BANCA D'ITALIA
EUROSISTEMA

Statistics

Business Outlook Survey of Industrial and Service Firms

6 November 2023

Main results

The assessments of sales by firms in industry excluding construction and non-financial services with 20 or more employees with respect to the first nine months of 2023 are positive overall, although they point to a slowdown compared with last year, especially in manufacturing. Over the next six months, growth in turnover is expected to continue at a similar pace to that observed in the first three quarters of the year.

Employment is set to grow: the number of hours worked per employee in the first nine months of 2023 increased and should continue to do so in the next six months, albeit at a slower pace. Staff numbers are also expected to rise in 2023.

Borrowing conditions have worsened considerably, reflecting higher interest rates. Demand for bank loans has slowed slightly, while liquidity remains adequate to meet firms' operational needs.

Firms confirmed for 2023 their investment plans made at the end of last year, which projected a contraction in industry excluding construction and an expansion in services. For 2024, firms expect investment to grow in all sectors.

In line with last year's expectations, activity in the construction sector has strengthened further in 2023, partly owing to building renovation measures and incentives. This has benefited employment and profitability. Firms expect public and private construction to increase further in 2024.

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

	2022		2023	
	Negative	Positive	Negative	Positive
Industry (excluding construction) and non-financial services				
Change in turnover (2)	14.8	62.3	24.8	49.6
Change in expected turnover (3)	15.5	43.4	16.8	39.3
Discrepancy between actual and planned investment	18.4	18.9	14.7	20.4
Change in employment (4)	18.6	36.5	16.4	37.3
Profit or loss for the year (5)	12.9	75.6	9.8	80.5
Construction				
Change in output (4)	16.9	45.0	12.0	49.9
Change in employment (4)	13.7	38.3	12.1	37.3
Profit or loss for the year (5)	8.7	79.7	2.8	87.8

(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) Firms reporting a loss or profit for the year.

Reference period: 2023

Business Outlook Survey of Industrial and Service Firms[1]

Non-construction industry and non-financial private services

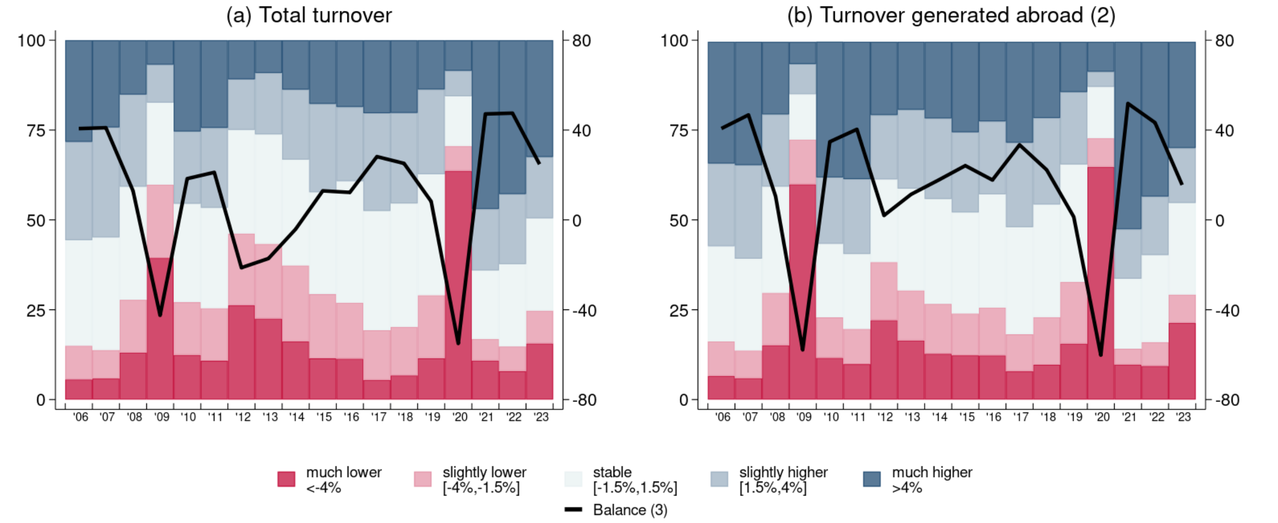
Economic activity continues to expand in the first nine months of 2023, though at a slower pace …

