BANCA D'ITALIA
EUROSISTEMA

Statistics

Survey of Industrial and Service Firms

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www.bancaditalia.it/statistiche/index.html

Main results

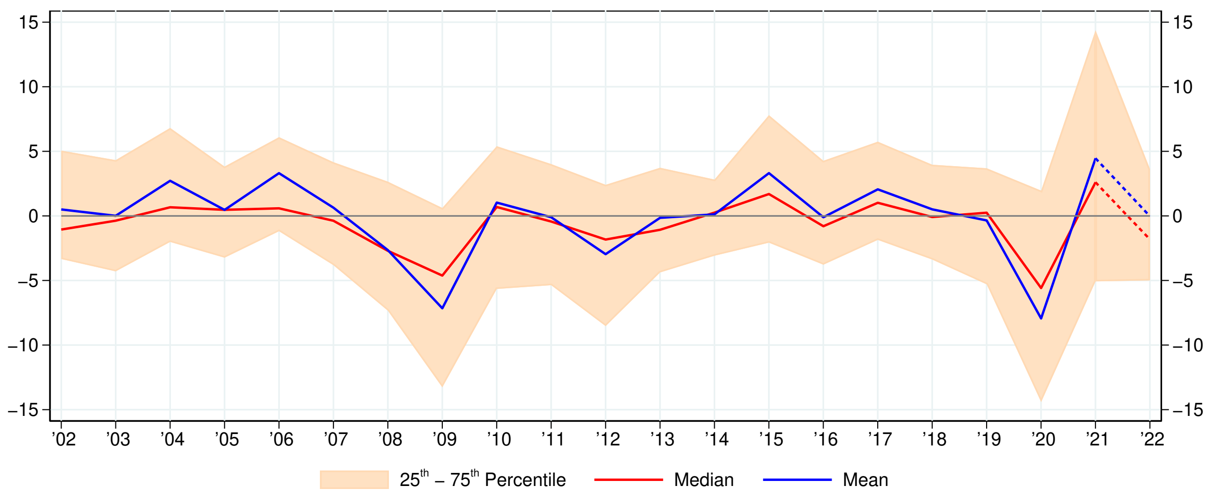
In 2021, turnover and investment returned to positive growth for Italian industrial and service firms with 20 or more employees, recouping in part the contraction observed in 2020 owing to the pandemic. The growth in sales was supported by the recovery in both domestic and foreign demand, and was associated with a rise in profitability and in the number of hours worked, while employment was largely stable. The increase in selling prices was widespread, though for almost one in five firms it was still accompanied by a reduction in profit margins.

In the second half of the year, firms' activity was impacted by rising commodity prices and growing difficulties in sourcing production inputs. These obstacles affected most firms and were associated with relatively stronger price growth.

The expectations for 2022 are affected by the war in Ukraine; most firms believe that the impact on their business will be negative, though limited overall. The main concerns arising from the conflict are linked to the potential reduction in demand, further rises in energy prices, and ongoing difficulties in sourcing production inputs. Prices are expected to continue to grow this year, while sales look set to hold largely stable and investment will likely slow, while still posting positive growth. Employment is expected to turn upwards again.

Production in the construction sector recorded strong growth in 2021, driven above all by the private sector construction segment. Economic activity will likely stabilize in 2022, while employment is expected to rise.

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 2022.

Reference period: 2021

Survey of industrial and service firms[1]

Non-construction industry and non-financial private services

Sales rose in 2021 thanks to the recovery in demand ...

In 2021, the turnover of Italian industrial and service firms with 20 or more employees, valued at current prices, turned upwards again (4.5 per cent; Table 1), regaining just over half of the contraction recorded in 2020. Sales benefited from the recovery in demand, both foreign and domestic, and were recorded across all the sectors considered in the survey, with the exception of energy and mining (-15 per cent), the only sector that had recorded an increase in the previous year (4 per cent; Figure 1). The volume of sales grew above all for the smaller firms, while it remained practically stable for those with more than 500 employees, which reported a stronger increase in their selling prices. In manufacturing, the degree of utilization of production capacity appears to have almost fully regained pre-pandemic levels.

The growth in turnover had a positive impact on profitability: in 2021, the share of firms that closed the year with a loss decreased compared with the previous year by more than 10 percentage points, to 14 per cent; conversely, the share of those posting a profit returned to pre-pandemic levels, to around 75 per cent. The improvement was more pronounced in the textile, clothing, leather and footwear industry and in the retail trade, hotel and restaurant segment, whose profitability had dropped more sharply in 2020.

