BANCA D'ITALIA
EUROSISTEMA

Statistics

Business Outlook Survey of Industrial and Service Firms

9 November 2020

Main results

According to the assessments of firms in industry excluding construction and in services with 20 or more employees, sales were strongly affected by the COVID-19 pandemic in the first nine months of 2020. The expectations for the next six months, as surveyed before the recent resurgence in infection in Italy, are slightly positive in industry excluding construction but remain pessimistic in services.

The reduction in the demand for labour was less marked than that in economic activity. The repercussions of the sharp fall in sales for the number hours worked and for employment were mitigated by the job support measures. Corporate profitability decreased. The demand for bank loans in the first half of the year grew significantly owing to the increased liquidity needs.

The uncertainty about the economic outlook and the fall in sales were accompanied by a sharp reduction in investment in the current year compared with the plans formulated at the end of 2019. For next year, about one in two firms expect to keep their investment expenditure stable, while the remaining firms anticipate that capital accumulation may strengthen.

A sharp drop in output in 2020 is expected for the construction sector as well, despite a clear improvement in the second half of the year. Employment expectations point to stability for the year as a whole. For 2021, firms expect a marked rebound in total production: 57 per cent anticipate an increase, while 15 per cent believe there will be a reduction. The recovery is expected to be driven by residential building and by public works.

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

	2019		2020	
	Negative	Positive	Negative	Positive
Industry excluding construction and services				
Change in turnover (2)	29.1	37.3	70.6	15.6
Change in expected turnover (3)	16.7	34.9	35.3	30.0
Discrepancy between actual and planned investment	16.8	15.7	42.3	10.1
Change in employment (4)	21.1	31.4	34.6	17.9
Profit or loss for the year (5)	11.1	77.7	28.8	56.4
Construction				
Change in output (4)	20.3	37.8	52.6	20.5
Change in employment (4)	20.4	28.2	22.7	25.1
Profit or loss for the year (5)	9.7	76.2	19.6	64.3

(1) Weighted by the number of workers. – (2) First nine months of the year compared with the same period a year earlier. – (3) Forecast six months ahead. – (4) For the year as a whole compared with the previous year. – (5) Share of firms posting a loss or a profit respectively.

Reference period: 2020

Business Outlook Survey of Industrial and Service Firms[1]

Non-construction industry and non-financial private services

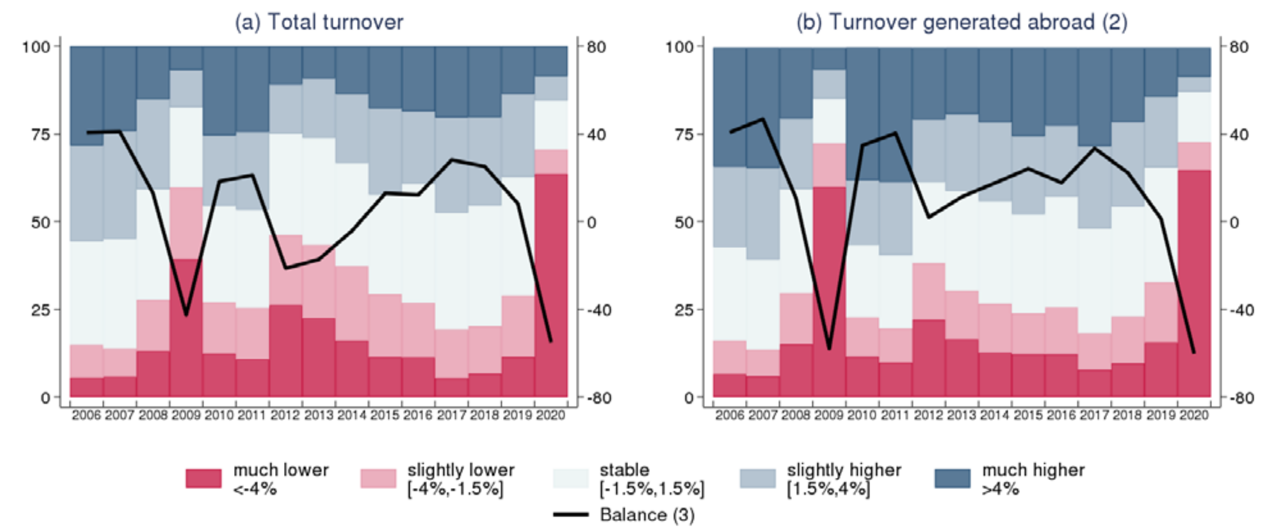
Firms' assessments, surveyed between 18 September and 8 October, indicate that economic activity in 2020 is being strongly affected by the COVID-19 pandemic, owing to the stoppage of production activity in the first part of the year and the persistent uncertainty about the economic outlook.