Around 50 per cent of firms reported an increase in turnover in the first nine months of the year; the difference with the share of firms that saw a reduction almost halved compared with the previous survey, although it remains large (25 percentage points, from 48 points; Figure 1a). Increases in sales were recorded by firms in all size classes and across all geographical areas. Growth was strongest in services, especially in trade, hospitality, transport and communication, where the balance between the shares of firms that increased their turnover and those that reduced it reached 50 and 38 percentage points, respectively. Overall, growth in sales was positive but more modest for firms in industry excluding construction; among these, the chemical industry recorded a slightly negative balance (-2 percentage points).

Firms' assessments of the foreign market alone remained favourable overall, but worsened markedly compared with last year (the balance fell to 16 percentage points, from 44 points in 2022; Figure 1b).

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) The bars indicate the share of firms by change in turnover – (2) The chart refers to exporting firms in industry excluding construction – (3) The line indicates the balance between assessments of an increase and those of a decrease; right-hand scale. Data weighted by the number of workers.

… and spending on energy commodities shrinks

The difficulties connected with electricity and gas prices, which held back business activity in 2022, abated in 2023: the share of firms whose energy expenditure as a percentage of total operating costs exceeded 20 per cent fell from 15 to 6 per cent. The impact of the energy price hikes on selling prices also diminished, especially for firms in industry; 20 per cent of these raised their prices as their main strategy to cope with high energy price, down from 25 per cent last year.

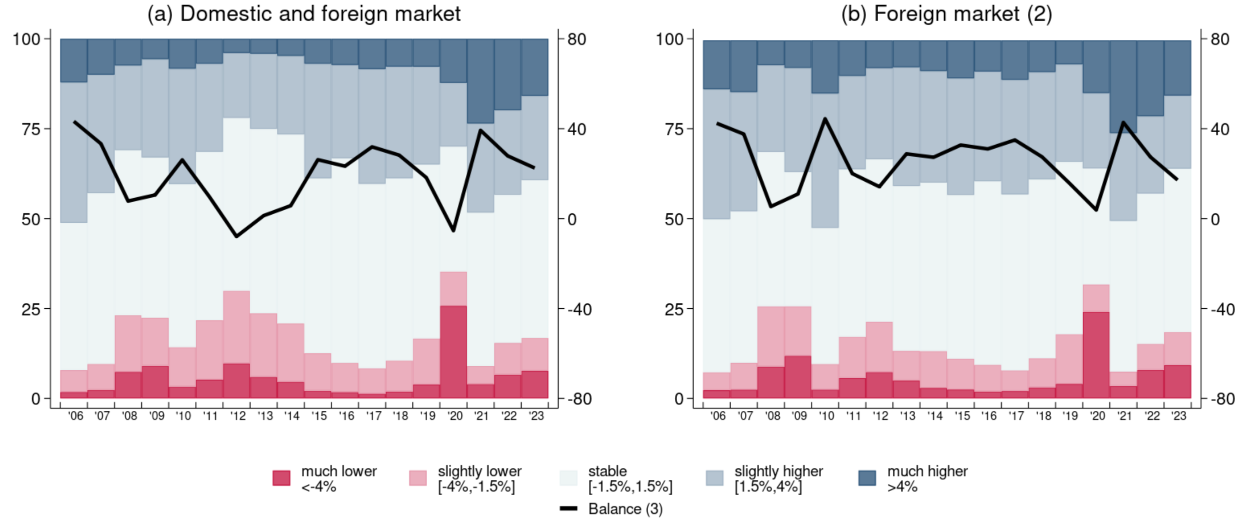
[1] The report was prepared by Marco Bottone, Lucia Modugno, Matteo Mongardini and Tullia Padellini. The survey was conducted by the Bank of Italy's branches from 11 September to 5 October 2023.
The data are used exclusively for the purpose of economic analysis and have been processed in aggregate form. 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/2023-sondaggio-imprese/dati_2023_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

Profitability expectations remain favourable …

Growth in turnover, driven by the significant rise in selling prices and the increase in quantities sold, buoyed firms' profitability. Some 80 per cent of firms plan to end 2023 with profit, while 10 per cent expect a loss (down from 13 per cent in 2022). The sales outlook for the next six months remains optimistic, as 39 per cent of firms anticipate an increase and 17 per cent a decrease (Figure 2).

