BANCA D'ITALIA
EUROSISTEMA

Statistics

Business Outlook Survey of Industrial and Service Firms

5 November 2024

Main results

The assessments of sales by firms with 20 or more employees point to further growth in non-financial services and to a contraction in industry excluding construction over the first nine months of 2024. Manufacturing was mainly affected by the performance of exports, which reflected a weak manufacturing cycle in the euro area, particularly in Germany.

Firms expect both domestic and foreign sales to grow over the next six months; sales in Germany are predicted to fall further in the textile, clothing and footwear sector and in metalworking, though at a slower pace.

Hours worked continued to rise in services and slowed down in manufacturing; in both sectors, firms expect it to climb higher over the next six months. The employment outlook for 2024 as a whole remains favourable.

Demand for bank loans remained weak in the first half of 2024. Borrowing conditions, which had worsened significantly over the last two years, are seen as improving, but assessments of stability still prevail.

The investment plans laid out at the end of last year, which envisaged higher capital expenditure, were carried out as scheduled by most firms. For 2025, firms anticipate a further expansion across all sectors except for textiles, clothing and footwear. The adoption of generative artificial intelligence in business processes is expected to rise over the next 12 months.

Construction output is forecast to continue to grow in 2024, albeit less than last year, driven by public works. A further expansion is expected in 2025.

Main trends as reported by firms (1)
(percentage shares)

	2023		2024	
	Negative	Positive	Negative	Positive
Industry (excluding construction) and non-financial services				
Change in turnover (2)	24.8	49.6	26.2	42.2
Change in expected turnover (3)	16.8	39.3	15.9	33.6
Discrepancy between actual and planned investment	14.7	20.4	15.2	15.6
Change in employment (4)	16.4	37.3	15.2	37.3
Profit or loss for the year (5)	9.8	80.5	9.9	80.6
Construction				
Change in output (4)	12.0	49.9	19.4	42.0
Change in employment (4)	12.1	37.3	14.0	35.8
Profit or loss for the year (5)	2.8	87.8	5.1	87.6

(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: 2024

Business Outlook Survey of Industrial and Service Firms[1]

Non-construction industry and non-financial private services

Production slows, with an expansion in services and a contraction in manufacturing ...

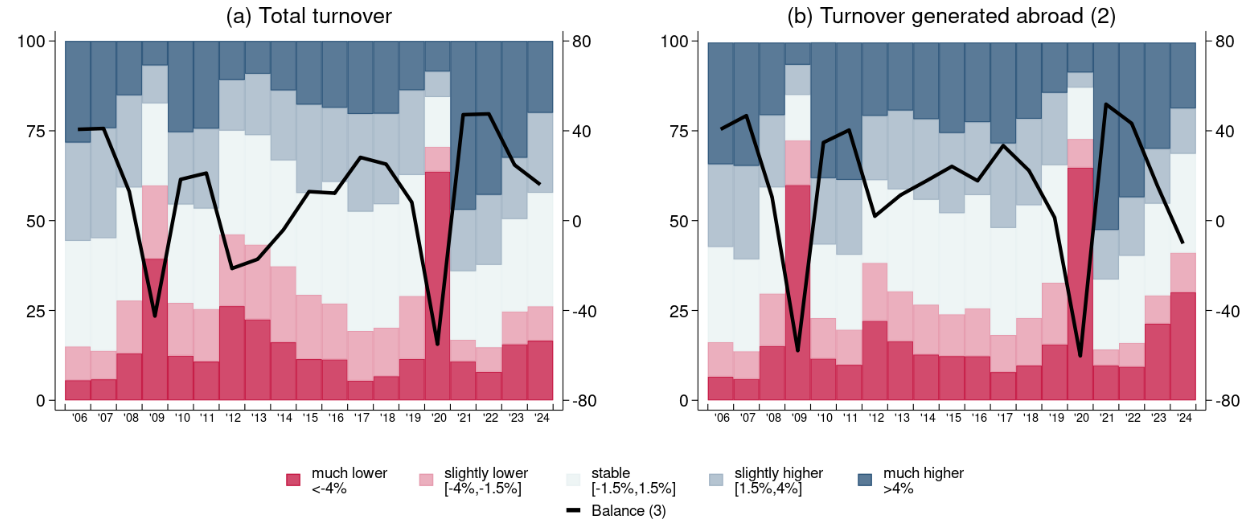
The balance between the share of firms that reported an increase in turnover and those that saw a reduction in the first nine months of 2024 was 16 percentage points (from 25 points; Figure 1a), with uneven trends across sectors. Nearly half of service firms gave positive assessments, while 17 per cent reported lower sales. By contrast, reports of a worsening prevailed in manufacturing (43 per cent, versus 31 per cent of an improvement). The trend was particularly bad in the textile, clothing, leather and footwear sector and in metalworking, with declines reported by 61 and 45 per cent of firms respectively.