Firms report a sharp drop in sales in the first nine months of 2020

The balance between assessments of an increase and those of a decrease in sales in the first nine months of 2020 decreased markedly compared with the previous year (to -55 percentage points, from 8 points). The share of firms that reported a reduction in turnover is historically high (71 per cent), while the proportion that indicated a sharp drop (64 per cent) is about 25 percentage points higher than in the survey conducted in 2009 during the global financial crisis (Figure 1a). Specifically, turnover decreased by at least 15 per cent for two in five firms. For half of these, it fell by more than 30 per cent. The sharpest drops were reported above all by firms in the textile, clothing, leather and footwear industry, those in metalworking, and those in the retail trade, hotel and restaurant segment. Sales were affected by the fall in demand, both domestic and foreign: 73 per cent of exporting firms reported a contraction in turnover generated abroad (Figure 1b). The share of firms that used e-commerce to sell their goods and services was similar to that observed in 2019, about 30 per cent (more than 50 per cent in the retail trade, hotel and restaurant segment), but for just under one third of these firms, online sales accounted for over 10 per cent of turnover.

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 industry excluding construction. – (3) Balance between assessments of an increase and those of a decrease; right-hand scale.

[1] The report was prepared by Elena Mattevi, Marco Bottone, Lucia Modugno and Matteo Mongardini. The survey was carried out by the Bank of Italy's branches from 18 September to 8 October.
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.
The reference universe consists of firms in industry excluding construction and in non-financial private services employing 20 or more workers and of construction firms employing 10 or more workers, whose administrative headquarters are in Italy.
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/2020-sondaggio-imprese/dati_2020.zip
http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2017/metodologia_sondaggio_impr_industr_serv.pdf

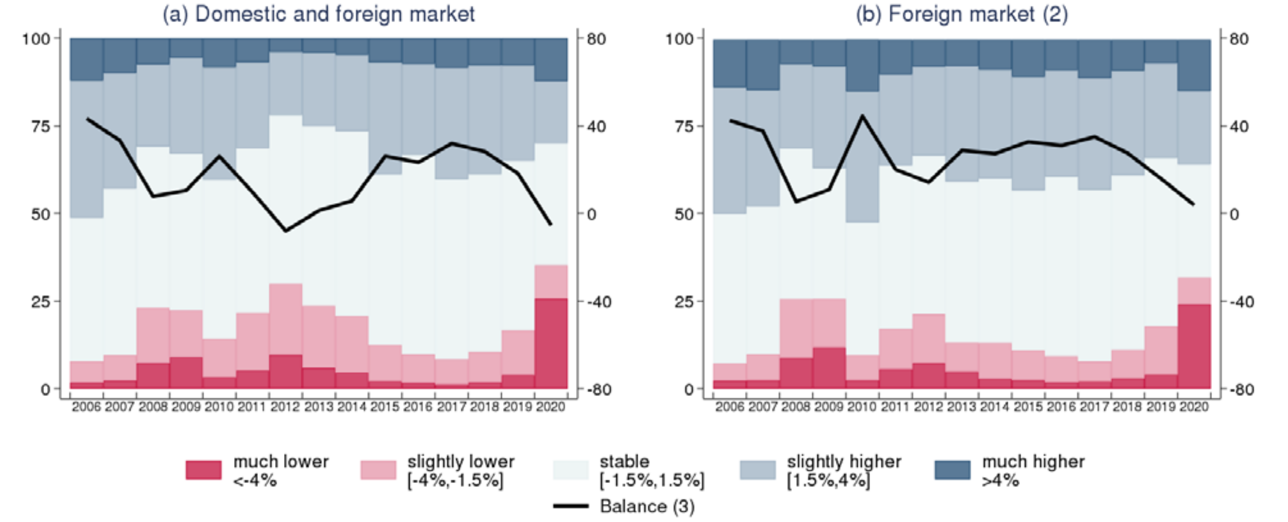
A partial recovery appears to have been observed during the summer months (see *Economic Bulletin*, 4, 2020); the share of firms that reported a fall in sales in August compared with one year earlier was 49 per cent, while 27 and 24 per cent indicated stability and an increase, respectively. The balance of assessments for August is markedly less unfavourable in industry (-12 percentage points) than in services (-33 points).

