BANCA D'ITALIA
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Statistics

Business Outlook Survey of Industrial and Service Firms

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Main results

According to the assessments of firms in non-construction industry and in services with more than 20 employees, sales appear to have slowed in the first nine months of 2019. These less positive assessments largely reflected the negative expectations for exports. Once again, more firms expected sales to increase than to decrease over the next six months, albeit less markedly compared with the previous survey.

The number of firms posting a profit remained broadly positive. Employment seems to have grown once more, although again at a slower pace. The investment plans drawn up by firms at the end of 2018, which had anticipated a modest increase in spending, have for the most part been carried out. Firms envisage renewed spending growth in 2020, despite continuing international trade tensions.

In the construction sector, firms' assessments of output trends improved, specifically owing to the contribution from public sector construction. Employment benefited from this, as shown in firms' expectations of an increase exceeding those of a decrease for the first time since 2007. Expectations for 2020 point to a further strengthening of production.

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

	Decreasing	Stable	Increasing	Total
Non-construction industry and services				
Turnover (2)	29.1	33.7	37.3	100
Expected turnover (3)	16.7	48.4	34.9	100
Investment in 2019 against initial plans	16.8	67.4	15.7	100
Employment 2019 on 2018	21.1	47.5	31.4	100
Profit or loss in 2019 (4)	11.1	11.3	77.7	100
Construction				
Output 2019 on 2018	20.3	41.9	37.8	100
Employment 2019 on 2018	20.4	51.3	28.2	100
Profit or loss in 2019 (4)	9.7	14.2	76.2	100

(1) Weighted by the number of workers. – (2) First nine months of 2019 compared with the same period a year earlier. – (3) Forecast six months ahead. – (4) Share of firms posting a loss, breaking even or a profit respectively.

Business Outlook Survey of Industrial and Service Firms[1]

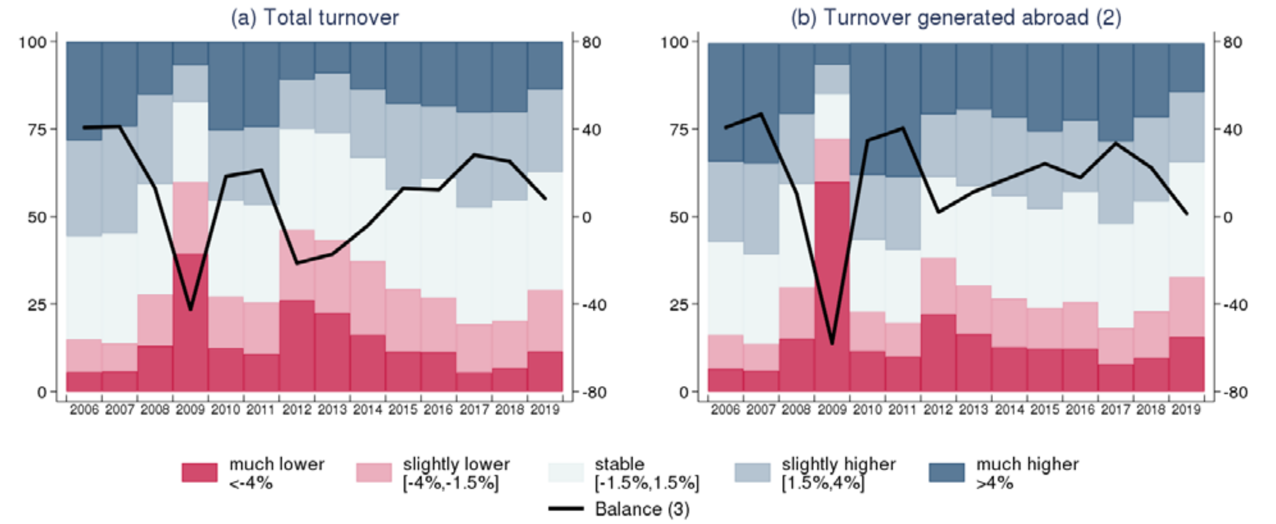
Non-construction industry and non-financial private services

Firms point to a slight worsening in turnover in the first nine months of 2019, especially in foreign markets

With regard to their turnover performance in the first nine months of 2019, firms point to a slowdown in sales compared with the same period in 2018. The share of firms recording a growth in demand fell from 45 to 37 per cent, compared with a broadly equivalent increase of 9 percentage points in the share of firms reporting a contraction, to 29 per cent (Figure 1a). This was driven mainly by manufacturing firms, whose assessments recorded a sharp decline with regard to foreign demand: the balance between the share of firms reporting an increase in demand and the share reporting a decrease essentially fell from 23 percentage points in the previous survey almost to zero (Figure 1b). Recent international trade tensions do not appear to have made a significant contribution to the deterioration in firms' assessments of exports: less than one-fifth of firms recorded adverse effects on sales in non-European markets.

