BANCA D'ITALIA
EUROSISTEMA

Statistics

Business Outlook Survey of Industrial and Service Firms

8 November 2021

Main results

According to the assessments of firms in non-construction industry and in services with 20 or more employees, sales recorded strong growth in the first nine months of the year, in both the domestic and foreign markets. About 70 per cent of industrial firms and 60 per cent of service firms expect to regain or exceed pre-pandemic levels by the end of the year.

Firms, especially in the industrial sector, are facing widespread difficulties in procuring production inputs, mainly owing to their rising prices or unavailability. A broad majority of firms believe that these difficulties will not be overcome before the first quarter of 2022. Despite this, about half of them expect sales to expand over the next six months.

Corporate profitability improved markedly compared with 2020, and so did the dynamics of hours worked and employment. The investment plans made at the end of last year, which were expansionary on average, were carried out as scheduled by two thirds of firms. As for the remaining businesses, most of them spent more than they had initially planned, owing above all to positive developments in demand. For 2022, firms expect investment to increase further across all the sectors considered in the survey.

In the construction sector, firms' assessments of output trends improved markedly, also owing to the contribution of the public works segment. Employment benefited, with firms' expectations of an increase once again significantly exceeding those of a decrease. Expectations for 2022 point to a further strengthening of production.

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

	2020		2021	
	Negative	Positive	Negative	Positive
Industry (excluding construction) and services				
Change in turnover (2)	70.6	15.6	16.9	64.1
Change in expected turnover (3)	35.3	30.0	9.1	48.3
Discrepancy between actual and planned investment	42.3	10.1	13.0	21.3
Change in employment (4)	34.6	17.9	22.0	35.7
Profit or loss for the year (5)	28.8	56.4	15.6	74.0
Construction				
Change in output (4)	52.6	20.5	11.9	55.3
Change in employment (4)	22.7	25.1	15.0	34.1
Profit or loss for the year (5)	19.6	64.3	10.2	77.3

(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: 2021

Business Outlook Survey of Industrial and Service Firms[1]

Non-construction industry and non-financial private services

Firms report a strong recovery in turnover in the first nine months of 2021 ...

Firms' assessments of developments in their turnover in the first nine months of 2021 point to a strong recovery in activity compared with the same period of 2020. More than two thirds reported an increase in total sales (Figure 1a), with almost half of these firms recording growth of more than 10 per cent; most of these were firms that had indicated sharp drops in turnover in the previous survey. The favourable developments in sales were observed across all size classes and were more pronounced in industry excluding construction, where firms also benefited from the recovery in exports.

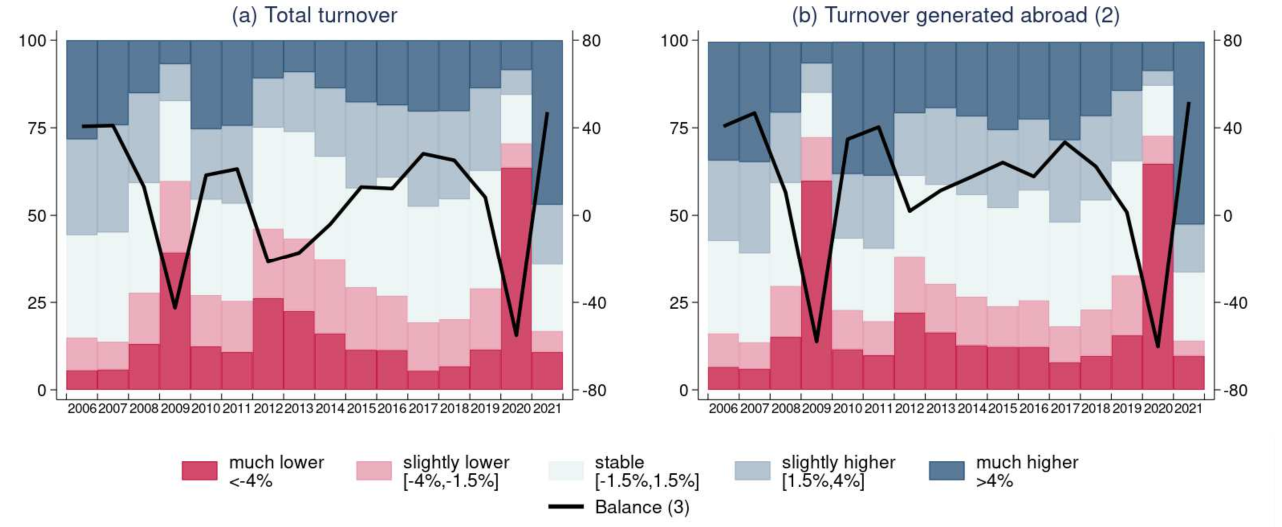
The prospects of a return to pre-pandemic levels of activity by the end of this year are broadly, though not fully, positive: 61 per cent of service firms and 72 of non-construction industrial firms expect their turnover in 2021 to be equal to or greater than that recorded in 2019. Among industrial firms, the percentage share is markedly lower (41 per cent) in the textile, clothing and footwear segment.

