2	-6.5	0.2	10.7	-2.7	0.7	0.4	-1.5
Total	**0.6**	**-0.2**	**-7.2**	**2.8**	**6.8**	**-7.9**	**1.1**	**0.6**	**-1.3**

Notes: (1) Data weighted by population weights. (2) Based on winsorized elementary data; values at constant prices calculated on the basis of the average deflators found in the survey. In keeping with the SEC 2010 national accounting standard, the investment spending tracked by the survey includes that for tangible goods, for software, databases and mineral prospecting, and for research and development, design, and prototyping.

[1] The report was prepared by Marco Bottone, Romina Gambacorta, Elena Mattevi, Lucia Modugno and Matteo Mongardini. The survey was carried out directly by the Bank's branches. The data are used exclusively for the purpose of economic and statistical analysis and are published 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, the questionnaires and the methodological notes are available at the following webpage: http://www.bancaditalia.it/pubblicazioni/indagine-imprese/2019-indagine-imprese/index.html

[2] The first case was recorded on 18 February in the town of Codogno, in the Province of Lodi (Lombardy). On 23 February, the first 'red zone' was established, comprising ten municipalities in the Province of Lodi and one in the Province of Padua (in the Veneto region). On 8 March, the provisions introducing restrictions to mobility were extended to the whole of Lombardy and to the neighbouring provinces in the regions of Veneto, Piedmont, Emilia-Romagna and Marche. On 9 March, the provision was extended to the whole country, and the following days provisions were introduced to shut down economic activity.

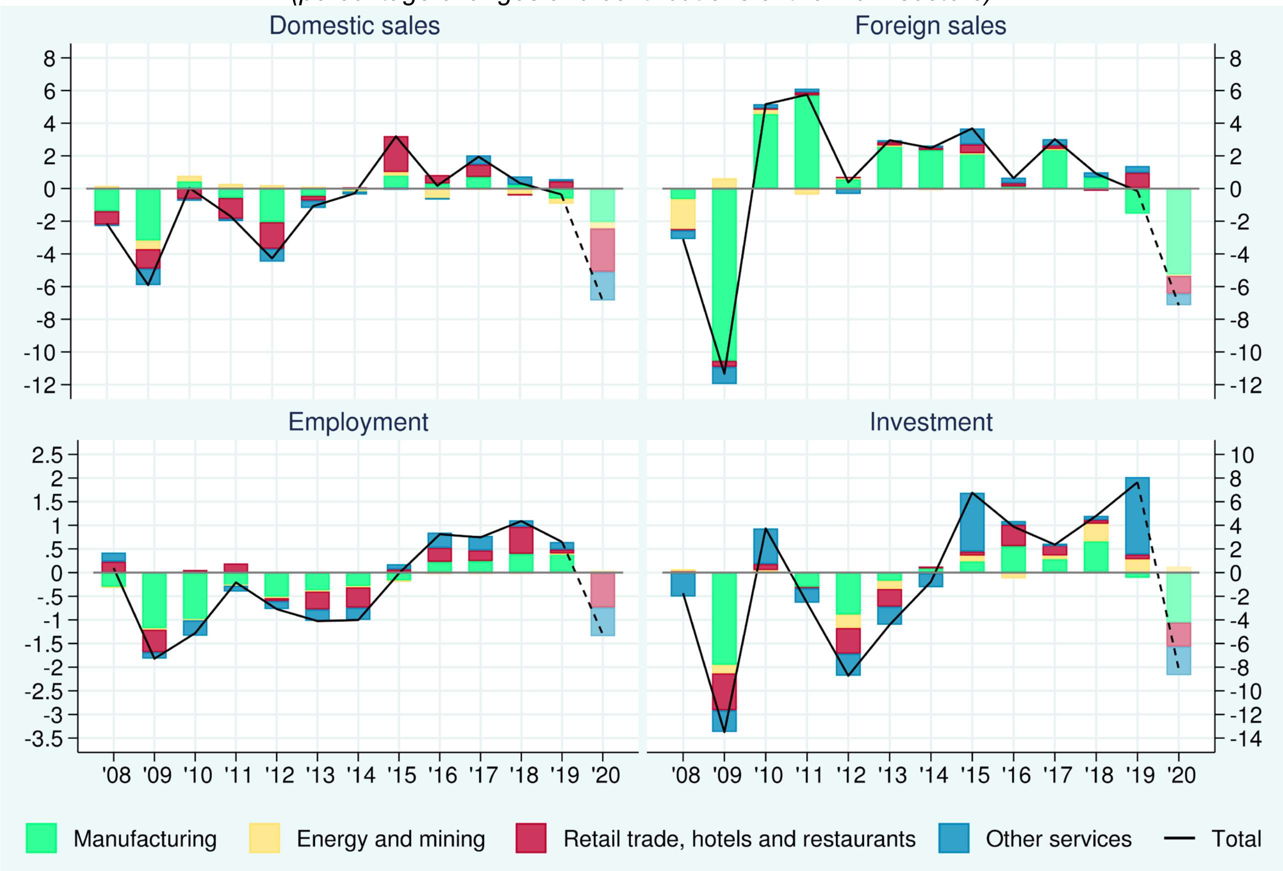
[3] Slightly more than 400 firms took part in Survey of Industrial and Service Firms before the launch of the special survey on the impact of the coronavirus; of these, about four fifths extended their participation to the latter. About 40 per cent of firms returned the questionnaires for the two surveys on the same day. For the remaining firms, the two questionnaires were turned in with an average interval of nine days.

