BANCA D'ITALIA
EUROSISTEMA

Statistics

Survey of Industrial and Service Firms

1 July 2021

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www.bancaditalia.it/statistiche/index.html

Main results

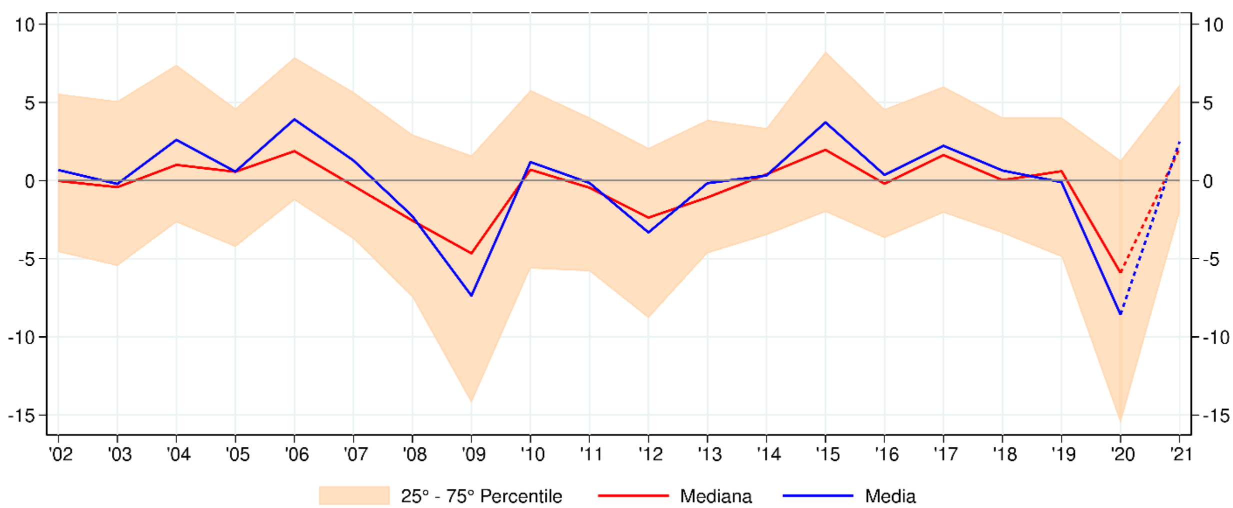
In 2020, the Italian production system was hit hard by the impact of the COVID-19 pandemic. Sales declined by 8.6 per cent; the contraction in turnover affected most firms and was worse for those in the sectors more directly impacted by the measures adopted to contain the virus. Hours worked fell by 10 per cent, although the number of persons employed only went down by 2.4 per cent, thanks to the freeze on dismissals and the widespread recourse to wage supplementation schemes. The average growth in selling prices slowed to 0.9 per cent.

The outbreak of the pandemic in the early months of the year generated exceptionally high uncertainty over the economic outlook, which led to an immediate reduction in investment plans across the board, compared with those drawn up previously. Overall, investment spending fell by 8.6 per cent, against the plans for growth made at the end of 2019.

For this year, firms expect sales to pick up again, although this would only partly compensate for the fall recorded in 2020. They also anticipate a marked increase in investment, both in services and in industry, and that employment levels will basically remain the same. On average, selling prices are expected to accelerate significantly.

Output in the construction sector fell by 7 per cent despite growth in the public works segment. This was accompanied by a fall in profitability and an increase in the demand for financing. The number of persons in employment did however increase. Firms expect a marked recovery in output in 2021, in both public and private sector construction.

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 2021.

Reference period: 2020

Survey of industrial and service firms[1]

Non-construction industry and non-financial private services

In 2020, economic activity was strongly affected by the COVID-19 pandemic

The sales of industrial and service firms with at least 20 employees contracted, at constant prices, by 8.6 per cent (Table 1), more than during the 2009 crisis (-7.4 per cent). The fall in turnover was recorded across all the groupings of economic activity considered in the survey and, within them, by most firms. It decreased for more than three out of four firms in the retail trade, hotel and restaurant industry and in the textile, clothing and footwear industry, which are those most affected by the containment measures, as well as in the metalworking segment, which was impacted by the contraction in the demand for investment goods.