... despite the widespread procurement difficulties, especially in industry

A significant share of firms reported difficulties in procuring production inputs: about 60 per cent in industry excluding construction and 20 per cent in services. Among the businesses reporting such difficulties, over 80 per cent of them attributed this to increased costs and about 70 per cent cited their unavailability; in particular, the shortage of semiconductors and electric components affected about half of metalworking firms (compared with 8 per cent of firms in the remaining segments of industry excluding construction). About 70 per cent of firms reported delays in the delivery times of suppliers or logistical issues. Both these issues and the unavailability of inputs were indicated more frequently by smaller firms.

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.

The main effect of the procurement difficulties on firms' activity was an increase in selling prices for about one in three firms, a lengthening of their own delivery times for an only slightly smaller share (more marked among service firms), and a reduction in profit margins for 24 per cent of them (this was reported more frequently by smaller firms). In 5 per cent of cases, instead, the outcome was a reduction in production activity.

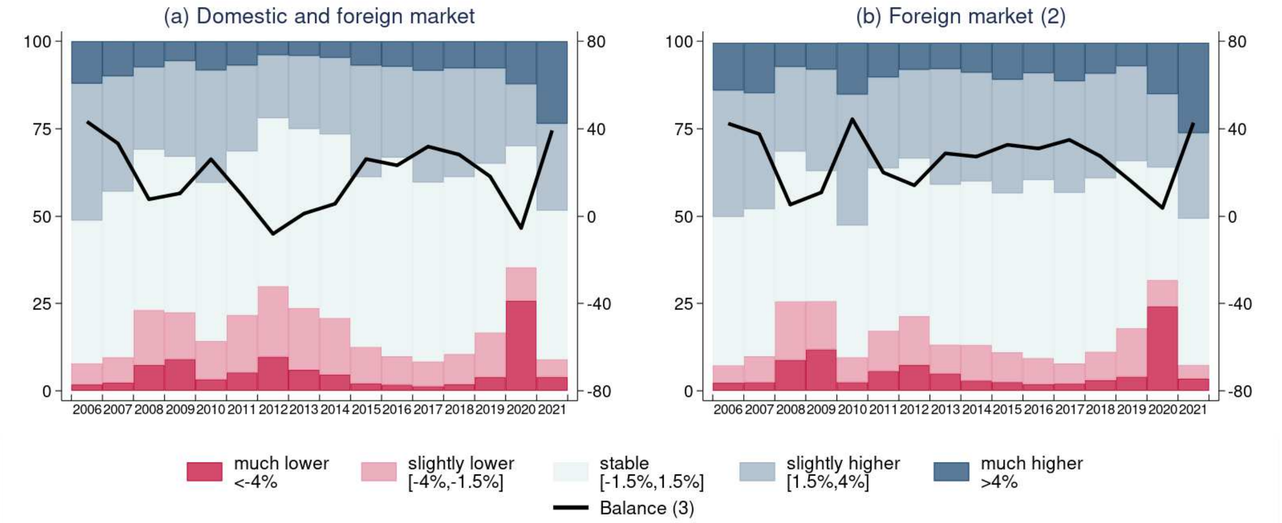
[1] The report was prepared by Marco Bottone, Elena Mattevi, Lucia Modugno and Matteo Mongardini. The survey was conducted by the Bank of Italy's branches from 17 September to 12 October 2021.
The data are used exclusively for the purpose of economic analysis and have been processed in aggregate form. 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/2021-sondaggio-imprese/dati_2021_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

Firms expect sales to expand further, despite procurement constraints extending into 2022

Only slightly more than 10 per cent of firms stated that the problems connected to the procurement of production inputs have now been solved, and just over 20 per cent expect them to be solved by the first quarter of 2022. The expectations of a resolution of these procurement issues in the short run are more widespread among smaller firms and largely the same with respect to the type of problem being faced. Overall, despite the fact that most firms anticipate that these difficulties will continue, sales are expected to grow further over the next six months in both the domestic and foreign markets (Figure 2).