Though less pessimistic, firms' assessments of sales over the coming months remain unfavourable

The expectations for the next six months, which were surveyed before the recent resurgence of COVID-19 cases, show a softening in firms' pessimism compared with the assessment regarding the first part of the year. The balance between expectations of an increase in turnover and of those of a decrease remained in any case negative (-5 percentage points; Figure 2a), reflecting slightly positive assessments among industrial firms versus still unfavourable expectations in services (the balances standing at 3 and -11 points respectively). The expectations are more pessimistic for the firms that recorded the sharpest drop in sales in the first nine months of the year. Exporting firms anticipate a slight rebound in sales on foreign markets: the balance of assessments of an increase and of decrease is positive (4 percentage points), though the share of firms that expect a strong contraction in their international turnover over the next six months is still high (24 per cent; Figure 2b). Global production appears to be affected only marginally by the international trade tensions: fewer than one in five firms fear the introduction of barriers to commerce between the European Union and the United Kingdom owing to Brexit; there are no indications that firms are going to reduce the number of production facilities abroad or that of foreign suppliers.

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.

The fall in production activity has reduced profitability ...

Developments in sales led to a decrease in profitability: there was a marked reduction in the share of firms that expect to post a profit in 2020 (to 56 per cent, from 78 per cent), while the share that anticipates to end the year with a loss rose significantly (to 29 per cent, from 11 per cent).

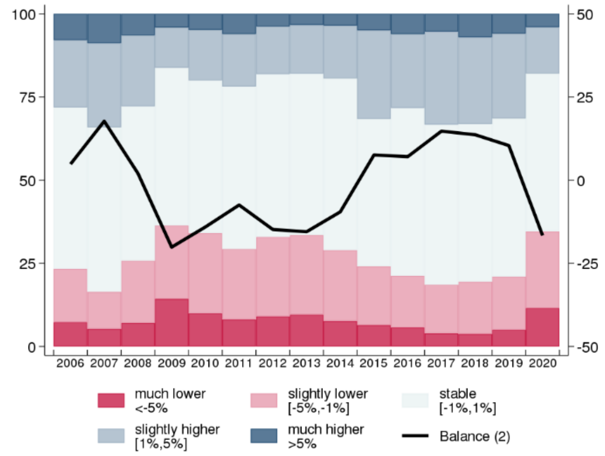
In the first half of the year, the share of firms that increased their demand for bank loans more than doubled (40 per cent, from 17 per cent), above all owing to the greater funding needs for working capital (this was reported as a significant factor by 70 per cent of firms) and a diminished self-financing capacity (which was indicated by 46 per cent of firms). Based on the reported assessments, the possibility of obtaining new loans also improved, and more than 90 per cent of firms believe that their liquid holdings are at least sufficient to meet their operational needs.