Foreign sales were affected by the contraction in world trade; turnover derived from exports, which fell by 8.9 per cent overall, contracted for more than two thirds of exporting firms (Figure 1).

Table 1

Main developments in 2019 and 2020 and expectations for 2021 (1)
(percentage changes)

	Turnover (2)			Investment (2)			Average employment		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Sector									
Non-construction industry	-2.1	-5.7	2.7	1.8	-8.2	7.6	1.0	-0.5	0.2
Non-financial services	1.6	-10.8	2.3	12.6	-9.0	9.1	0.4	-3.7	-0.1
Geographical area									
North-West	-0.6	-9.0	1.9	11.2	-7.6	9.9	0.2	-1.4	0.1
North-East	-0.3	-7.8	3.1	0.4	-8.7	5.7	1.7	-2.5	0.0
Centre	0.6	-9.1	3.3	6.3	-8.3	8.8	-0.4	-2.5	-0.2
South and Islands	1.3	-7.9	1.5	5.7	-14.1	5.2	1.9	-5.6	0.2
Number of workers									
20 – 49	-0.5	-11.4	2.2	2.5	-13.2	5.6	0.5	-4.6	0.4
50 – 199	0.6	-8.6	2.5	4.6	-12.6	6.8	0.8	-2.4	-0.3
200 – 499	0.6	-8.5	3.0	2.4	-6.7	6.2	1.1	-0.2	0.3
500 and more	-1.0	-6.5	2.4	10.7	-5.4	10.5	0.5	-1.7	-0.2
Total	-0.1	-8.6	2.5	6.7	-8.6	8.3	0.7	-2.4	0.0

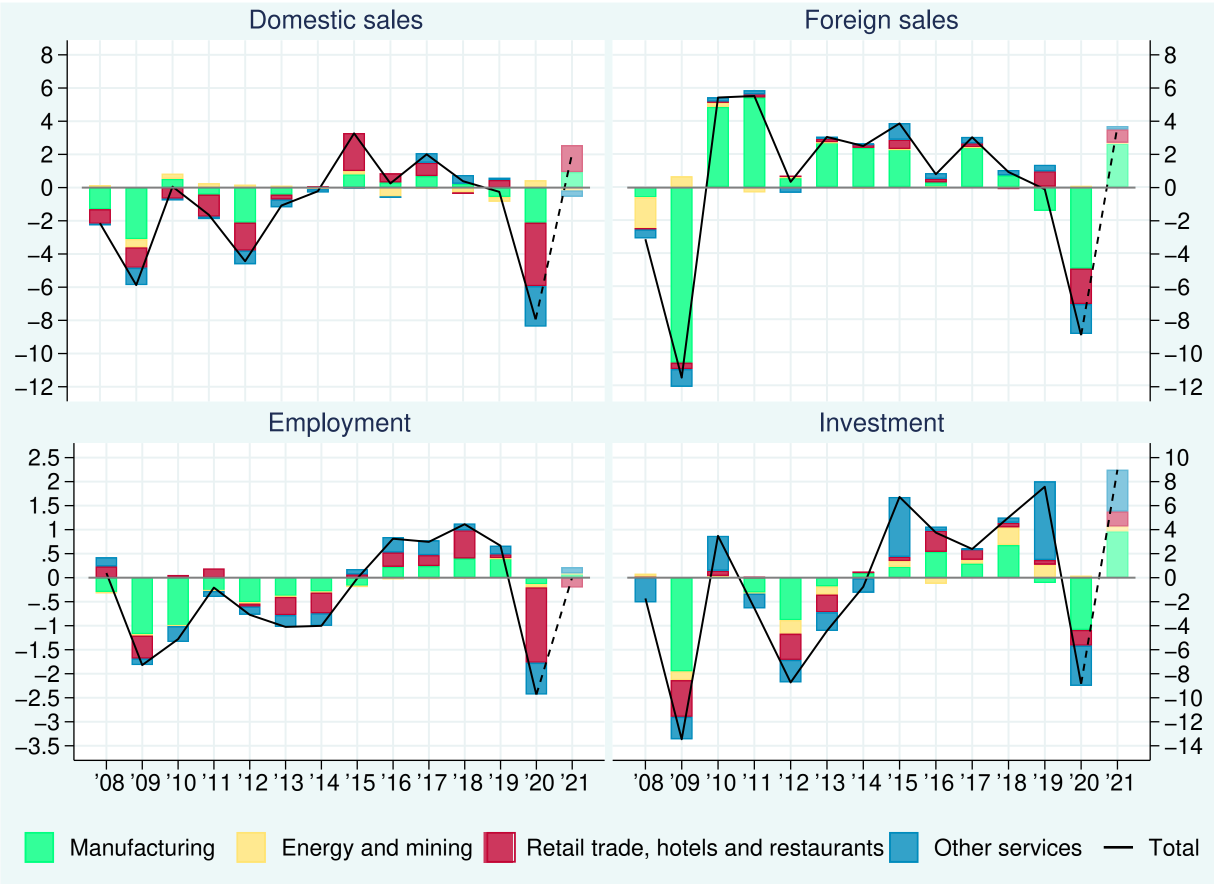
Notes: (1) Data weighted by population weights. (2) Based on winsorized elementary data; for turnover and investment, values at constant prices calculated on the basis of the average deflators found in the survey. In keeping with the SEC 2010 national accounting standard, the investment spending tracked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