Figure 2

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



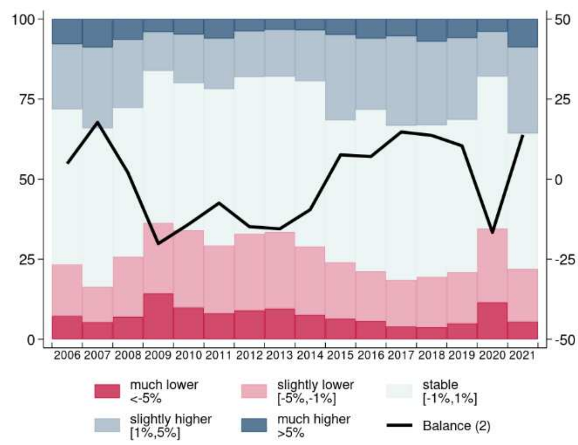
(1) Weighted by the number of workers. – (2) Exporting firms in industry excluding construction. – (3) Balance between assessments of an increase and those of a decrease; right-hand scale.

Assessments of employment improve significantly ...

The recovery in production activity led to a significant improvement in assessments of employment: about two thirds of firms in industry excluding construction and about half of those in services reported a rise in hours worked in the first three quarters of the year compared with the same period of 2020. For 75 per cent of these firms, these dynamics mark a rebound after the drop recorded last years, while they represent a further expansion for 10 per cent of businesses. The growth in hours worked is expected to continue across all sectors in the next six months: while about 50 per cent of firms plan to keep the number of hours worked unchanged, the balance between those expecting an increase and those anticipating a decrease is just over 25 percentage points.

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.

Employment is also expected to rise overall in 2021: two in five firms expect that they will keep their total staff numbers unchanged; among the remaining firms, the share planning an increase exceeds that expecting a decrease (Figure 3). These developments were recorded in all sectors (especially energy and mining and quarrying) except the textile, clothing, leather and footwear industry and the transport, storage and communication segment.

... and so do profitability expectations

The recovery in sales led to an improvement in corporate profitability: the share of firms expecting to post a profit at the end of the year rose to 74 per cent (from 56 per cent in the previous survey), slightly below the levels recorded in the four years before the pandemic. The share of firms anticipating a loss at the end of the year averaged 16 per cent but was still above 20 per cent in the textile, clothing, leather and footwear industry, in the transport, storage and communication segment, and for retail trade, hotels and restaurants.

Investments return to growth...

In 2021, two thirds of firms made investments according to the plans drawn up at the end of last year, which indicated, on average, a recovery in spending compared with the sharp drop observed in 2020.[2] Of the remaining firms, the share of those that invested more than they had planned (21 per cent) exceeded the share of those that invested less than they had planned, which reached historically low levels (13 per cent; Figure 4a). Among the reasons driving investment, more than half of the firms indicated the favourable demand expectations, while a slightly smaller share cited internal organization factors.

In the first half of the year, the demand for loans held stable for around 60 per cent of firms and rose for about 23 per cent, buoyed above all by those with more than 500 employees; it was driven above all by the sharp rise in funding needs for fixed investment, after being supported primarily by the need to finance operating activities over the course of 2020.

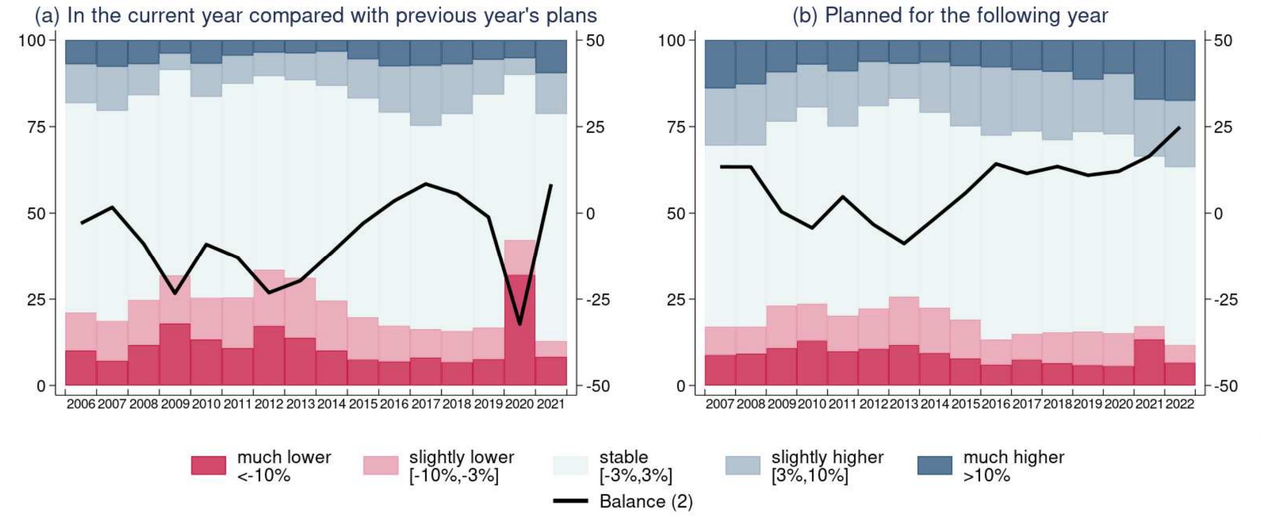
Almost all firms reported that current liquid holdings will be able to cover their operational needs until at least the end of the year; in fact, 78 per cent consider them to be more than sufficient or even abundant compared with these needs: this occurs more frequently for firms that expect to at least regain pre-pandemic turnover levels by the end of the year.