... leading to a reduction in hours worked and in employment

Almost 70 per cent of firms reported a reduction in hours worked during the first nine months of the year; the fall was recorded across all the size classes and sectors considered in the survey. The balance between expectations of an increase and of a decrease in the number of people in employment for 2020 as a whole (equal to -17 percentage points; Figure 3) points to a reduction in the workforce, which is expected to be especially marked in the textile, clothing, leather and footwear industry and in the retail trade, hotel and restaurant segment. Almost one in two firms intend to keep the number of people employed unchanged. Over the course of the year, the decline in employment was countered by relying on wage supplementation instruments and measures to protect permanent employment (see *Economic Bulletin*, 4, 2020): more than 70 per cent of firms applied for wage supplementation (*cassa integrazione guadagni*, CIG), while only 4 per cent applied for access to an alternative financial support scheme for laid-off workers (*mobilità*). At the same time, over 80 per cent of firms used some form of remote working (about three times the share for 2019). Industrial firms anticipate a recovery in hours worked in six months' time, while service firms expect a further worsening (the balance between assessments of an increase and of a decrease is equal to 6 and -7 percentage points respectively).

Figure 3

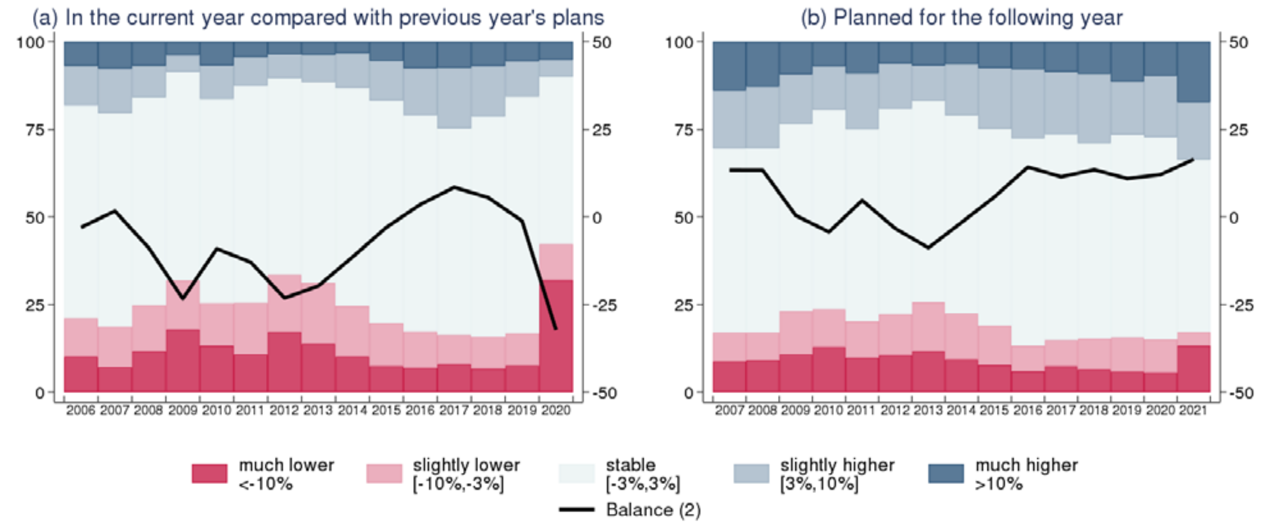
Change in employment (1)
(per cent)



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

Figure 4

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.

Investment expenditure shrinks compared with last year's plans ...

Investment expenditure has decreased significantly compared with the initial plans: 42 per cent of firms reported that their investment in 2020 will fall short of what was expected at the end of last year (Figure 4a). For about one in two of these firms, the expenditure will be lower by more than one quarter; for one in four, it will be more than halved. The balance between the share of firms that will invest more than planned and the share that will invest less was equal to -32 percentage points, and it was similar for industry and for services but more unfavourable for firms with 500 or more employees (-40 points), which last year had reported more expansionary spending plans compared with the rest of firms. More than three quarters of the firms that revised downwards their investment plans attributed this decision to the uncertainty about the economic and political outlook and to developments in demand.

... but could increase further in 2021

The investment plans for 2021 continue to be affected by the uncertainty ascribable to economic and political factors, while demand expectations are their main driver. About half of firms have planned investment expenditure in 2021 in line with that carried out in 2020, compared with a positive balance of 17 percentage points between firms intending to increase it and those planning to reduce it (Figure 4b). Currently, less than one third of the firms that decreased investment expenditure by at least 10 per cent have planned to increase it by 10 per cent or more next year.