Figure 2

Turnover forecast six months ahead (1)
(*non-construction industry and services; percentage shares*)



(1) The bars indicate the share of firms by change in turnover – (2) The chart refers to exporting firms in industry excluding construction – (3) The line indicates the balance between assessments of an increase and those of a decrease; right-hand scale. Data weighted by the number of workers.

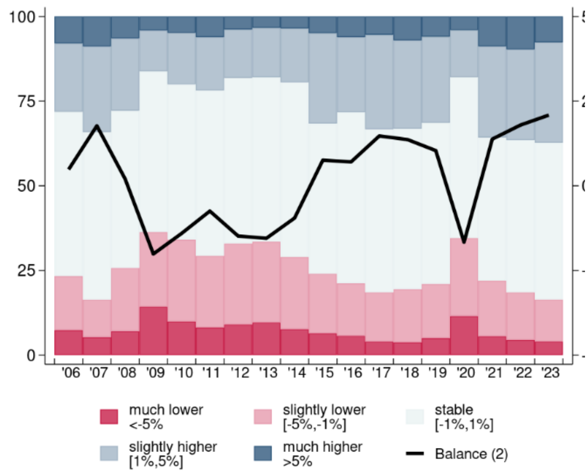
... and employment prospects are improving

The balance between the shares of firms expecting employment to increase overall in 2023 compared with 2022 and those expecting it to decrease reached 21 percentage points (Figure 3), mainly reflecting the favourable expectations of firms in the retail and metalworking sectors (where the balance stands at 30 and 23 percentage points, respectively).

Some 35 per cent of firms recorded a year-on-year increase in the number of hours worked per employee in the first nine months of 2023, while 18 per cent of them recorded a decrease. The difference between these two shares varies greatly across sectors: it is higher in services, especially in retail and hospitality (27 percentage points) and is lower in chemicals (3 per cent). Hours worked look set to remain stable over the next six months for 64 per cent of firms, while 23 per cent of them anticipate an increase. Over the last twelve months, difficulties in finding labour affected about one in four firms, as they did last year, and were more common in services (29 per cent) than in industry (22 per cent); the situation is expected to remain broadly unchanged over the next twelve months.

Figure 3

Change in employment (1)
(*per cent*)



The bars indicate the share of firms by headcount change – (2) The line indicates the balance between assessments of an increase and those of a decrease; right-hand scale. Data weighted by the number of workers.

Demand for loans slows slightly ...

The share of firms reporting an increase in their demand for bank loans in the first half of 2023 compared with the previous half of the year declined (to 16 per cent, from 19 per cent last year), while that of firms reporting a contraction rose (from 14 per cent to 16 per cent), bringing the balance to almost zero (from 6 percentage points to 1 point). However, demand for loans remained stable for 68 per cent of firms. In the second half of the year, the balance is estimated to stand at 5 percentage points, driven by the increase in demand for financing from services firms.

... reflecting the worsening borrowing conditions

Around 37 per cent of firms reported greater difficulties in accessing credit in the first half of 2023 than in the second half of 2022 (from 22 per cent last year), while 7 per cent reported an improvement (from 9 per cent). The share of firms expecting these difficulties to worsen in the current half of the year is 23 percentage points higher than that expecting an improvement (the difference reaches 30 percentage points in the textile sector), although the prevailing view is that the situation will remain stable. Over half of the firms were directly affected by the rise in interest rates; in June 2022, 59 per cent of firms in industry and 53 per cent of those in services had a variable-rate debt. Most of these – almost 40 per cent – did not take any measures in response to the rising rates; 18 per cent adopted or fine-tuned forms of interest rate hedging; and 14 per cent repaid their debt in full or in part, including by drawing on their own liquidity.