The fall in sales was associated with lower profitability: the balance between the share of firms posting a profit and those recording a loss fell to 37 percentage points (from about 60 points in the last four years), decreasing across all the main sectors and size classes. The share of firms posting a profit, equal to 61 per cent, fell by 12 points compared with 2019.

[1] The report was prepared by Marco Bottone, 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 released 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: https://www.bancaditalia.it/pubblicazioni/indagine-imprese/2020-indagine-imprese/index.html?com.dotmarketing.htmlpage.language=1

Figure 1

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



Notes: (1) For turnover and investment, values at constant prices calculated based on the average deflators obtained from the survey. Estimates based on winsorized elementary data. Dotted lines and shaded bars indicate firms' expectations for 2021. Data weighted by population weights.

Funding needs increased ...

The increased funding needs reflected above all the necessity to finance working capital. The measures introduced by the Government and the strongly expansionary monetary policy contributed to easing access to credit.

Some 43 per cent of firms reported that they requested a debt moratorium following the outbreak of the pandemic; 45 per cent indicated that they applied for new loans with banks or other financial intermediaries (28 per cent in 2019), receiving the full amount they had requested in 86 per cent of cases.

About 7 per cent of firms undertook recapitalization strategies in 2020, and 10 per cent of them plan to do so by the end of 2021.

One third of firms expect that, in 2021, their ratio of financial debt to net equity will be at least 3 percentage points higher than in the period before the pandemic.