... despite the difficulties encountered by firms starting in the second half of the year

The growth in profitability was held back by new factors hindering economic activity that emerged over the course of the year. In the second half of the year, about 80 per cent of firms were affected by the sharp rises in commodity prices (both energy and non-energy) and around 60 per cent reported difficulties in sourcing production inputs, especially in manufacturing.

Table 1

Main developments in 2020 and 2021 and expectations for 2022 (1)
(percentage changes)

	Turnover (2)			Investment (2)			Average employment		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Sector									
Manufacturing	-7.8	7.6	0.5	-11.3	6.3	-2.7	-0.4	0.3	1.9
Energy and mining	3.8	-15.0	-3.7	1.3	12.6	3.1	-1.9	1.1	2.7
Non-financial services	-10.8	7.7	0.3	-8.9	3.7	7.8	-3.8	0.4	1.8
Geographical area									
North-West	-8.4	5.1	-0.2	-7.9	4.5	1.3	-1.5	0.0	2.2
North-East	-7.4	6.9	-0.5	-8.9	2.2	7.0	-2.5	0.6	2.2
Centre	-7.9	0.8	1.3	-8.1	10.8	4.5	-2.5	-0.2	0.4
South and Islands	-7.5	4.7	-1.1	-14.1	8.2	-1.2	-5.6	2.4	2.2
Firm size									
20 – 49	-11.1	9.1	-1.3	-13.1	12.7	-1.0	-4.8	-0.1	2.5
50 – 199	-8.0	6.2	-1.1	-12.8	6.8	0.1	-2.5	0.5	3.0
200 – 499	-7.9	6.8	0.8	-6.9	6.1	2.2	-0.3	1.1	1.9
500 and over	-5.8	-0.7	1.3	-5.5	3.2	6.7	-1.7	0.4	0.4
Total	**-7.9**	**4.5**	**0.0**	**-8.7**	**6.0**	**3.2**	**-2.5**	**0.4**	**1.9**

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.

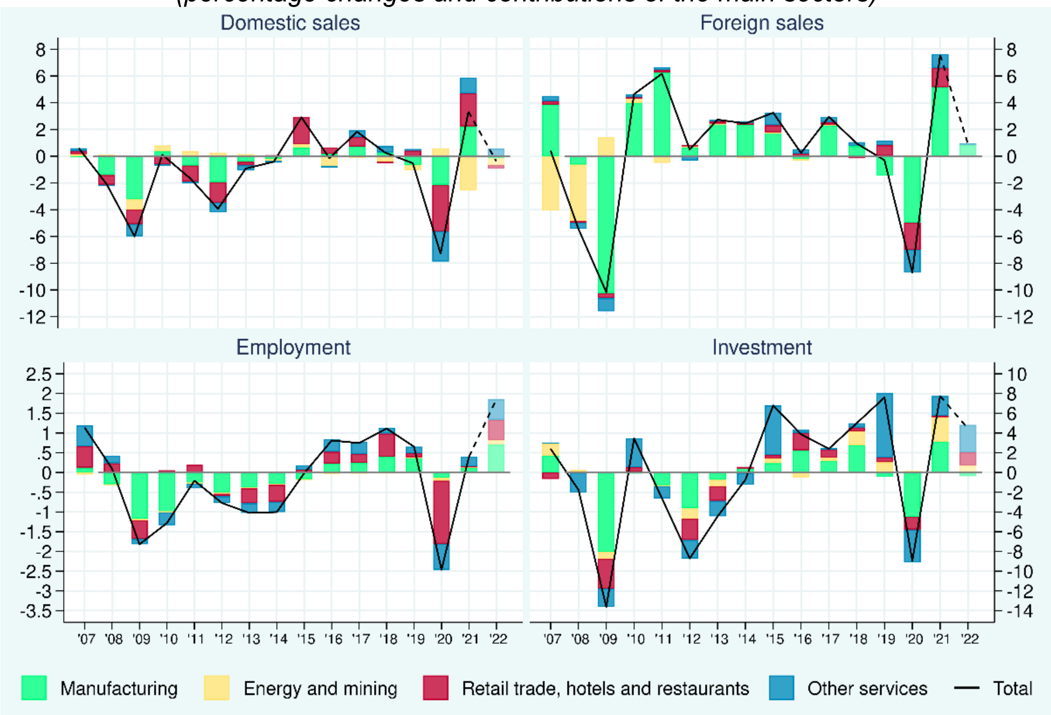
[1] The report was prepared by Marco Bottone, Elena Mattevi, Lucia Modugno, Matteo Mongardini and Tullia Padellini. The survey was carried out directly by the Bank's branches. The data are used exclusively for the purpose of economic and statistical analysis and are released in aggregate form.
We would 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/2021-indagini-imprese/index.html?com.dotmarketing.htmlpage.language=1

To deal with the high energy costs, 24 per cent of firms increased their selling prices and 22 per cent reduced their profit margins. These shares were, respectively, three and five times those observed for the firms that were not adversely affected by the rising prices. These strategies were also adopted by the firms experiencing supply chain difficulties, leading many of them to lengthen their delivery times (21 per cent) or reorganize their network of production input suppliers (11 per cent). The share of such firms reporting doing so was about twice that for the firms that did not encounter such difficulties.

