BANCA D'ITALIA
EUROSISTEMA

Statistics

Business Outlook Survey of Industrial and Service Firms

9 November 2017

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www.bancaditalia.it/statistiche/index.html

Main results

The share of firms in non-construction industry and services that reported a growth in turnover in the first nine months of 2017, compared with one year earlier, rose to about 50 per cent, an amount close to that observed in the two years preceding the euro-area sovereign debt crisis. The more favorable assessments reflect positive sales performance in both domestic and foreign markets. Expectations of growth continued to predominate, even for forecast sales over the next six months.

The gradual improvement in demand resulted, according to firms' assessments, in the growth of employment levels despite still modest wage pressures. The percentage of firms that expect to end the year with a profit reached an historic high.

The share of firms that invested more than planned at the end of 2016 increased; it is higher than the share of those that have invested less for the second consecutive year. Although widespread uncertainty persists, the plans for 2018 envisage a further expansion in investment, buoyed by the favorable outlook for demand.

Construction firms also reported a clear improvement in production: while in 2016 assessments of activity for the first nine months of the year were mainly negative, in the current year they have been largely positive. The forecasts for 2018 point to further improvement, bolstered by more favorable expectations of credit access conditions.

Main trends as reported by firms
(per cent) (1)

	Decreasing	Stable	Increasing	Total
Industry excluding construction; services				
Turnover	19.3	33.2	47.5	100
Expected turnover	8.4	51.3	40.3	100
Investment	16.3	58.9	24.8	100
Employment	18.6	48.1	33.3	100
Profit or loss for the period (1)	10.6	10.7	78.7	100
Construction				
Total output	28.3	34.4	37.3	100
Employment	33.1	45.6	21.3	100
Profit or loss for the period (1)	12.6	20.3	67.2	100

Note: (1) Weighted by the number of workers. – (1) Share of firms posting a profit, loss, or breaking even.

Reference period: 2017

Business Outlook Survey of Industrial and Non-Financial Private Service Firms[1]

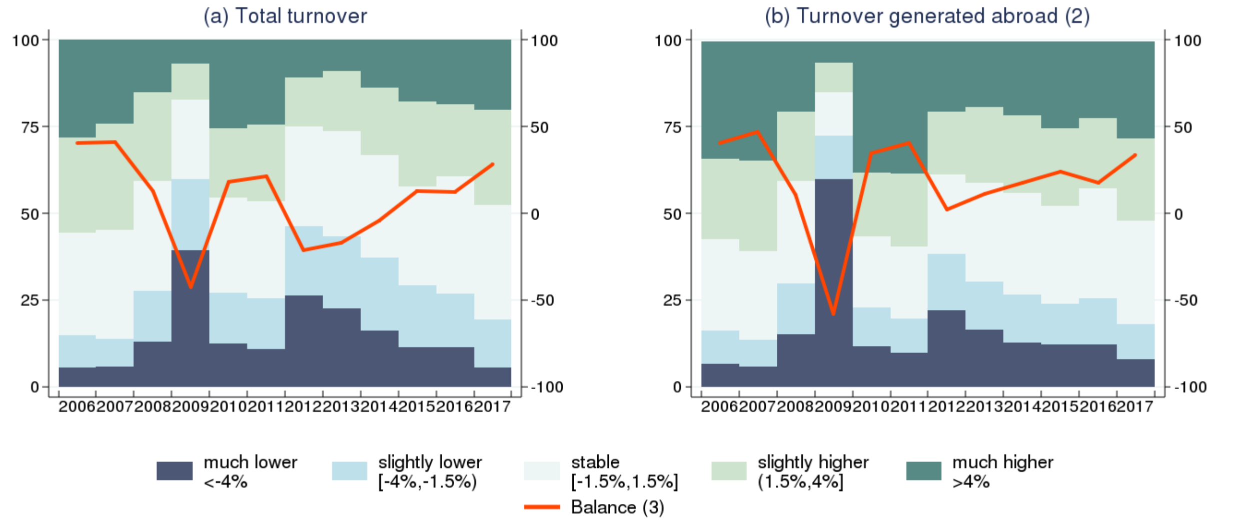
Industry excluding construction and non-financial private services

In 2017, the increase in positive assessments on turnover spanned all sectors

The firms interviewed in the Bank of Italy's 25th Business Outlook Survey again reported positive views of the performance of their turnover in 2017. The share of firms reporting a growth in turnover in the first nine months of the year rose by about 50 per cent compared with the year-earlier period, nearing the level recorded in the two years preceding the euro area's sovereign debt crisis. At the same time, the share of firms whose turnover fell in the first three quarters of the year dropped below the level reported in 2010-11. The balance between firms reporting an increase versus those reporting a decrease more than doubled, rising to 28 percentage points from 12 points in 2016 (Figure 1.a). This improvement, buoyed by larger firms, spanned all the main sectors and geographical areas; in Southern Italy, however, the balance between positive and negative assessments, while positive, remained unchanged and was approximately half the national average.

