



Business Outlook Survey of Industrial and Service Firms

12 November 2018

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www.bancaditalia.it/statistiche/index.html

Main results

According to the assessments of firms in non-construction industry and in services with more than 20 employees, turnover continued to grow in 2018, albeit at a slower pace than in 2017 owing to a less favourable foreign demand trend. Firms expect sales to increase further over the next six months.

Views of employment and profitability trends were positive yet again; as to profitability, about 80 per cent of the firms, a historically high share, expect to close the year with a profit. This is tied to a moderate increase in investment expenditure in 2018, spurred by credit supply conditions that remain accommodative. Firms' investment plans for 2019 point to another increase in spending; rising tensions surrounding international trade are expected to have a limited impact.

In the construction sector, assessments of production trends continued to be positive; employment fell by less than in previous years and the share of firms reporting a profit rose. Assessments of credit supply conditions improved, driven by firms with more than 500 employees. Firms' plans for 2019 suggest further growth in production.

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

| | Decreasing | Stable | Increasing | Total |
|--|------------|--------|------------|-------|
| Industry, excluding construction, and service | | | | |
| Turnover (2) | 20.2 | 34.4 | 45.4 | 100 |
| Expected turnover (3) | 10.5 | 50.7 | 38.8 | 100 |
| Investment 2018 compared to plans | 15.8 | 62.9 | 21.3 | 100 |
| Employment 2018 on 2017 | 19.5 | 47.3 | 33.1 | 100 |
| Profit or loss in 2018 (4) | 10.9 | 10.3 | 78.8 | 100 |
| Construction | | | | |
| Total output 2018 on 2017 | 25.2 | 41.0 | 33.8 | 100 |
| Employment 2018 on 2017 | 29.3 | 46.3 | 24.4 | 100 |
| Profit or loss in 2018 (4) | 10.3 | 19.9 | 69.7 | 100 |

(1) Weighted by the number of workers. - (2) Sales revenues January-September: change in 2018 on 2017. -

(3) Orders: forecast 6 months ahead. - (4) Share of firms posting a loss, breaking even or a profit respectively.

Business Outlook Survey of Industrial and Non-Financial Private Service Firms¹

Non-construction industry and non-financial private services

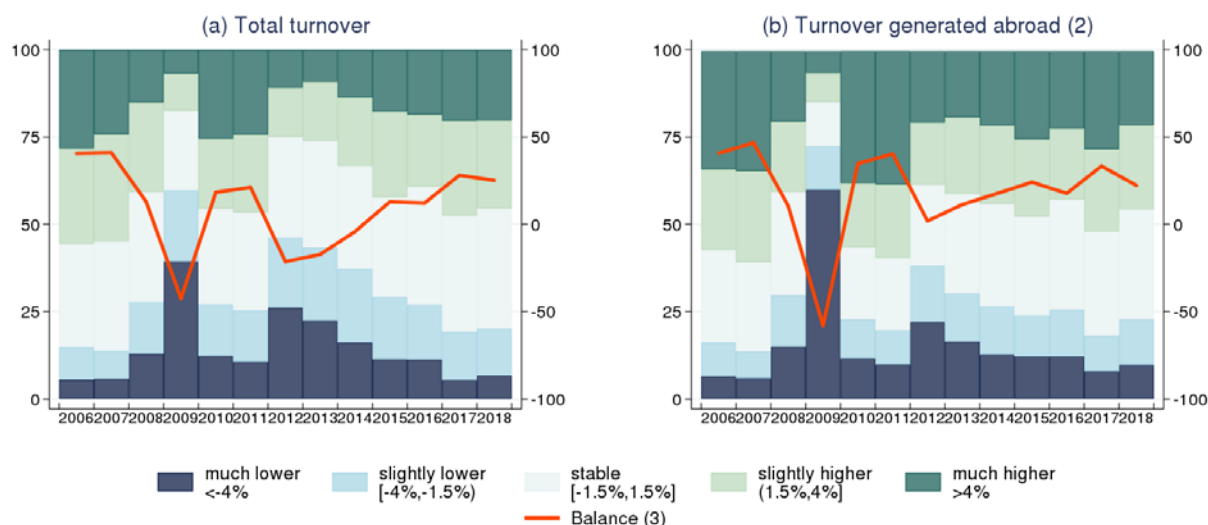
Firms report a slight worsening in turnover in the first nine months of 2018 ...