… mainly due to a decline in the foreign component

The fall in sales in the non-construction industry mainly reflected lower foreign demand as a result of a weak manufacturing cycle in the euro area, particularly in Germany. The balance between positive and negative assessments of foreign sales in the first nine months of 2024 dropped to -10 percentage points, from 16 points in the previous survey (Figure 1b); it was particularly negative in the textile, clothing, leather and footwear sector and in metalworking (-32 and -17 points respectively). Over 40 per cent of manufacturers exporting to Germany (two thirds of exporters), reported lower sales volumes in the German market in the first nine months of 2024; only 15 per cent recorded higher volumes. For 87 per cent of these firms, however, the share of direct exports to Germany was less than one third of total exports over the last three years.

Figure 1

Year-on-year changes in turnover in the first nine months of the year (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.

In terms of corporate profitability, the share of service firms expecting to post a profit for the current financial

[1] This report was prepared by Marco Bottone, Elena Mattevi, Lucia Modugno, Matteo Mongardini and Tullia Padellini. The survey was conducted by the Bank of Italy's branches from 10 September to 4 October 2024.
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 took 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 web pages:
https://www.bancaditalia.it/pubblicazioni/sondaggio-imprese/2024-sondaggio-imprese/dati_2024_eng.zip?language_id=1
http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2017/metodologia_sondaggio_impr_industr_serv.pdf

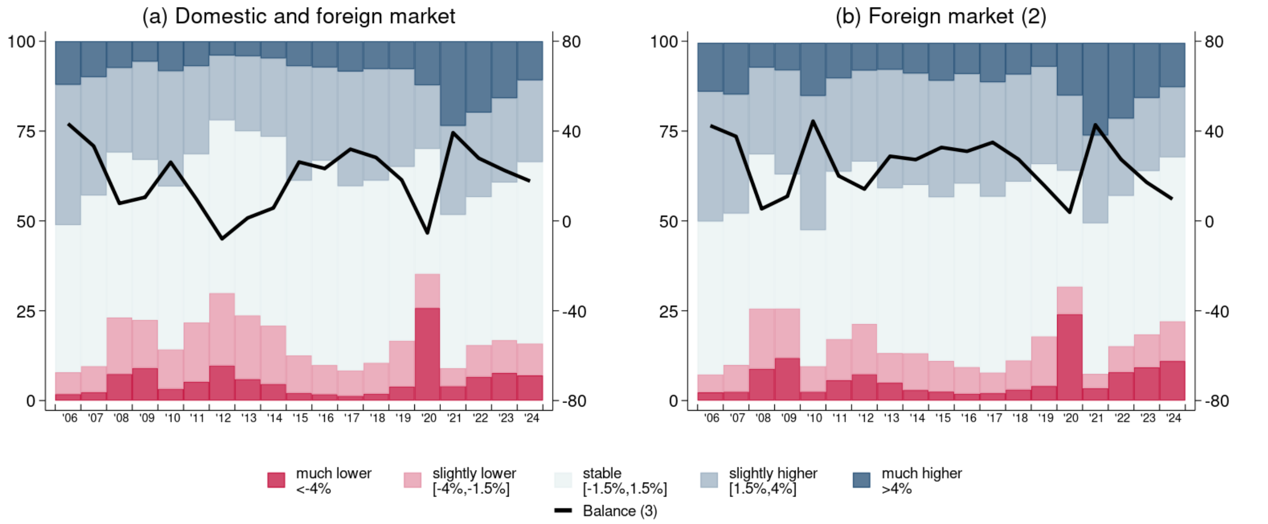
year rose to 83 per cent, which is a high level compared with previous surveys, while 8 per cent forecast a loss. In manufacturing, 77 per cent of firms anticipated recording a profit and 13 per cent a loss, in line with the average for the previous three years.