Figure 1

Year-on-year changes in turnover in the first 9 months of the year
(per cent) (1)



Note: (1) Weighted by the number of workers. – (2) Exporting firms in industry excluding construction. – (3) Balance between positive and negative assessments; right-hand scale.

The positive assessments of turnover's overall performance reflected the favourable views of sales both in the domestic and foreign market. More than half of exporting firms reported a growth in sales and only less than a fifth reported a decrease. The balance between firms reporting an expansion and those reporting a contraction doubled, rising to 34 per cent from 17 in 2016 (Figure 1.b). Regardless of the share of exported turnover, opinions on overall sales and on sales made abroad did not differ.

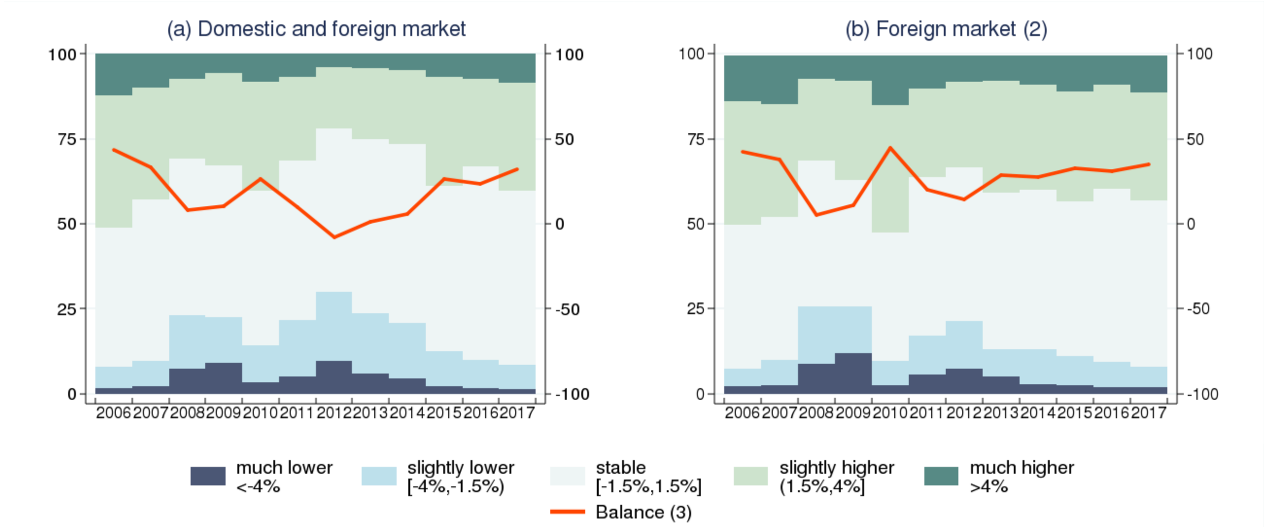
[1]This report was prepared by Marco Bottone, the statistical appendix by Tatiana Cesaroni and Lucia Modugno. The survey was carried out directly by the Bank of Italy's branches.
The data are used exclusively for the purpose of economic analysis and have been handled and processed in aggregate form. 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 shares referred to in the text are weighted by the number of workers. The statistical appendix and the methodological note are available at the following webpages:
https://www.bancaditalia.it/pubblicazioni/sondaggio-imprese/2017-sondaggio-imprese/dati_2017_eng.zip?language_id=1,
http://www.bancaditalia.it/pubblicazioni/sondaggio-imprese/2017-sondaggio-imprese/en-metodologia_sondaggio_impr_industr_serv.pdf?language_id=1

Firms expect sales to strengthen further in the coming months

Across all sectors, firms expect a further improvement in sales over the next six months, with positive contributions coming from both domestic and foreign demand (Figure 2). Firms expect the growth in turnover to continue to strengthen, while the recovery is expected to remain weak for firms in difficulty: nearly every firm whose sales expanded in the first three quarters of the year expects their turnover to either remain stable or increase in the next six months. By contrast, among firms who have already experienced a fall in turnover, around 25 per cent expect another drop in the next two quarters while less than a third expect sales to recover.

Figure 2

Sales forecast 6 months ahead (1)
(per cent)



Note: (1) Weighted by the number of workers. – (2) Exporting firms in industry excluding construction. – (3) Balance between positive and negative assessments; right-hand scale.

Employment assessments improved further …

The favourable trend in actual and expected sales was accompanied by positive developments in employment. The balance between reports of an increase or decrease in the number of employees returned to significant growth in 2017, rising from 7 to 15 percentage points and reflecting both a further drop in the number of firms reporting a contraction and an increase in those reporting an expansion. The balance was positive in nearly all the main sectors, especially in basic metal and engineering and in chemicals.