Figure 1

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



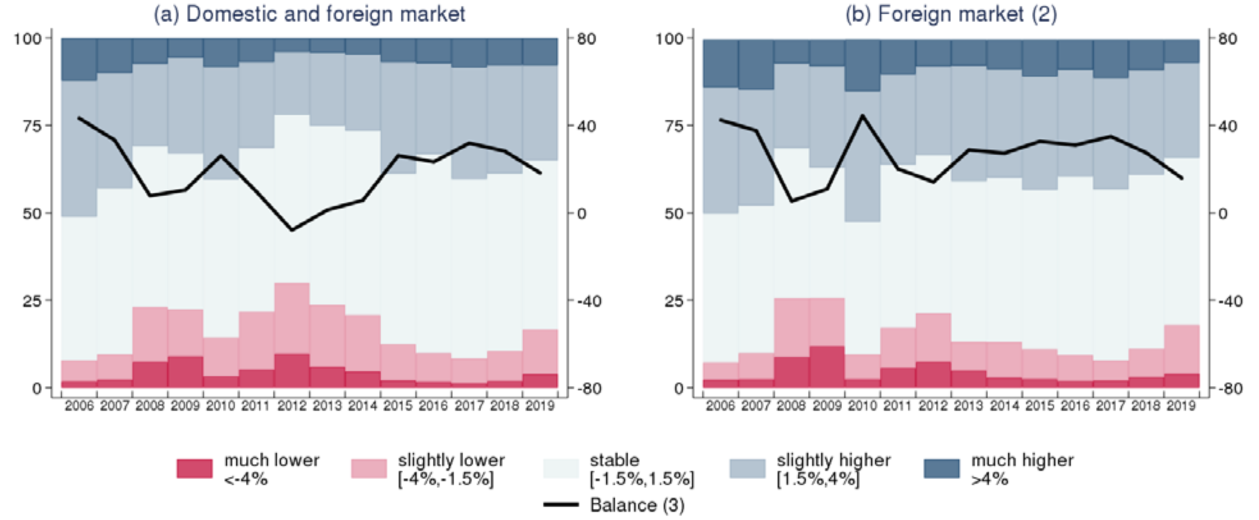
(1) Weighted by the number of workers. – (2) Exporting firms in non-construction industry. – (3) Balance between firms' assessments of an increase and assessments of a decrease; right-hand scale.

Firms expect weak sales growth to continue over the next six months. Although the share of firms expecting an increase in total demand exceeds the share forecasting a reduction, the balance between the two narrowed by 10 percentage points compared with the previous survey (from 28 percentage points). As in the case of expectations for the first nine months of the year, firms may have lowered their expectations owing to the less positive assessments of foreign demand (Figures 2a and 2b), in part owing to the possibility of protectionist policies tightening.

[1] The report was prepared by Marco Bottone, Elena Mattevi, Lucia Modugno and Matteo Mongardini. The survey was conducted by the Bank of Italy's branches from 18 September to 10 October 2019.
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 methodological note are available on the following webpages:
https://www.bancaditalia.it/pubblicazioni/sondaggio-imprese/2019-sondaggio-imprese/dati_2019.zip
http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2017/metodologia_sondaggio_impr_industr_serv.pdf

Figure 2

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



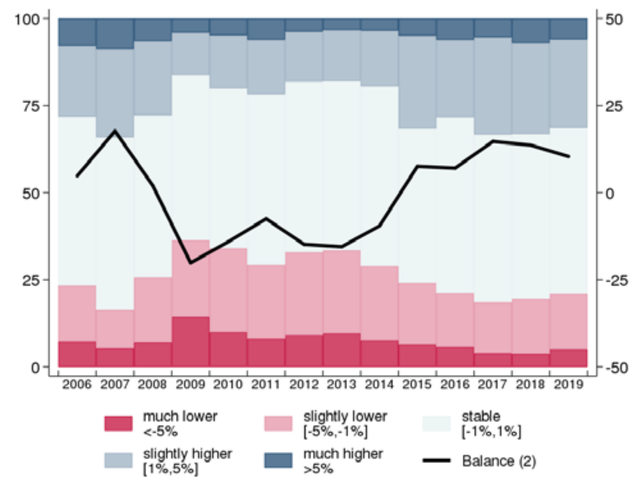
(1) Weighted by the number of workers. – (2) Exporting firms in industry excluding construction. – (3) Balance between firms' assessments of an increase and assessments of a decrease; right-hand scale.