... and labour demand decreased

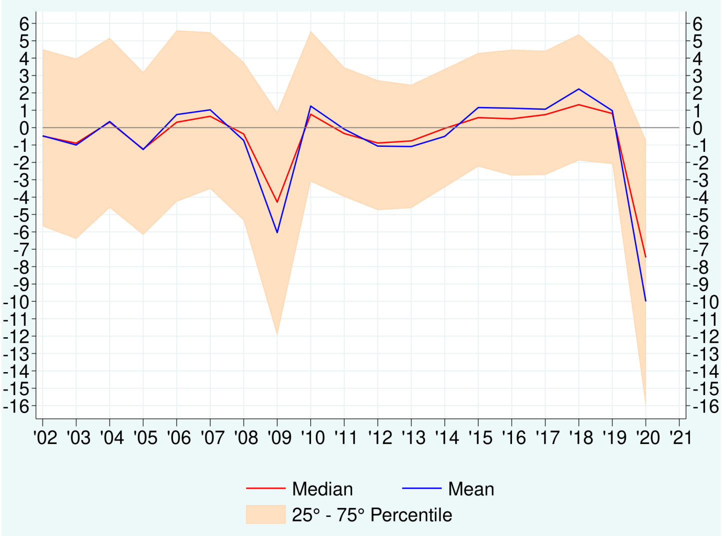
The drop in the number of hours worked, which affected most firms, was equal to 10 per cent (Figure 2). This was accompanied by a reduction of 2.4 per cent in the number of people employed, which was more pronounced for firms with fewer than 50 employees (-4.6 per cent) and for those in services (-3.7 per cent, compared with -0.5 per cent in industry). The fall in employment during the year was countered by the freeze on economically motivated dismissals and ample recourse to wage supplementation schemes, with Italy's *cassa integrazione guadagni* (CIG) scheme covering a number of hours that was 4.4 times that of 2019.

The need to limit people's movements favoured greater recourse to remote working for staff whose tasks could be performed remotely.[2] On average, about 9 per cent of employees in industrial firms and 20 per cent of employees in service firms worked remotely on a given day, compared with 1 and 2 per cent, respectively, in 2019. According to the information provided by firms, the average daily share of employees working remotely could settle at around 6 per cent once the pandemic emergency is over.

Figure 2

Total hours worked (1)

(percentage changes)



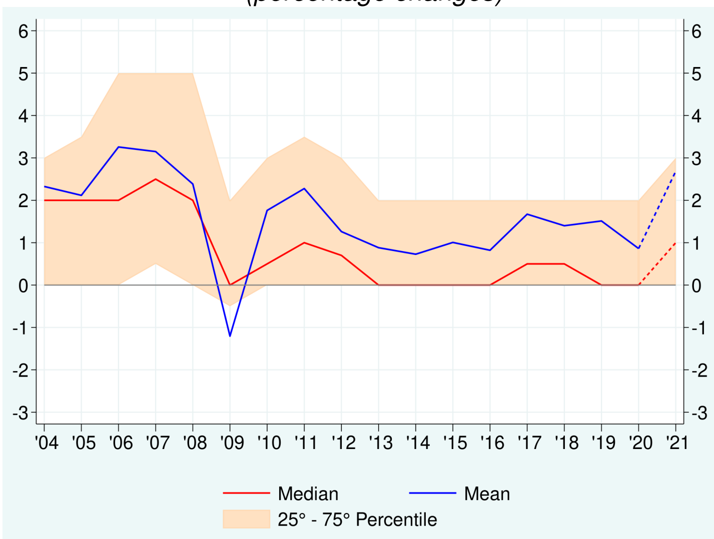
Notes: (1) The dotted line indicates firms' expectations for 2021. Data weighted by the number of firms in the population and by hours worked.

The average increase in selling prices was 0.9 per cent (1.5 per cent in 2019; Figure 3). The sharp reduction in the share of firms that increased their prices (about 38 per cent, from 49 per cent in 2019) was associated with a contraction in the share of businesses that decreased their prices. Such contraction was around 2 percentage points greater, on average, than in 2019. Taking account of turnover, the reduction in listed prices in 2020 concerned about one fourth of total sales in the segments surveyed (about one eighth in 2019), while the average change in selling prices was negative. Pricing strategies were influenced primarily by developments in demand; for industrial firms, an important determinant was commodity prices, which displayed wide fluctuations during the year. The firms that reported problems with the supply of production inputs in 2020 indicated, on average, a higher increase in selling prices.

Figure 3

Changes in own selling prices (1)

(percentage changes)



Notes: (1) The dotted lines indicate firms' expectations for 2021. Data weighted by the number of firms in the population.

The price decisions expected for 2021 suggest a significant increase in the share of firms that will raise prices. Among industrial firms, price dynamics will depend above all on developments in commodity prices. For service firms, they will mostly reflect trends in demand. Prices are expected to increase by an average 2.7 per cent in 2021. Taking turnover into account, the increase would be even greater.