Figure 1

Turnover, employment and investment (1)

(percentage changes and contributions of the main sectors)

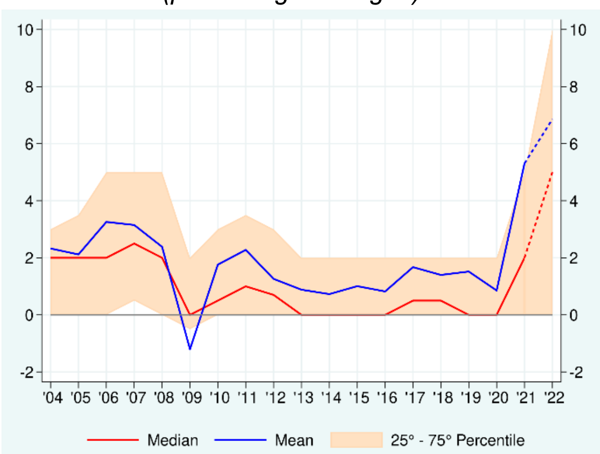


Notes: (1) For turnover and investment, values at constant prices calculated based on the average deflators obtained from the survey. Estimates based on winsorized elementary data. Investment spending includes that for tangible goods and for software, databases and mineral prospecting. Dotted lines and shaded bars indicate firms' expectations for 2022. Data weighted by population weights.

Figure 2

Changes in own selling prices (1)

(percentage changes)



Notes: (1) The dotted lines indicate firms' expectations for 2022. Data weighted by the number of firms in the population.

The rise in selling prices in 2021 was widespread: two thirds of firms increased their own prices, compared with just over one third in 2020 and about half in the three years before the pandemic. The rise was equal to at least 5 per cent for one in four firms. The median value, equal to 2 per cent, is the highest since 2008, before the global financial crisis (Figure 2).

Among the firms that did not report any supply chain difficulties or rising energy prices, selling prices recorded a mean growth of 4 per cent and a median growth of 1 per cent, after being close to zero for a decade. The mean growth was about 2 percentage points higher for the firms reporting supply chain difficulties. The gap was narrower for those that were affected by the rises in energy prices, also thanks to the increased adoption of instruments that protect at least in part against such rises (fixed-rate contracts above all).

Though considerable, the increase in prices was in many cases insufficient to cover the higher costs incurred:

about one fourth of firms facing supply chain problems and one fifth of those affected by the rises in energy prices reported an increase in selling prices together with a reduction in profit margins.

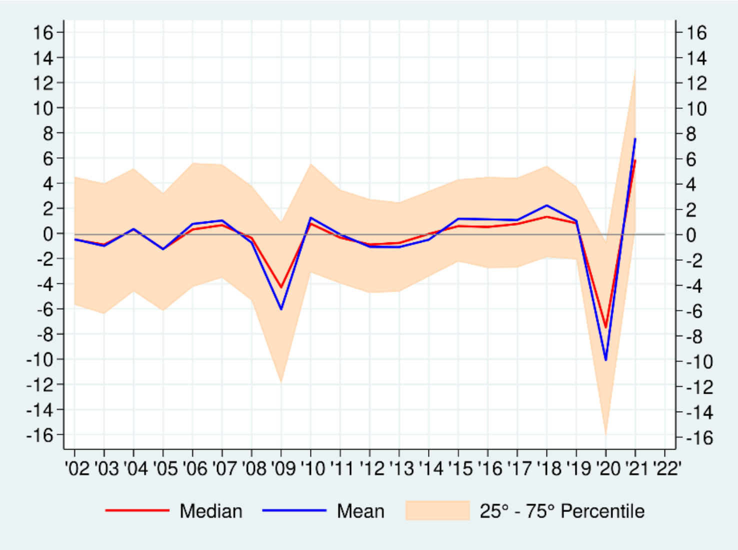
The number of hours worked grew considerably

The number of hours worked rose markedly in 2021 (8 per cent), offsetting the drop observed in 2020 in nearly all sectors. The exception was the textile and the retail trade, hotels and restaurants segments, where the contraction had been close to 20 per cent in 2020.