Sales are expected to increase overall …

Both domestic and foreign sales are expected to grow overall during the next six months (Figure 2). According to respondents, growth will be broad-based across sectors except for textiles, clothing and footwear, which should still be affected by a fall in exports. Sales in Germany are predicted to fall further in the fashion industry and in metalworking, though at a slower pace.

Figure 2

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



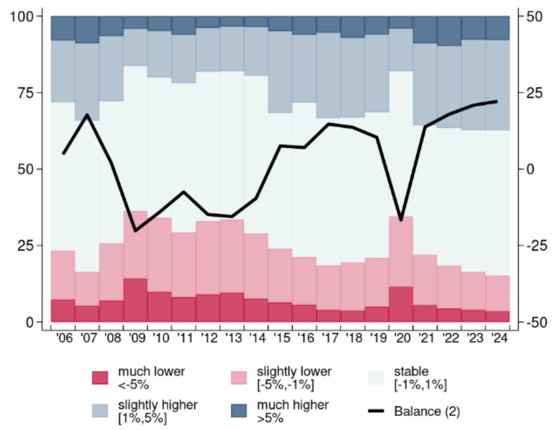
(1) The bars indicate the share of firms by change in turnover – (2) The chart refers to exporting firms in industry excluding construction – (3) The line indicates the balance between assessments of an increase and those of a decrease; right-hand scale. Data weighted by the number of workers.

... and the employment outlook is improving

The gap between reports of a higher and of a lower number of hours worked in the first nine months of 2024 remained virtually unchanged year on year, at 16 percentage points. This trend reflected a sharp slowdown in manufacturing (from 14 to 2 percentage points), especially in the fashion industry, and a marked increase in services (from 19 to 24 percentage points). Firms expect an increase in the number of hours worked over the next six months across all sectors, except for textiles, where negative assessments still outweigh positive ones, and in metalworking, where the two shares are equal.

The number of persons employed is also expected to rise in 2024 as a whole, more noticeably in services than in manufacturing.

Change in employment (1)
(*percentage shares*)



(1) The bars indicate the share of firms by change in headcount – (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 is still weak

Demand for bank loans was still weak in the first half of 2024, buoyed by capital expenditure and held back by the higher use of internal funding. The balance between reports of an increase and of a reduction compared with the previous six months was 2 percentage points (nil in the first half of 2023); it is expected to rise to 4 percentage points in the current half year. Overall borrowing conditions, which had worsened dramatically over the previous two years, were assessed to be broadly stable in the first half of 2024 by three quarters of firms, while 15 per cent of firms reported an improvement. Interest rate developments in the first half of 2024 were the key driver of the overall trend, with 84 per cent of firms reporting unchanged or better conditions (versus 30 per cent in the same period of 2023 and 49 per cent in 2022). Firms' assessments of an improvement in credit access conditions during the current half year outnumber those of a worsening by 19 percentage points.

Liquidity remains sufficient

For about half of firms, the level of cash holdings remained broadly unchanged compared with the end of 2023. The share of firms reporting a reduction is higher than that of firms reporting an increase by 6 percentage points across all sectors of industry excluding construction, with the exception of chemicals, while it is 4 percentage points lower in services. According to almost all firms, current cash holdings will nonetheless be sufficient to cover operational needs in the current year.