The non-construction industrial and service firms with more than 20 employees interviewed for the Bank of Italy's 26th Business Outlook Survey again reported positive views of the performance of their turnover, though there was a slight worsening compared with 2017. Firms reporting growth in turnover in the first nine months of 2018 compared with the year-earlier period continued to represent the highest share (45 per cent, from 48 per cent); the balance between firms reporting an increase and those reporting a decrease, which had widened markedly in the previous survey, narrowed by 3 percentage points (compared with 28 points last year), but remained at high levels (Figure 1.a). The slight contraction in the assessments of overall turnover reflected the steeper drop in those relating to foreign demand, for which the balance between views of an increase and those of a decrease narrowed by 11 percentage points, to 22 points, following the significant widening recorded in 2017 (Figure 1.b).

The positive views regarding the performance of turnover were widespread across all the main categories of firms, albeit with differing intensity. Conversely, the deterioration in the views concerning turnover generated abroad was mainly associated with large firms and those based in the North of Italy, which are the most exposed to foreign markets.

Figure 1

Year-on-year changes in turnover in the first 9 months of the year (1)
(non-construction industry and services; per cent)



(1) Weighted by the number of workers. – (2) Exporting firms in industry excluding construction. – (3) Balance between assessments of an increase and those of a decrease; right-hand scale.

¹ This report was prepared by Marco Bottone, the statistical appendix by Matteo Mongardini. The survey was carried out by the Bank of Italy's branches from 19 September to 11 October 2018.

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.

The shares referred to in the text are weighted by the number of workers.

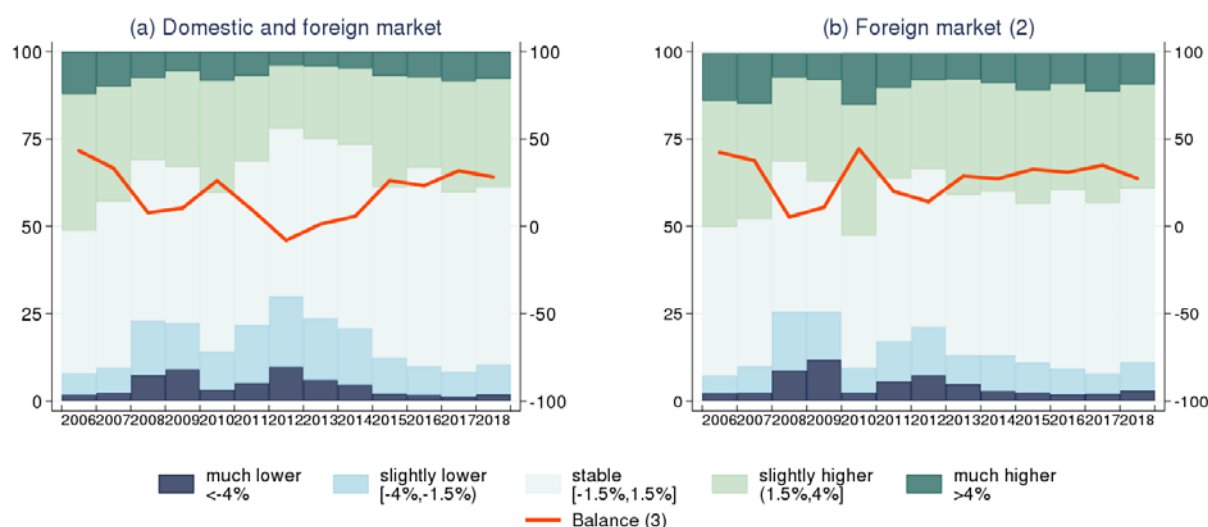
The statistical appendix and the methodological note are available at the following webpages:

https://www.bancaditalia.it/pubblicazioni/sondaggio-imprese/2018-sondaggio-imprese/dati_2018_eng.zip?language_id=1

https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2017/en-metodologia_sondaggio_impr_industr_serv.pdf?language_id=1

Figure 2

Sales forecast six months ahead (1)
(non-construction industry and services; per cent)



(1) Weighted by the number of workers. – (2) Exporting firms in industry excluding construction. – (3) Balance between assessments of an increase and those of a decrease; right-hand scale.