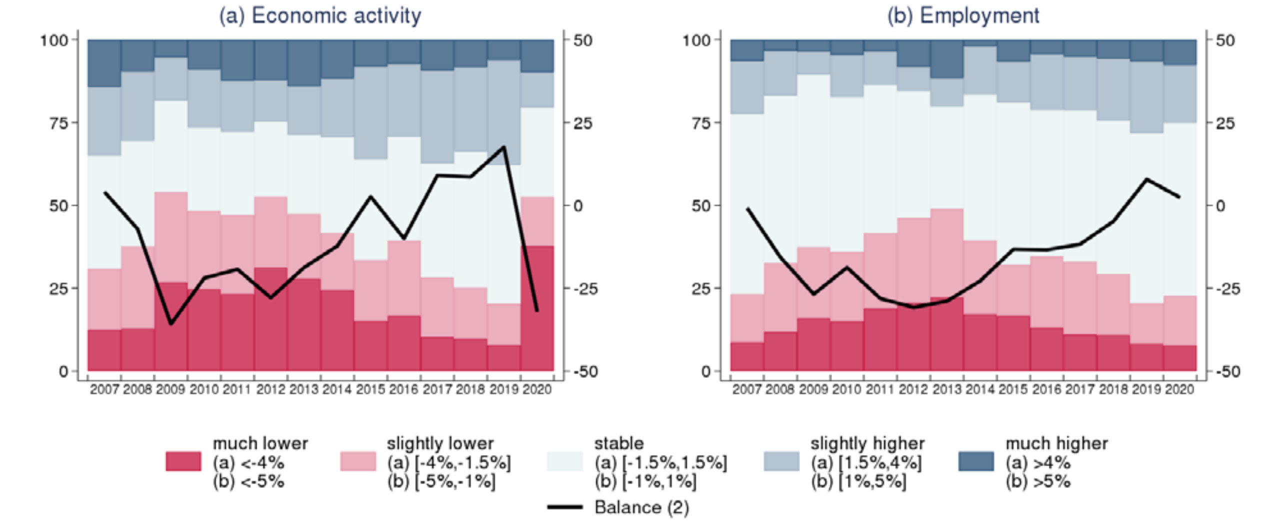
Construction firms

Construction sector output contracts

For construction firms, the balance between judgments of an increase and of a reduction in output in 2020 stands at -32 percentage points, from 18 points last year. More than half of firms expect a fall in output (Figure 5a), with almost one in two of them anticipating a contraction in excess of 15 per cent. Negative assessments prevailed across all geographical areas and firm size classes, and they extended to the public works segment as well (-25 percentage points, from 13 points). Judgments referring to the second half of the year point to a marked improvement in business compared with the first half: the share of firms reporting an increase exceeds by 32 points that reporting a reduction.

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 those of a decrease; right-hand scale.

The contraction in business activity in 2020 was associated, among other things, with a decline in profitability. The share of firms that expect to record a loss at the end of the year rose by 10 percentage points (to 20 per cent), while the share of firms expecting to post a profit shrank (64 per cent, from 76 per cent in the last survey). Against the backdrop of these trends, the demand for bank loans rose in the first half of the year, and firms' assessments suggest a marked improvement in the possibility of obtaining new funding.

Employment assessments do not point to a reduction in the workforce in the current year: the share of firms that expects to increase the number of workers is 2 percentage points higher than the share that expects to reduce it, though the balance is markedly negative (-18 percentage points) for firms with 500 or more employees. One in two firms intend to keep the number of people employed unchanged (Figure 5b).

Firms expect production to rebound in 2021

Firms' assessments for 2021 point to a marked rebound in production: 57 per cent anticipate an increase, while 15 per cent believe there will be a reduction. The recovery is expected to be driven by both residential building and public works. For both segments, a majority of firms anticipates a rise in output, with the balance between expectations of an increase and of a decrease being equal to 49 and 36 percentage points respectively. According to firms' assessments, in the coming months output will benefit from the introduction of the incentives connected with the 'superbonus': 74 per cent of respondents expects these measures to have a positive impact, which would play out mostly in 2021.

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