Wage pressure stemming from increases granted as part of company-level negotiations remained limited. The share of employees that did not receive a raise fell to 57 per cent, returning to the levels that prevailed before the global financial crisis of 2008-09. Among the remaining employees, a third received modest raises of less than 1 per cent while only about a tenth received raises above 2 per cent.

... as did opinions on profitability

The preponderance of favourable sales assessments was also reflected in a further increase in the share of firms expecting to close the year with a profit, which rose from 58 per cent in 2012 to 80 per cent in 2017, the highest level recorded in the last five years. The growth benefited all sectors.

The share of firms that invested more than planned continued to grow

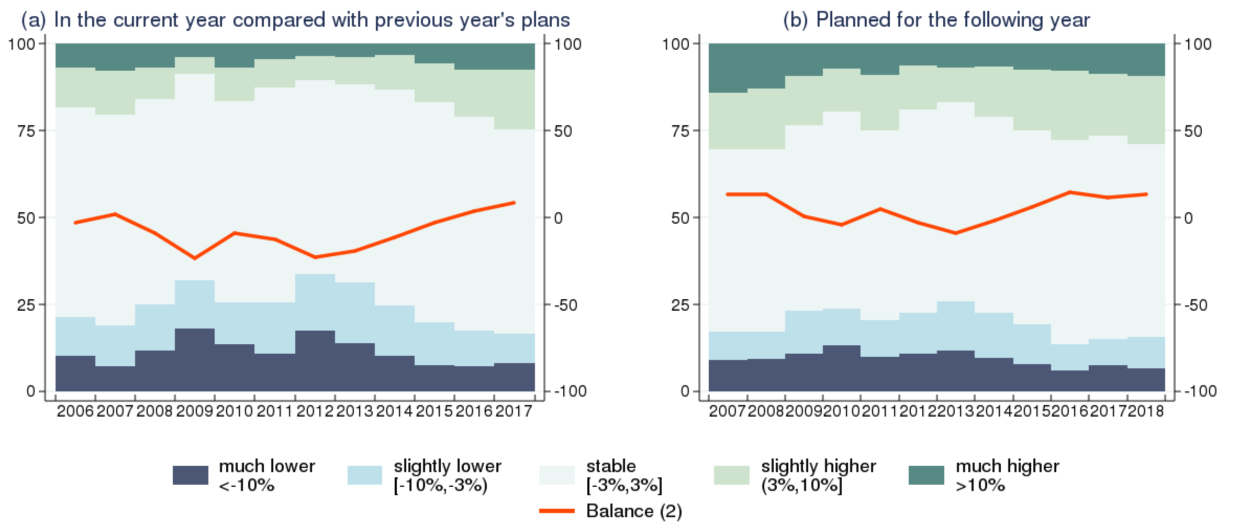
About a quarter of the firms interviewed, a historically high share, reported that their investment spending in 2017 exceeded their expectations, while about 60 per cent invested the amount originally planned (Figure 3). Investment plans, as deduced from the survey carried out in the Spring (see ‘Survey of Industrial and Service Firms in 2016’, Banca d’Italia, *Statistics Series*, July 2017), envisage an overall increase of about 3 per cent in investment spending for 2017. Just over a third of firms benefited from the investment incentives relating to Italy’s Industria 4.0 plan (hyper-amortization) or intend to take advantage of them by the end of the year; for about 60 per cent of those firms the incentive played a role in less than a third of the investments made.

Increased demand is a new stimulus for 2018 investment plans

In the plans for 2018, investment spending is expected to continue expanding across all sectors with the exception of textiles, mainly thanks to the further growth in investment by large firms. For two thirds of firms, demand expectations and organizational and technical factors are among the main stimuli behind the growth in investment in 2018. On the other hand, a quarter of firms cited uncertainty about economic and political factors as the main obstacle to investment.

Figure 3

Changes in investment
(per cent) (1)



Note: (1) Weighted by the number of workers. – (2) Balance between positive and negative assessments; right-hand scale.

Over the next three years firms expect to invest in expanding their production

Firms reported a change in their strategic investment priorities for the next three-year period (2018-20). Between 2015 and 2017, some 40 per cent of firms mainly carried out replacement investments, leaving their production capacity unchanged. Over the next three years, just under 30 per cent of firms expect to make this type of investment, while about 60 per cent intend to invest mainly in expanding their production capacity or in opening new markets (Table 1). This trend is consistent among the main sectors. For industrial firms, especially those in the basic metal and engineering sector and in textiles, their investment plans focus more on developing new products; the plans of service firms focus more on expanding supply.