... and slightly less optimistic expectations for the next six months

Sales are expected to continue to grow overall in the next two quarters: about 40 per cent of firms predict a higher turnover, and about half of them report the view that it will remain unchanged (Figure 2.a). However, as is the case for the final assessments, the balance between the expectations of an increase in sales versus those of decrease narrowed slightly compared with 2017, held back by less favourable forecasts of foreign demand (Figure 2.b).

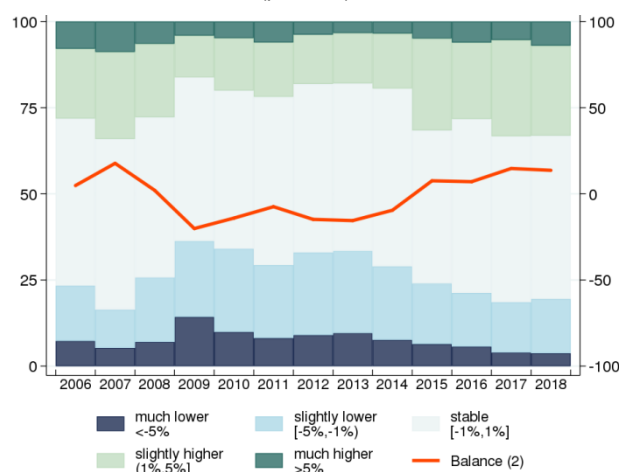
Employment dynamics are still positive

In 2018 the assessments regarding the performance of employment were once again favourable, with the balance between views of an increase and those of a decrease only slightly narrower than that recorded in 2017. About half of firms kept their demand for labour unchanged compared with last year, while one third of them increased it (Figure 3).

The performance of employment in the coming months is expected to be affected modestly by the entry into effect of the 'dignity decree'.² According to 80 per cent of firms, these measures will have negligible effects on overall employment and on the use of permanent contracts; for 60 per cent of firms, they will have negligible effects on fixed-term employment. As for the remaining firms, almost all of them anticipate negative effects (Table 2).

Figure 3

Changes in employment (1)
(per cent)



(1) Weighted by the number of workers. – (2) Balance between assessments of an increase and those of a decrease; right-hand scale.

² Decree Law 87/2018, converted into law as amended by Law 96/2018.

Table 2

Effect of the 'dignity decree' on firms' employment policies (1)
(non-construction industry and services; per cent)

| | | Effect on overall employment | Effect on the use of fixed-term contracts | Effect on the use of permanent contracts | Effect on employee turnover |
|---------------------------------------|------------|---------------------------------|--|---|--------------------------------|
| Industry excluding construction | Negative | 15.3 | 30.2 | 11.9 | 15.8 |
| | Negligible | 82.9 | 64.9 | 81.0 | 77.3 |
| | Positive | 1.8 | 4.9 | 7.0 | 6.9 |
| Services | Negative | 17.2 | 33.4 | 10.6 | 19.8 |
| | Negligible | 80.5 | 60.1 | 79.1 | 69.8 |
| | Positive | 2.3 | 6.5 | 10.3 | 10.4 |
| Total | Negative | 16.4 | 32.1 | 11.1 | 18.1 |
| | Negligible | 81.5 | 62.0 | 79.9 | 72.9 |
| | Positive | 2.1 | 5.9 | 9.0 | 8.9 |

Notes: (1) Weighted by the number of workers in the target population.

**Profitability
expectations
remain very
favourable**

About 80 per cent of firms expect to post a profit in 2018, a share similar to that of last year and among the highest since 2000. The balance between those reporting a profit and those recording a loss (67.9 percentage points) was driven by small firms, while there was a slight deterioration in the assessments of medium-sized and large firms.