Turnover stagnated in 2019

The pandemic occurred in a moment of widespread weakness the respondent firms' business. After slowing in 2018, in keeping with firms' expectations, turnover was stationary overall in 2019, while employment and hours worked per capita grew (Table 1). Sectoral dynamics differed. In both the domestic and foreign markets, the acceleration in sales in the service sector virtually offset the contraction in industry excluding construction (Figure 1).

Figure 1

Turnover, employment and investment (1)
(percentage changes and contributions of the main sectors)



Notes: (1) Values at constant prices calculated on the basis of the average deflators found in the survey; based on winsorized elementary data. Dotted lines indicate firms' expectations for 2019. Data weighted by population weights and turnover.

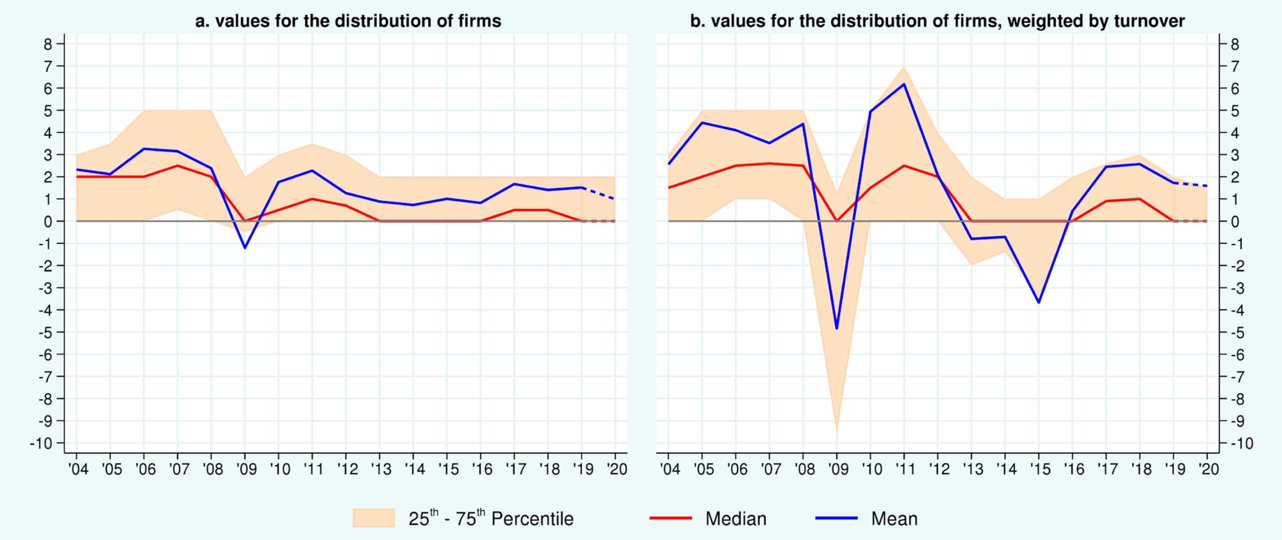
In line with the dynamics for turnover, the balance between the share of firms posting a profit and those reporting a loss held stable (at 59 percentage points), but remained at historically high levels across all size classes.