Table 1

Strategic investment priorities
(per cent) (1)

	2015-17	2018-20
Replacement of pre-existing buildings, machinery, equipment and/or software without changing productive capacity	40.4	29.6
Expanding production capacity for goods and services already produced	36.1	42.4
Production of new goods and services	13.8	17.3
No significant investments during the period indicated	9.7	10.8
Total	**100**	**100**

Note: (1) Values are weighted by the number of employees in the reference universe.

The more favourable views of investment were accompanied with a slight recovery in the demand for bank loans; however, the largest share of firms refinanced their existing loans. Firms' views of general borrowing conditions were positive: the share of firms reporting no change in borrowing conditions in the first half of the year increased from 68 to 72 per cent, compared with an equal reduction in the share that reported an improvement. These trends are expected to continue in the second half of the year, with a strengthening in the demand for loans.

Construction firms

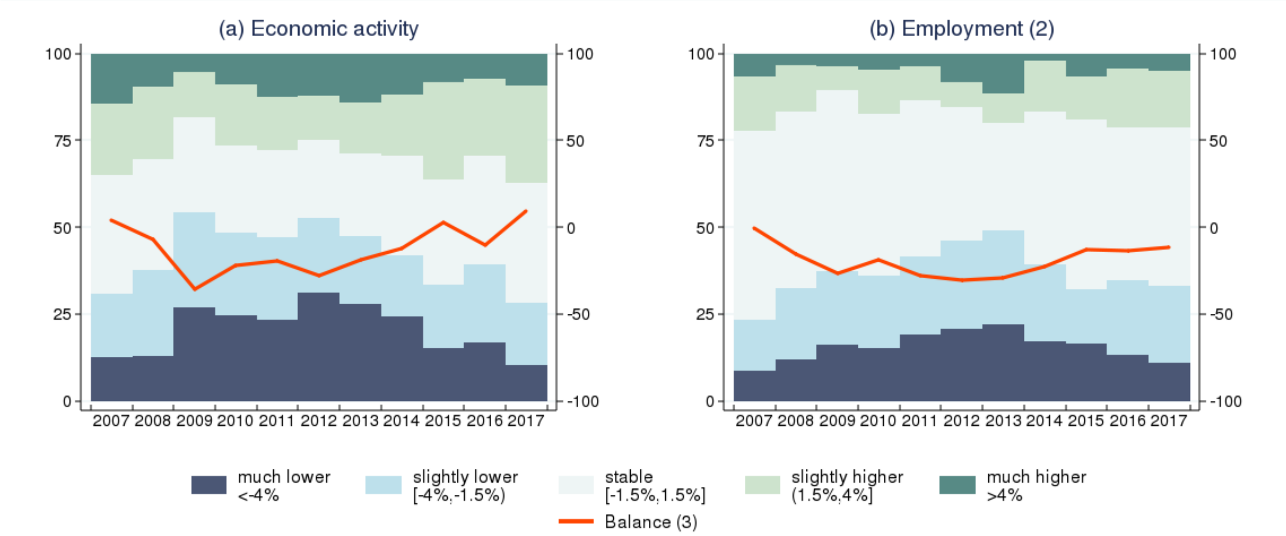
Production assessments returned favourable

In the first nine months of 2017, production of construction firms with at least 10 employees showed signs of recovery: the significant reduction in the share of firms that reported a contraction was accompanied by both a slight increase in those reporting stability and a more marked rise in those reporting an expansion. More favourable production assessments were also seen in the public works sector, where the balance became positive for the first time since the inception of the survey, especially thanks to the contribution made by large firms. The changes to the Procurement Code contributed to the recovery, albeit to a limited extent according to firms.

However, the favourable production dynamic was not reflected in employment. Firms reporting a contraction in staff numbers exceeded those reporting an expansion by 12 percentage points; less than half of firms reported that the number of employees remained unchanged (Figure 4).

Figure 4

Changes in construction activity and employment (1)
(per cent)



Notes: (1) Weighted by the number of workers. – (2) Regarding employment: much lower, <-5%; slightly lower, (-5%, -1%); stable (-1%, 1%); slightly higher, (1%, 5%); much higher, >5%. – (3) Balance between positive and negative assessments; right-hand scale.

Firms expect conditions to improve further in 2018

Firms expect economic conditions to improve further in 2018. Both in the public and private construction sectors, the share of firms expecting production to remain stable or improve rose by about 8 points compared with the previous survey, topping 80 per cent.

In the first half of the year, the demand for bank loans continued to contract, especially for smaller construction firms; the fall is expected to continue in the second part of the year, although to a lesser extent. According to firms, credit access conditions gradually improved in the first half of the year and should continue to do so during the second half. Compared with 2016, the share of firms reporting that overall borrowing conditions were stable grew further, to 73 per cent, thanks to both the fall in the number of firms that reported an improvement and the more marked drop in the number of those that reported a deterioration.

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