Figure 3

Total hours worked (1)

(percentage changes)



Notes: Data weighted by the number of firms in the population and by hours worked.

Total employment, which is 2020 had been buoyed by the freeze on economically motivated layoffs and the widespread use of wage supplementation schemes, was practically unchanged; In terms of geographical areas, the strongest increase was recorded in the South (2.4 per cent), where the drop recorded in 2020 has been the sharpest (-5.6 per cent).
The use of remote working continued, though to a lesser extent than in 2020. On average, on a given day, remote working was used by 4 per cent of employees in industrial firms and 12 per cent in service firms, compared with 9 and 20 per cent respectively in 2020 and 1 and 2 per cent in 2019.

Investment turned upward, against a more moderate demand for loans

Over the course of 2021, the share of firms interested in increasing their borrowing from the credit sector or other financial intermediaries decreased, returning to pre-pandemic levels (30 per cent, from 47 per cent in 2020). This was associated with an increase of about 3 percentage points in the share of firms that received the full amount for which they applied, to 89 per cent, a historically high figure. Investment needs are back to being the main reason for demanding loans, while there has been a decrease in the needs connected to funding their operating activities (working capital and self-financing), which had driven the significant rise in loans in 2020.
Investment returned to growth across all sectors (by an aggregate 6 per cent, following the drop of around 9 per cent in 2020), driven above all by firms in industry excluding construction (8.1 per cent) and smaller firms. The growth in the technical production capacity in manufacturing was equal to about 12 per cent, historically a very high level. Compared with the year before the pandemic, the share of firms allocating more than 40 per cent of investment spending to advanced technologies more than doubled (15 per cent, from 7 per cent in 2019).

The expectations for 2022 are affected by the conflict in Ukraine and the ongoing rises in energy prices

The expectations for 2022 are affected by the impact of the Russian invasion of Ukraine. About 60 per cent of industrial firms and 50 per cent of service firms expect that the conflict will depress their business, though only moderately for most of them. The firms interviewed for the survey fear a reduction in demand, both direct and indirect, a further rise in energy costs, and difficulties in sourcing production inputs. Expectations of a significant negative impact are, understandably, more frequent among firms exporting to the markets affected by the conflict; however, only 3 per cent of firms export to these markets more than 5 per cent of their turnover.

Overall, for the current year, firms anticipate sales to be practically unchanged, held back by the rising cost and price dynamics, which are expected to strengthen further. About one fourth of firms predict a contraction in profit margins in the current year; among these firms, more than half had already reduced them in 2021.
Investment spending is expected to slow (3 per cent, from 6 per cent). This, however, reflects differing trends across sectors and size classes: service firms expect an acceleration (from 4 to 8 per cent), as do companies

with more than 500 employees (from 3 to 7 per cent), while industrial firms anticipate a reduction (from 8 to -1 per cent). Employment expectations point to an acceleration in all sectors, above all for small and medium-sized enterprises.

Construction firms

Production in the construction sector rose in 2021 ...

In 2021, production in the construction sector rose by 15 per cent, more than offsetting the contraction recorded in 2020 (-7 per cent). The growth was widespread across all geographical areas and size classes and was recorded both in the public works segment (9 per cent, from 5 per cent in 2020) and, especially, in the private construction segment (20 per cent, from -13 per cent).

The private construction segment, in which three in four firms operate, benefited from the stimulus provided by the 'Superbonus', which in the second half of the year concerned about half of the firms operating in this sector. In 2022, the share of firms that expect to benefit from the 'Superbonus' will likely increase to 60 per cent; about half of them expect the benefit to be worth more than one third of production.

The number of dwellings for which construction began during 2021 increased by 31 per cent compared with 2020. This was associated with a reduction in the share of firms that considers the stock on unsold houses to be above normal levels (9 per cent, from 16 per cent in 2020 and 19 per cent in 2019). The favourable dynamics of production buoyed profitability: the share of firms that closed the year with a profit rose to a high historically high level (78 per cent, from 57 per cent in 2020), mainly in conjunction with a reduction in the share of firms reporting a loss.

Employment rose further (3 per cent), driven by the firms based in the South and Islands and those with a least 50 employees.

The share of firms that applied for new loans returned to 2019 levels (from 31 per cent, compared with 45 per cent in 2020). Compared with 2020, there was an increase in the percentage of firms for which the application was rejected at least in part (27 per cent, from 16 per cent). Nevertheless, credit access conditions are considered largely stable.

... though firms expect it to stabilize in 2022

Firms expect economic activity to remain virtually stable in 2022 (-0.7 per cent), despite a reduction in the expected production of public works (-2.7 per cent), after three years of vigorous growth. Employment expectations point to a further expansion.

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