**The planned
investments were
carried out ...**

Almost two thirds of firms carried out in 2018 the investment spending planned at the end of last year, while about one fifth exceeded it³ (Figure 4.a). The positive performance of demand and profitability as well as accommodative borrowing conditions contributed to this. The share of firms regarding borrowing conditions as stable rose further to 75 per cent; the balance between views of an improvement and those of a worsening is still positive despite narrowing from 15.3 to 9.5 percentage points.

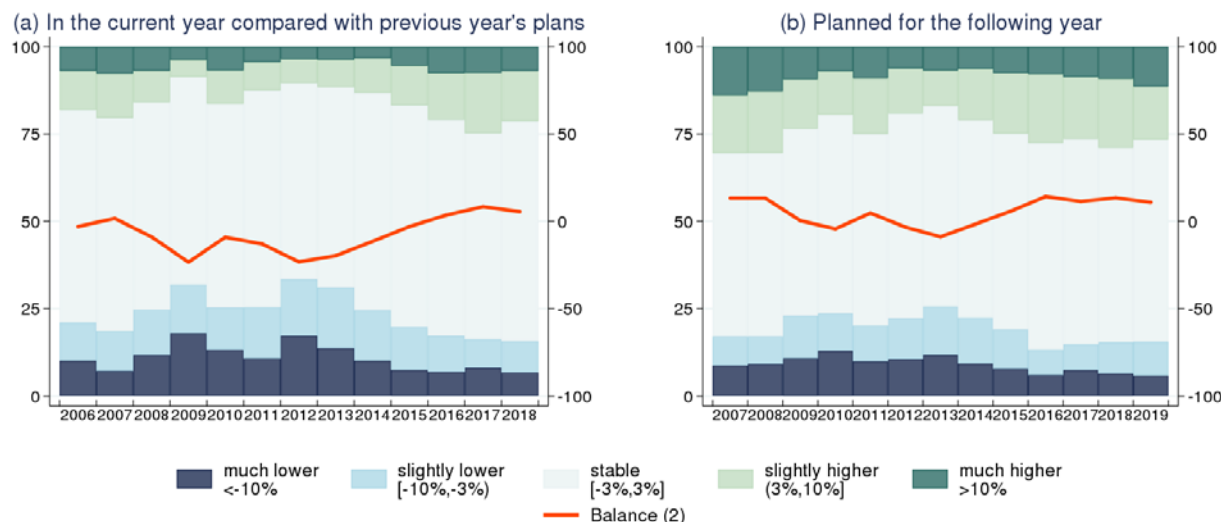
The demand for new bank loans in the first half of 2018 compared with the second half of 2017 remained moderate: most firms (65 per cent) refinanced their pre-existing loans. The balance between the share of firms that increased their bank borrowing and the share that reduced it remained slightly positive (at 2.2 percentage points), but dropped for firms with more than 500 employees (from -1.4 to -6.9 percentage points) while it rose for medium-sized firms (from 3.2 to 8.8 per cent for those employing between 50 and 199 workers and from 2.7 to 10.2 per cent for those employing between 200 and 499 workers). Reduced inventory and working capital needs and enhanced self-financing capabilities appear to be the main factors behind the still weak performance of the demand for loans.

**... and spending
looks set to
increase further
in 2019**

The investment plans for 2019 point to a further increase in spending, which would grow for more than one quarter of firms while remaining virtually unchanged for just under three fifths of them (Figure 4.b). The balance between forecasts of an expansion and those of a contraction (11 per cent, from 14 per cent) shows considerable heterogeneity across firms: it is negative only in the textiles sector, though it is improving compared with the previous survey, having risen from -6 to -2 percentage points; it is especially high, though contracting, for large firms; it is growing for firms located in the Centre and South while declining for those in the North. According to firms, investment spending plans are not impacted significantly by the tariffs introduced recently by the US government and the consequent potential tensions in international trade.

³ According to the Bank of Italy's 2017 Survey of Industrial and Service Firms conducted in the spring and published in the Statistics Series on 2 July 2018, the overall increase in investment planned for 2018 was 5.3 per cent.