The average growth in firms' selling prices was equal to 1.5 per cent, in line with that registered in 2018 (Figure 2). However, compared with the previous two years, a smaller share of firms increased their own prices; for these, the average revision in their prices compared with the previous year was significantly higher (about 4 per cent, from 3.3 per cent in 2018).

Taking account of turnover, the change in selling prices was no greater than 1.7 per cent (from 2.6 per cent in 2018) for about three fourths of sales in the sectors covered by the survey; it was nil or negative for half of them; the change was significantly smaller on average, decreasing from 2.6 to 1.6 per cent. A further contraction in the share of firms that will revise their own prices upwards is forecast for 2020, associated with an overall slowdown in selling prices.

Figure 2

Changes in own selling prices (1)
(percentage changes)



Notes: (1) The dotted lines indicate firms' expectations for 2020.

Investment expenditure was at least equal to that of 2018 for half of firms

In 2019, investment expenditure was at least equal to that of 2018 for about half of firms. Overall, capital accumulation was more intensive compared with 2018, accelerating markedly in services and slowing sharply in industry excluding construction; it was especially brisk for firms with more than 500 employees, the only ones to forecast an increase in investment in the previous survey, and for those located in the North-West.

Expectations for 2020 are strongly affected by the COVID-19 pandemic ...

The health emergency has significantly affected firms' outlook for this year. Among the firms interviewed during the initial phase of the survey, before the deterioration in the national health situation and the launch of the containment measures, the expected median rate of growth of turnover was barely positive. Among the firms interviewed since mid-March, expectations deteriorated rapidly so that, in mid-May, at least three fourths of the respondent firms indicated that they expected a reduction in sales, and more than half of them forecast a drop of at least 10 per cent (Figure 3). The responses point to a fall in expected sales for 2020 of just over 7 per cent compared with the actual sales recorded in 2019. This estimate, as is the case for those of employment and investment, would be moderately more negative if account were taken of the fact that the firms interviewed at the beginning of the survey could not incorporate the consequences of the COVID-19 epidemic in their responses (see the box 'The impact of the spread of the COVID-19 pandemic on the outlook for 2020 and the expected recovery in turnover in second half of the year'). The contraction appears to be exceptionally sharp in the first half of the year compared with the same period of 2019 (-26 per cent), and to exceed -30 per cent in the hotel and restaurant industry and in the textiles, clothing and footwear sector. Similarly to that reported for the year as a whole, the contraction in the first half of the year appears to have been homogenous across the various parts of the country.

... whose main impact on firms has been a sharp drop in sales

Some 70 per cent of firms believe the reduction in demand, especially domestic, to be the main consequence of the pandemic on their business. Slightly less than 15 per cent of them have so far recorded logistical and supply problems as the main consequences. About one third of firms anticipate liquidity problems, but only one sixth of them believes these will be more significant than the fall in demand or logistical difficulties. Overall, for about two thirds of firms, financial difficulties stem above all from the delays in payments made by their customers, and for just under one fifth from the need to meet current expenses. In keeping with this, about 60 per cent of firms believe that the most useful measures are those intended to facilitate the management of financial flows (easier access to credit, debt moratorium on loans and deferral of tax deadlines) and about 15 per cent indicated they have already taken action on this front by extending payment periods vis-à-vis clients, suppliers and banks to deal with the initial impact of the pandemic.

Firms also expect a reduction in employment and a much sharper drop in investment