Assessments of employment continue to be positive ...

For 2019 as a whole, firms expect to see a moderate slowdown in employment. Half of firms intend to keep their workforce unchanged; among the remaining firms, those expecting to increase their workforce still make up the largest share, although this has decreased slightly in favour of those reporting a reduction (Figure 3).

Figure 3

Changes in employment (1)
(per cent)



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

... as are profitability expectations

Despite slower growth in sales, some 78 per cent of firms expect to post a profit in 2019, a share that is essentially unchanged compared to 2018. This result conceals variations in performance across sectors, which in part reflect the variations in exports. The balance between the share of firms posting a profit and those posting a loss fell in the textile, clothing, leather goods and shoes sector, but rose slightly in the chemical, rubber and plastic and the trade, hotel and catering sectors.

The planned investments have been carried out …

Almost 70 per cent of firms intend to carry out the investment expenditure planned at the end of 2018 (Figure 4a). Among firms with fewer than 500 employees intending to make reductions according to their 2018 spending plans, the share of firms reporting higher-than-planned spending levels is slightly larger than the share reporting lower-than-planned expenditure. However, among bigger firms, given their largely expansionary spending plans, there is a negative difference of 8 percentage points. Just over one-tenth of firms reported that trade conflicts had contributed to limiting their investments, and the share of firms that have made downward revisions to their spending plans is almost twice that.

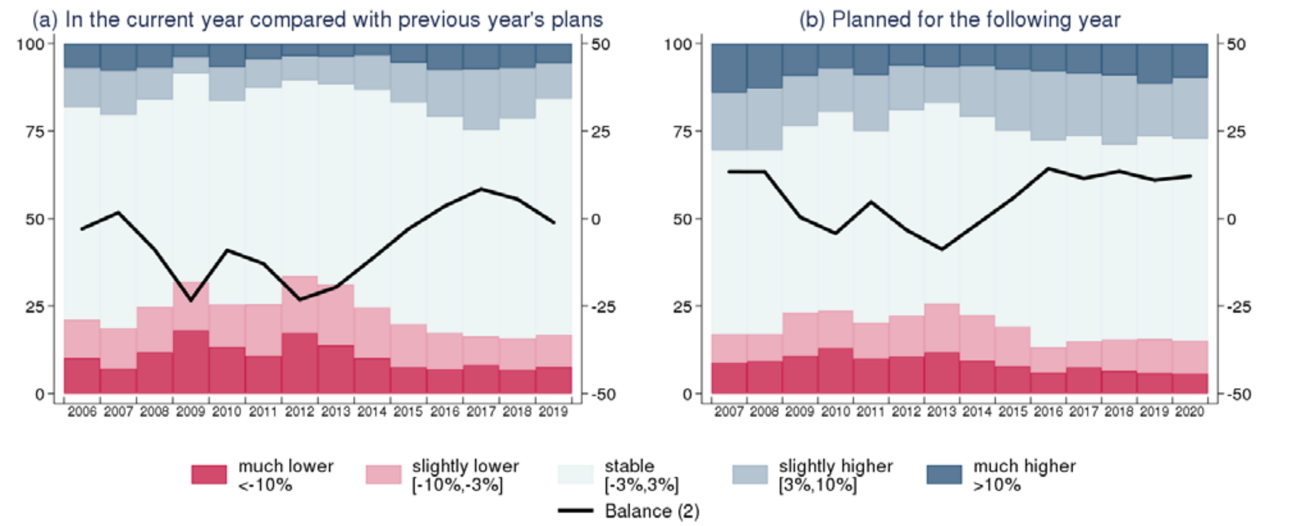
Most firms deemed credit supply conditions to be accommodative in the first half of 2019, particularly in terms of interest rates. Around 70 per cent of firms said that demand for bank loans had remained unchanged in the first half of the year. The balance between the share of firms reporting an increase in demand for bank loans and those reporting a contraction was positive for firms with fewer than 500 employees and negative for larger firms.