... and will likely increase further in 2022

Around 50 per cent of firms expect that, in 2022, investment spending will be in line with that of this year; more than one in three firms anticipate an increase, with over half of these firms expecting it to exceed 10 per cent (Figure 4b). These prospects would benefit above all from the favourable demand expectations. For the small share of firms that anticipate a reduction, investment would continue to be held back above all by the economic and political uncertainty and, to a lesser extent, the increases in the prices of production inputs.

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.

[2] According to the Survey of Industrial and Service Firms in 2020, conducted in the spring of this year and published in the Statistics Series, 1 July 2021, the overall change in investment planned for 2021 was 8.3 per cent, compared with -8.6 per cent planned for 2020.

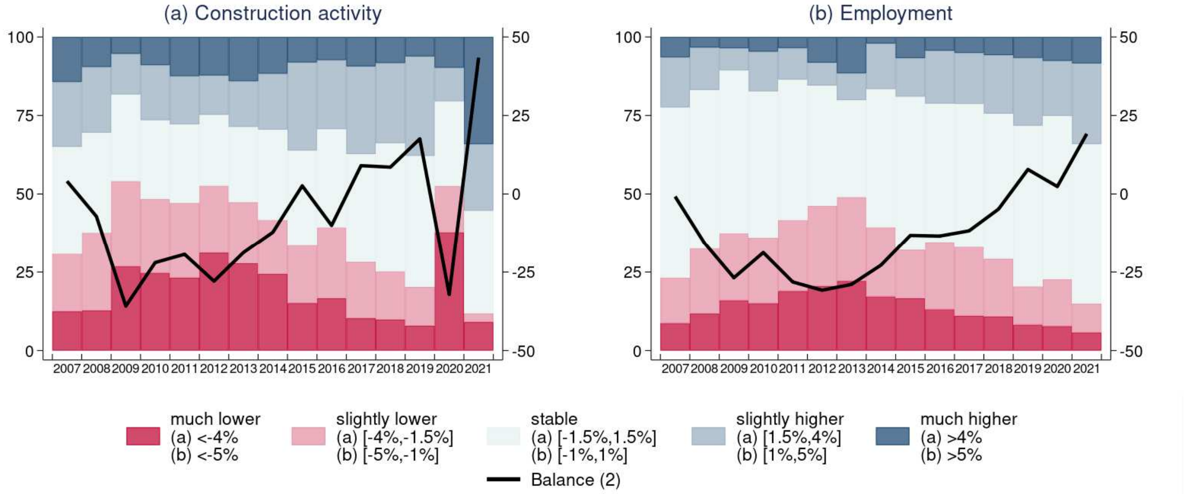
Construction firms

Assessments of production improve markedly, as do those of employment

In the first nine months of 2021, construction firms too recorded a strong rebound in production activity: more than one in two reported an increase on the previous year, while just over 10 per cent indicated a decrease, a small share compared with pre-pandemic levels (Figure 5a). Positive assessments prevailed, albeit to varying degrees, across all geographical areas and firm size categories. The growth in production in the residential segment was buoyed by the 'superbonus' introduced by the 'Relaunch Decree' (Decree Law 34/2020), which benefited about 40 per cent of firms in the segment (for almost half of these, at least one third of production was linked to the 'superbonus'). The increase in total production was also due to the positive developments in the public works segment, where the balance between assessments of an increase and of a decrease reached 24 percentage points (from -25 points). This was associated with an improvement in assessments of employment, which more than one third of firms expect will rise, while 15 per cent believe will decline (Figure 5b).

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.

A further increase in production is expected in 2022

Assessments reporting an improvement are also prevalent with respect to production forecasts for 2022, with only 7 per cent of firms expecting a contraction. The favourable prospects appear to be buoyed both by the expectations regarding public works, for which the balance continues to be at historically high levels (though below the expectations formulated last year; 28 percentage points, from 36 points), and by those relating to residential housing, where an increase of about 20 percentage points is expected by the firms likely to benefit from the 'superbonus', also on account of the new rules provided for by the 'Simplification Decree' (Decree Law 77/2021).

Profitability returned positive across the board: the share of firms expecting to close the year posting a profit rose by 13 percentage points, to 77 per cent, regaining pre-pandemic levels. The demand for bank loans in the first half of the year continued to grow, though less than last year (the balance between assessments of an increase and of a decrease reached 5 percentage points, from 24 points), also thanks to the improvement in borrowing conditions.

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