Firms mostly deliver on their investment plans for 2024 …

The investment plans laid out at the end of 2023, which envisaged higher capital expenditure, were confirmed by over two thirds of firms (Figure 4). The balance between upward and downward revisions to investment plans was positive in services (6 percentage points), while it was negative in manufacturing (-8 percentage points), mainly owing to an unexpected fall in demand.

In the first nine months of the year, one in six firms benefited from the incentives to increase energy efficiency and self-generation from renewable sources under the National Recovery and Resilience Plan (NRRP).

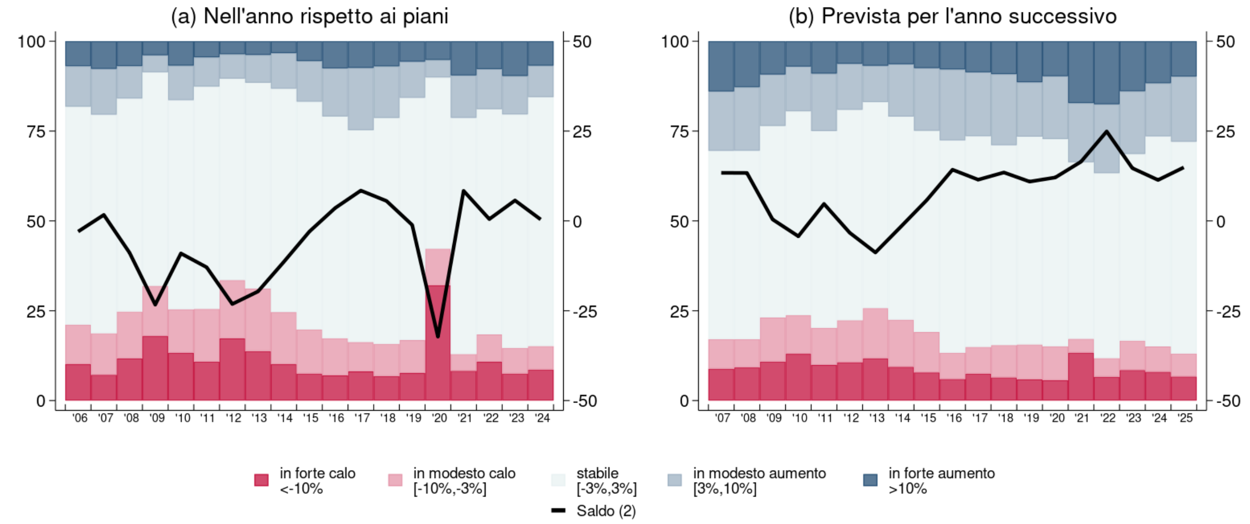
... and expect to expand them in 2025

In 2025, investment growth is expected to continue across all sectors except for textiles: the balance between expansion and reduction forecasts is 15 percentage points (18 points in services and 8 points in manufacturing; Figure 4b).

The adoption of generative artificial intelligence (GenAI) in production processes is predicted to rise over the next 12 months (see the box 'The use of generative artificial intelligence').

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.