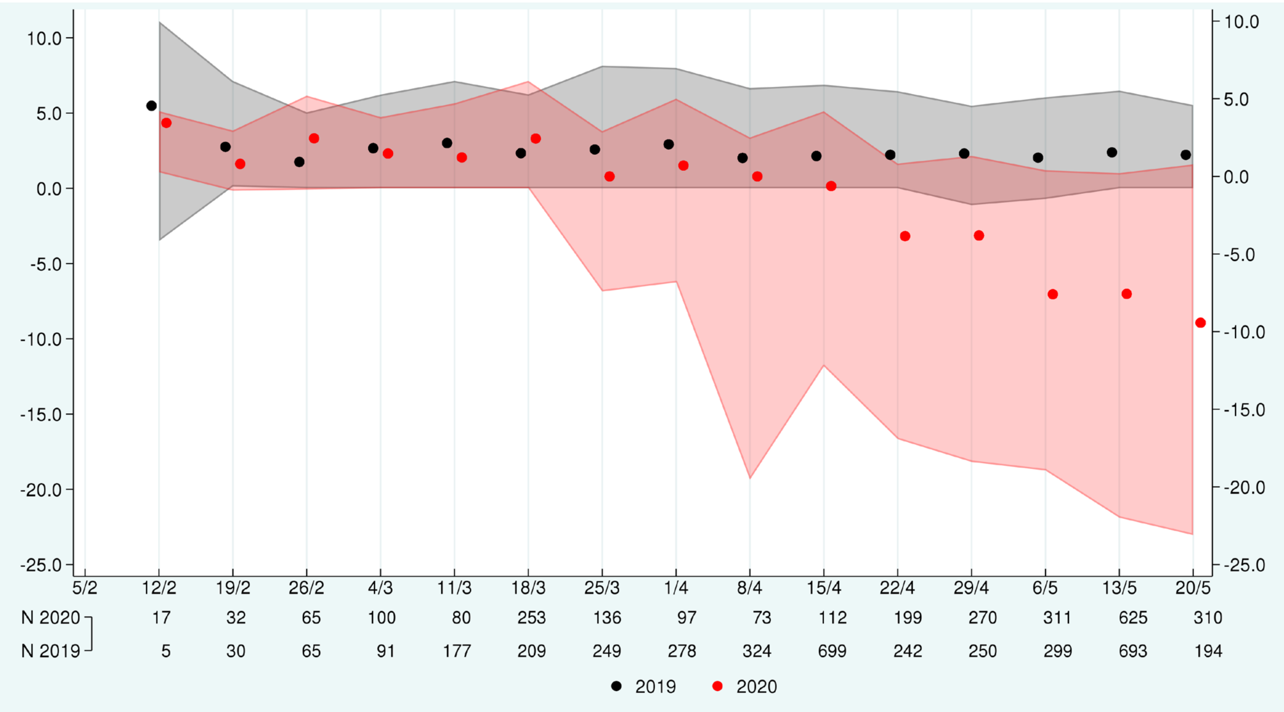
More than half of firms managed the initial difficulties by adjusting personnel policies (e.g. changes in staff numbers and/or working hours, rotation of staff, and use of wage supplementation or remote working), also owing to the restrictions on carrying out many activities in the traditional manner. Overall, firms expect to reduce staff numbers by 1.3 per cent in 2020, a very moderate reduction compared with the expected fall in sales. The contraction in employment appears to be driven by service firms (-2.3 per cent), while staff numbers are expected to hold stable in industry.

The strong deterioration in sales expectations was associated with a sharp drop in investment plans for 2020 (-7.9 per cent). The reduction is expected to be widespread across all geographical areas and especially pronounced in the sectors that recorded a sharper drop in turnover in the first part of the year as well as for small firms, whose investment expenditure was positive in the last six years.

Figure 3

Developments in the turnover of the firms surveyed during the health emergency (1)

(percentage changes, interquartile range and median; number of observations)



Notes: (1) The figure compares, for every week ending on the day indicated on the horizontal axis, the range between the 25th and 75th percentile and the median of the expected changes in turnover in 2019 (for which the data were collected in last year's survey) and in 2020 (for which the data were collected in this year's survey) and, below, the number of valid observations collected over the same period. The partial nature of the sample within each survey week does not permit the calculation of a reliable system of grossing-up weights. The figures reported here are therefore absolute survey frequencies.

Construction

Production in the construction sector accelerated in 2019 ...

In 2019, production in the construction sector accelerated (to 3.7 per cent, from 2.1 per cent in 2018), confirming the recovery begun last year. The growth benefited above all from the positive contribution of the public works segment, which for the first time since 2006, the year in which the survey was launched, registered a swift rise in production (7.6 per cent). This was mainly ascribable to large firms, whose share in the public works output grew the most.

The developments in production buoyed employment, interrupting the gradual decline begun in 2007. The average number of employees decreased only among small firms, and in any case at a slower pace than that recorded in recent years. The balance between the share of firms that posted a profit at the end of the year and of those that recorded a loss widened sharply (by 15 percentage points), reflecting both an increase in the former and a decrease in the latter.

The share of firms that applied for new loans grew by 9 percentage points in 2019, to 33 per cent, a historically high level. This was accompanied by an increase in the share of those that obtained the full amount they had requested (by 8 percentage points, to 27 per cent).