Changes in investment (1) (non-construction industry and services; per cent)



(1) Weighted by the number of workers. – (2) Balance between assessments of an increase and those of a decrease; right-hand scale.

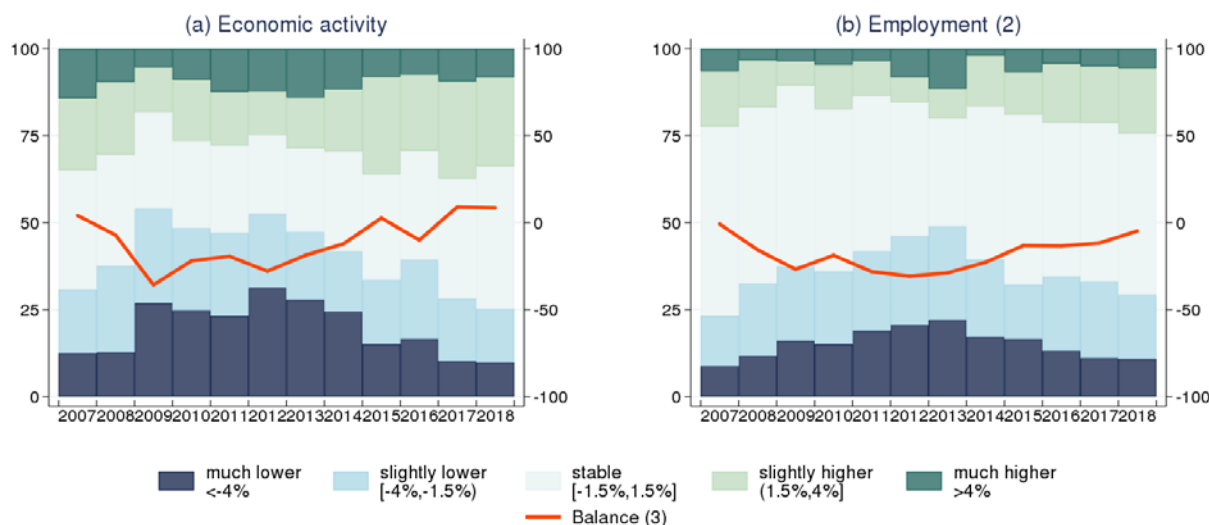
Construction

The recovery in output in the construction sector consolidated in 2018 ...

In the first nine months of 2018 the output of construction firms with at least 10 workers continued to grow: the balance between assessments of an increase in total output and those of a decrease was positive at 9 percentage points (Figure 5.a) despite the sharp contraction, from 6 to -3 percentage points, recorded for the public works sector. The deterioration in the views reported by firms in this sector appears to be especially attributable to firms with more than 500 employees and those operating in the North-West and in the Centre.

Figure 5

Change in construction activity and employment (1) (construction; per cent)



(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 assessments of an increase and those of a decrease; right-hand scale.

Employment benefited from the favourable dynamics of output: the share of firms that expects to increase its employment this year compared with the previous one rose, while the share that expects to reduce it declined. However, the balance between the two shares, despite having improved constantly since 2012, is still negative at -5 percentage points (Figure 5.b).

**... and could
strengthen over
the course of
next year**

The growth in output is expected to accelerate in 2019: 86 per cent of firms forecast it to be stable or higher than it is now, the highest share since the launch of the survey in 2007. The balance between expectations of an increase in output and those of a decrease is positive in the public works sector as well, despite the fall compared with last year (from 17 to 11 percentage points) due to the further deterioration in the assessments of firms in the North-West and Centre.

The positive performance of output was reflected in the further improvement in profitability. The share of firms expecting to close the year with a profit rose from 59 to 70 per cent, while that anticipating a loss diminished. Higher profitability may have facilitated the improvement in credit access conditions: the balance between favourable and unfavourable assessments widened from 2 to 6 percentage points, driven by the especially positive views reported by firms with more than 500 employees. The views on borrowing conditions appear to be connected to the increased possibility of accessing new funding: the balance between assessments of an improvement and those of a worsening moved into positive territory for the first time since data began to be collected on this variable (2011). However, the demand for bank loans in the first six months of the year remained stable overall.

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