Liquidity remains adequate

The share of firms reporting an increase in cash holdings compared with December 2022 went up in all sectors – with the exception of energy, mining and quarrying – averaging 27 per cent. The balance between this share and that of firms reporting a reduction in liquidity is almost nil (from -8 per cent last year), mainly reflecting the improvement recorded among small and medium-sized enterprises, while it remained negative (at -3 per cent) for firms with more than 500 employees. Overall, 95 per cent of firms believe their liquidity levels will be adequate to meet their operational needs by the end of the year; 74 per cent of these consider them to be more than sufficient or abundant.

The investments planned for 2023 are confirmed ...

In 2023, two in three firms confirmed the investment plans they made at the end of 2022, which pointed to a contraction in industry excluding construction and an expansion in services. (Figure 4a). The share of service firms that revised their investment spending upwards exceeds the share of firms that reduced it by 9 percentage points; by contrast, these two shares are the same in manufacturing.

The momentum generated by the National Recovery and Resilience Plan (NRRP) has faded; in the first three quarters, around half of the firms received NRRP-related incentives (notably those to support investment in capital goods under the 'Transizione 4.0' programme, which concerned about one in three firms), compared with 80 per cent that were benefiting from them or planned to do so at the end of 2022.

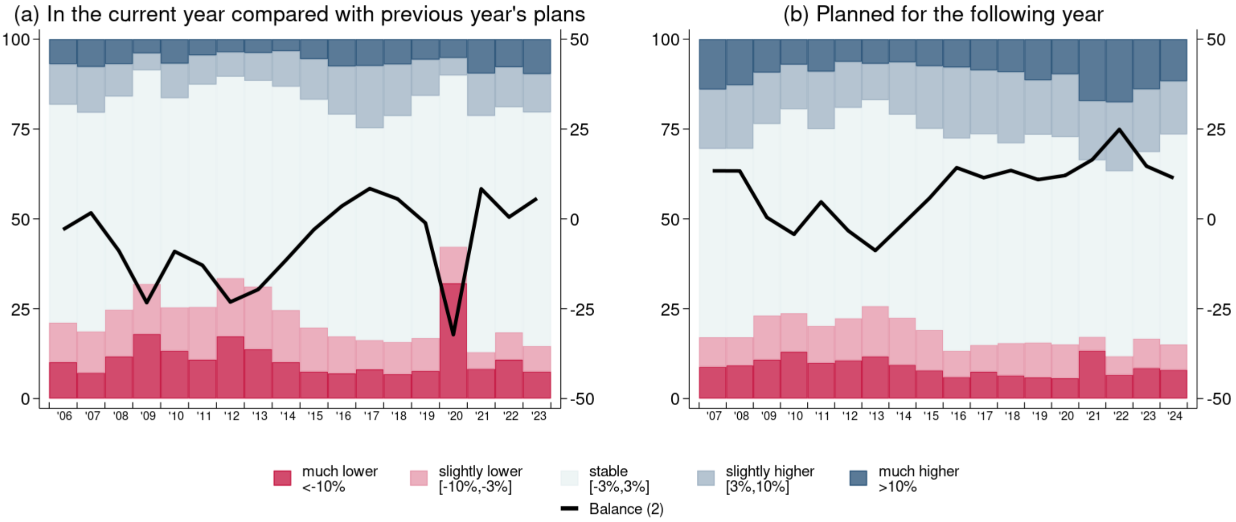
... and are set to grow in 2024

In 2024, investment is expected to start growing again in all sectors: the balance between expectations of an expansion and those of a reduction (the share of which reached 15 per cent) is 11 percentage points overall, 14 points in services and 8 points in industry excluding construction (Figure 4b).

Figure 4

Changes in investment (1)

(*non-construction industry and services; percentage shares*)



(1) The bars indicate the share of firms by change in investment – (2) The line indicates the balance between assessments of an increase and those of a decrease; right-hand scale. Data weighted by the number of workers.