... but is expected to turn downwards in 2020

For 2020, firms point to a reduction in production of 3.7 per cent compared with that observed in 2019; while weakening significantly, production in the public works segment would continue to post positive growth (0.7 per cent). Employment would begin to decline across all size classes.

THE IMPACT OF THE SPREAD OF THE COVID-19 PANDEMIC ON THE OUTLOOK FOR 2020 AND THE EXPECTED RECOVERY IN TURNOVER IN SECOND HALF OF THE YEAR

Firms' outlook for 2020 deteriorated sharply over the course of the survey, as the COVID-19 pandemic spread (see Figure 3 in the main text). Estimates of expected developments in sales, employment and investment that are based on the entire sample may be affected by this, because they summarize opinions that were reported by firms in very different moments.

Prior to 15 March, the day on which the provisions became stricter and more general in scope and the perception of the severity of the epidemic grew sharply,[1] just over 400 firms had been interviewed, accounting for about 8 per cent of the total volume of sales in 2019 and 12 per cent of employment. Therefore, it is reasonable to assume that the expectations of these firms play a much more limited part in the aggregate estimates compared with those reported by the firms interviewed at a later stage. To test this hypothesis, one can estimate the expectations of these firms on the basis of the responses submitted by the firms interviewed after 15 March, using a linear regression model that takes account of both the moment in which the interview was conducted and of a broad set of characteristics and trends for individual firms.[2]

According to these estimates, had the firms interviewed before 15 March been interviewed earlier, they would have indicated for 2020 an average drop in turnover and in employment of slightly less than 9 per cent and of 4 per cent respectively, instead of the response pointing to virtual stability that was actually recorded during the survey; for the firms interviewed after 15 March, the expected fall is of 7.8 and 1.6 per cent. Using these estimates for the firms interviewed before 15 March, the estimated fall in 2020, when considering the entire sample, would be of about 8 per cent for turnover and 2 per cent for employment, compared with the 7.2 and 1.3 per cent figures calculated on the basis of the data actually collected. This confirms the hypothesis that the impact of the firms interviewed in the initial stages is limited overall. Therefore, there is nothing to undermine the reliability of the aggregate estimates compared with a normal year.

Based on the special survey on the impact of the coronavirus[3] the fall in turnover is expected to be significantly sharper in the first half of the year. A comparison with the findings of the Survey of Industrial and Service Firms suggests that businesses expect a substantial recovery in their activity in the second half of the year. This conclusion holds true even when taking account of the differences between the two surveys,[4] as shown by the estimates reported in Figure A for the different sectors.

Figure A

Expected changes in firms' turnover for 2020 as a whole and for the first half of the year (1)
(per cent)

Note: (1) The figure compares the expected change in turnover in 2020 calculated based on the Survey of Industrial and Service Firms and the expected year-on-year change for the first half of 2020 calculated based on the special survey on the impact of the coronavirus. For the Survey of Industrial and Service Firms, the change was obtained by imputing the observations prior to 15 March. The imputation was based on a regression model that took into account the characteristics of firms and the figures reported by them after 15 March. For comparison purposes, the change if 2020 was calculated both using only the grossing-up weights for firms and using the weights for turnover in 2019 as well.

[1] This date is also useful for the purpose of obtaining counterfactual estimates for the Survey of Industrial and Service Firms that are comparable with the figures collected as part of the special survey on the impact of the coronavirus, which was launched on 16 March.

[2] These values are obtained by conducting a regression analysis on the logarithm of turnover and employment expectations on the basis of the logarithm of those same variables reported the previous year and of firm characteristics, and attributing the counterfactual responses to the firms interviewed prior to 15 March.

[3] The special survey on the impact of the coronavirus was launched on 16 March and was conducted on the same sample of firms used for the Survey of Industrial and Service Firms. Its purpose is to obtain timely information on the impact of the health emergency on Italian firms.

[4] The sample of respondents for the special survey on the impact of the coronavirus overlaps only in part with that for the Survey of Industrial and Service Firms. Moreover, among those who took part in both surveys, some respondents filled in the questionnaire in two very different phases of the pandemic. Finally, while in the special survey on the impact of the coronavirus the expected change in turnover in the first quarter is obtained as a simple average of the changes expected by each firm, in the Survey of Industrial and Service Firms it is obtained by calculating the change in expected turnover in 2020 compared with realized turnover in 2019, and weighting it by the turnover reported in 2019.

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