[2] According to the latest Business Outlook Survey of Industrial and Service Firms, the share of firms that reported adopting remote working nearly tripled in 2020.

The expectations for 2021 suggest a partial recovery in turnover ...

The outlook for 2021 improved significantly and across the board compared with the six-month expectations reported last fall (see 'Business Outlook Survey of Industrial and Service Firms', 2020). Nevertheless, the recovery in sales expected for the current year would enable only a partial recovery of the losses recorded in 2020, especially in services.

According to the forecasts, employment is expected to remain practically stable, supported by the freeze on dismissals,[3] but is predicted to decrease in the textile, clothing and footwear industry (-1.6 per cent) and in the retail trade, hotel and restaurant segment (-0.9 per cent).

… and in investment, which were downsized significantly in 2020

The heightened uncertainty that marked 2020 has led more than half of firms to downsize their investment plans compared with the expectations formulated in 2019. Overall, in 2020 investment spending decreased by 8.6 per cent, compared with the positive growth suggested by the assessments reported at end-2019, reflecting similar developments in industry and services (-8.2 and -9.0 per cent respectively), and a sharper drop for medium-small firms compared with larger companies (Table 1). The comparison with the forecasts made last spring, which already incorporated the revisions of investment plans due to the first wave of COVID-19, suggests that those plans were not downsized further in the second half of the year.

According to firms' forecasts, investment spending will grow by more than 8 percentage points in 2021, nearly returning to 2019 levels. The rebound in investment is expected in both services and industry (9.1 and 7.6 per cent respectively), with the exception of firms in the textile, clothing and footwear industry, which do not expect to record it despite the sharp drop registered in 2020 (-22 per cent). Capital accumulation is expected to return to growth across all size groups and geographical areas, and to be more intense among large firms and those located in the North-West and Centre of Italy.

Construction

Production in the construction sector contracted …

In 2020 production in the construction sector fell by 7 per cent (it had increased by 4 per cent in 2019). The reduction was mitigated by positive developments in the public works segment, which continued to grow, though at a slower pace than in the previous year (4.8 per cent, from 8.8 per cent). Firms located in the North-West and large companies contributed the most to these trends. Conversely, production dropped significantly in private construction, for both residential and non-residential property. In 2020, the number of dwellings for which construction began during the year appears to have decreased by 16 per cent compared with 2019. More than three in four firms operating in private residential construction reported they had not yet felt the impact of the introduction of the 'superbonus' in the second half of 2020. However, almost 60 per cent of them expect that at least part of their production will benefit from it over the course of 2021.

Employment continued to grow overall, by 1.7 per cent (from 0.4 per cent in 2019), driven by firms with at least 200 employees.

The balance between the share of firms that posted a profit at the end of the year and those that recorded a loss nearly halved, to 33 percentage points (from 64 points in 2019). The overall developments reflect a sharp reduction for firms with less than 50 employees and an increase for firms with at least 500 employees.

The share of firms that applied for new loans grew by 11 percentage points in 2020 (to 44 per cent). This was accompanied by a significant increase in the portion of these firms that reported obtaining the full amount requested. The figure rose by about 6 percentage points, to 84 per cent, a historically high level.

... but a significant recovery is expected in 2021

Firms expect a strong recovery in production in 2021, equal to 8.8 per cent, driven both by the expected production of public works (6.5 per cent) and the positive outlook for private construction. Employment expectations point to a further increase in the number of persons employed.

[3] Decree Law 41/2021 ('Support Decree') provides that the freeze will remain in force until 30 June for the sectors eligible for the ordinary wage supplementation scheme (essentially, industry and construction), and until 31 October for services, which were hit hardest by the pandemic. For the whole period in which restrictions are in force, firms will be able to access the wage supplementation schemes connected to COVID-19 (see Chapter 8, 'The labour market', *Annual Report for 2020*, 2021).

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