Construction firms

In construction, growth in production strengthened and employment continued to expand

Growth in the construction sector strengthened in 2023: compared with 2022, production increased for half of firms (from 45 per cent in last year's survey) while it shrank for 12 per cent of them (from 17 per cent; Figure 5a). Almost 90 per cent of firms expect to end the year in profit, while 3 per cent anticipate a loss.

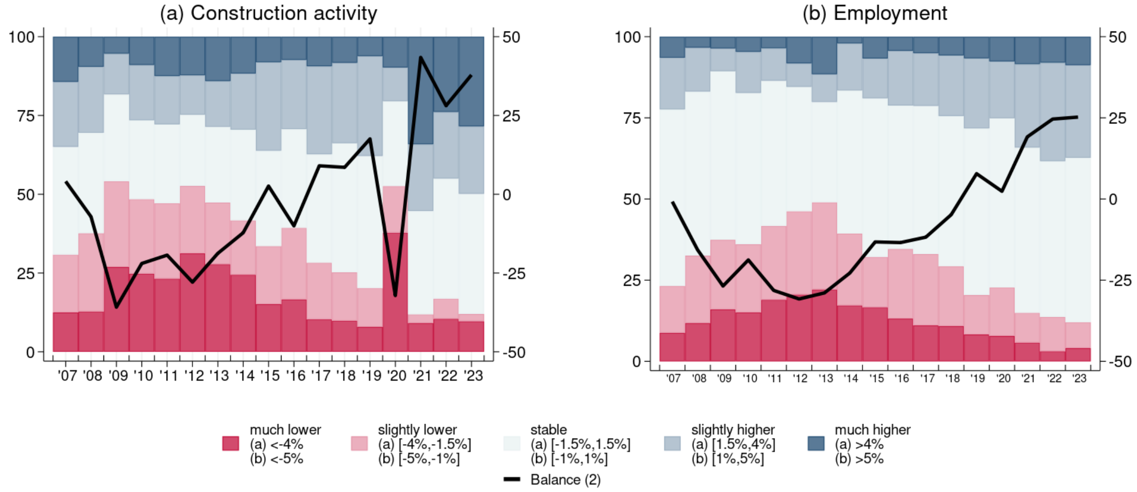
In the first nine months of 2023, activity in construction continued to be bolstered by public sector measures, though less than in 2022: 54 per cent of firms in residential construction benefited from the energy efficiency tax incentive 'Superbonus' introduced by Decree Law 34/2020 (the 'Relaunch Decree'), down 15 percentage points from last year. According to firms, the implementation of these incentives was mainly hampered by difficulties in selling tax credits and regulatory uncertainty. Some 38 per cent of firms reported an increase in contracts for public construction works thanks to the NRRP;

Employment has continued to grow in 2023: the balance between the share of firms that increased their headcount employment and that of firms that reduced it is 25 percentage points (Figure 5b), although 44 per cent of firms experienced problems in recruiting labour over the past twelve months.

Demand for bank loans increased for 25 per cent of firms in the first half of 2023, although construction firms' assessments relating to credit access worsened owing to the rise in interest rates. The balance between assessments of an improvement and those of a deterioration of the overall borrowing conditions fell to -20 percentage points (from -15 in 2022). Over half of the construction firms had outstanding variable-rate debt in June 2022 and were therefore directly affected by the increase in interest rates; of these, 38 per cent did not adopt any strategy to cope with increased spending.

Figure 5

Change in construction activity and employment (1)
(*construction, percentage shares*)



(1) The bars indicate the share of firms by change in output (a) and in headcount employment (b) – (2) The line indicates the balance between assessments of an increase and those of a decrease; right-hand scale. Data weighted by the number of workers.

Production is expected to expand further in 2024

Production is expected to grow further in 2024, with 47 per cent of firms anticipating an increase, against 8 per cent expecting a decrease.

Both public and private sector construction, which will continue to benefit from the 'Superbonus' tax incentive, are expected to grow.

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