… and spending looks set to increase further in 2020

Around 60 per cent of firms have planned investment spending in 2020 in line with that carried out in 2019, compared with a positive balance of 12 percentage points between firms intending to increase investment spending and those planning to reduce it (Figure 4b). However, firms' outlook will continue to reflect economic and political uncertainty, in part attributable to the ongoing global trade tensions.

Figure 4

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



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

Construction firms

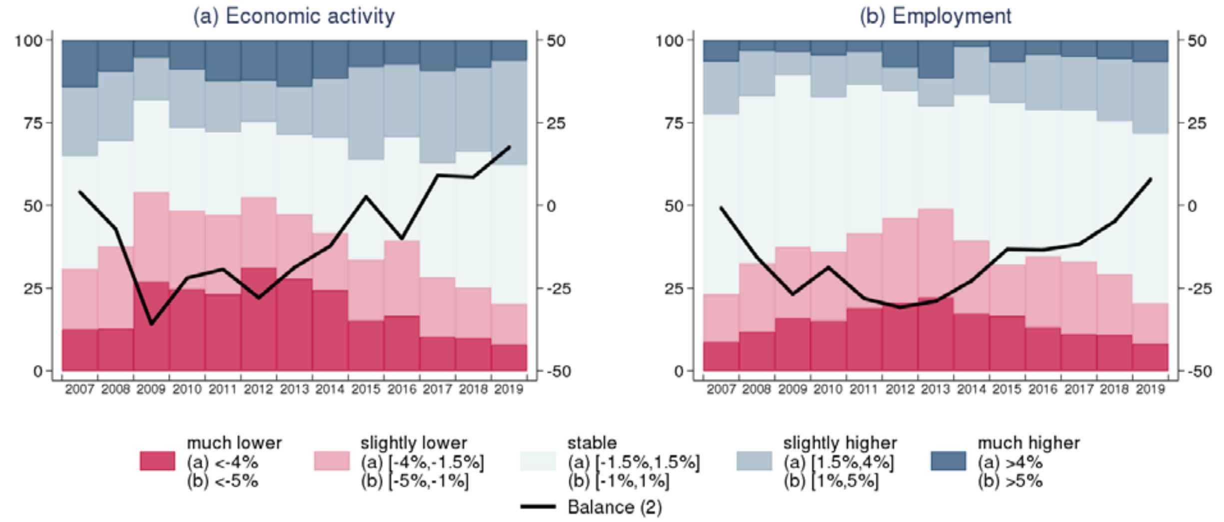
Firms' assessments of output improved, especially in public sector construction

The growth in output strengthened among construction firms: the balance between assessments of an increase in total output in 2019 and assessments of a decrease doubled to 18 percentage points (Figure 5a), buoyed by the marked improvement in that recorded for the public sector construction sector alone (from -3 to 13 percentage points). Positive assessments prevailed, albeit to varying degrees, across all geographical areas and firm size categories.

This was linked to an overall improvement in employment: the share of firms expecting to reduce their work force fell sharply by 9 percentage points, while there was an increase in the share of firms expecting to expand their workforce and in the share expecting their workforce to remain unchanged. For the first time since 2007, the balance between firms expecting an increase and those expecting a decrease turned positive overall (8 percentage points; Figure 5b), even though negative assessments prevailed among firms with more than 500 employees.

Figure 5

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



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

Firms expect output to increase further in 2020

Total output is forecast to grow further in 2020. Around half of firms expect output to be stable; among the remaining firms, expectations of an increase in output exceed expectations of a decrease by 25 percentage points, in line with the results recorded in the previous survey. These expectations will continue to benefit from the favourable outlook for public sector construction over the coming year. In this regard, the balance of firms expecting growth and those expecting a contraction widened from 11 to 21 percentage points. The *Decreto Sblocca Cantieri* (decree on unblocking construction sites) may have contributed slightly to this development. Four-fifths of firms considered this measure to have had a negligible or negative effect on their order books in 2019; of the remaining firms, around two thirds expected the positive effects on output to unfold from 2020 onwards.

The increase in output boosted firms' profitability. The share of firms expecting to close the year in profit rose by 6 percentage points to 76 per cent, in line with the figure observed before the global financial crisis of 2008. The demand for bank loans in the first half of 2019 grew only marginally, despite the fact that borrowing conditions have become slightly more favourable.

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