THE USE OF GENERATIVE ARTIFICIAL INTELLIGENCE

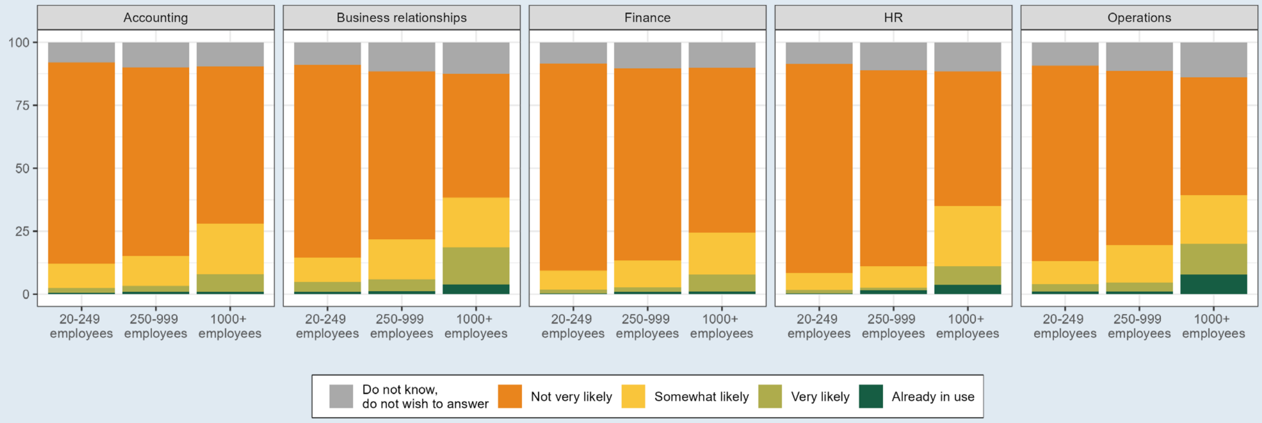
Generative artificial intelligence (GenAI) makes it possible to generate personalized responses to a user's queries, e.g. in the form of text, images or audio. Its ability to produce *original* content in accordance with the user's instructions makes GenAI a tool with diverse and important applications across sectors and business functions. Although it relies on technologies that have been known for decades, a number of products marketed over the last two years have rapidly spread its knowledge and made it possible for individuals and businesses to use it. A specific section of the survey focused on the use of these tools in business.

Our findings show that the uptake of GenAI in the non-financial private sector is still limited but on the rise. Only 6 per cent of firms currently use GenAI in the production of goods and services, HR management, finance, accounting or commercial relations. However, 32 per cent of respondents indicated that they were likely to start using it in the next 12 months in one of the above-mentioned corporate functions; 8 per cent were uncertain whether to adopt this technology in their business.

GenAI is more widespread among larger firms, with 15 per cent of those with 1,000 or more workers already using it. This technology is mostly employed in the production of goods and services, but firms expect to make wider use of it over the next 12 months, including in commercial relations with customers and suppliers (see the figure).

Figure

Use of GenAI in corporate functions and probability of adoption in the next 12 months (1)
(percentage shares)



(1) The figure shows, for each size group and corporate function, the share of firms expecting to use GenAI over the next 12 months. Answers to the question: *How likely is your firm to integrate generative artificial intelligence tools into the following work processes over the next 12 months? Answers: 1 = unlikely; 2 = not very likely; 3 = somewhat likely; 4 = very likely; 5 = we already use GenAI in this process; 9 = do not know, do not wish to answer.*

Almost one quarter of firms do not yet have an opinion on the implications that GenAI might have on their organizational workflow over the next two years; more than half believe that these tools are unlikely to lead to a change in their headcount or to a reduction in overall job tasks. By contrast, about one third of firms expect this technology to create new job opportunities or a shift in business tasks, with the same workforce; this share rises to around 75 per cent for firms already using GenAI. On average, only one in seven firms considers it very or somewhat likely that GenAI may pose a risk to business data confidentiality.

Construction firms

Construction output continues to grow, driven by public works

In 2024, 42 per cent of construction firms saw an increase in output (versus 50 per cent in 2023), while 19 per cent recorded a reduction (versus 12 per cent in 2023). The overall performance of the construction sector is driven by larger firms that carry out public works. For 45 per cent of firms, the NRRP led to an increase in public work contracts in the first nine months of the year. Residential construction, on the other hand, contracted: the balance of assessments of an increase and those of a reduction fell to -9 percentage points (from 25 points in 2023).

Almost 90 per cent of firms expect to close the financial year with a profit, a share that is in line with 2023 and higher than in previous surveys.

The workforce continues to grow as well

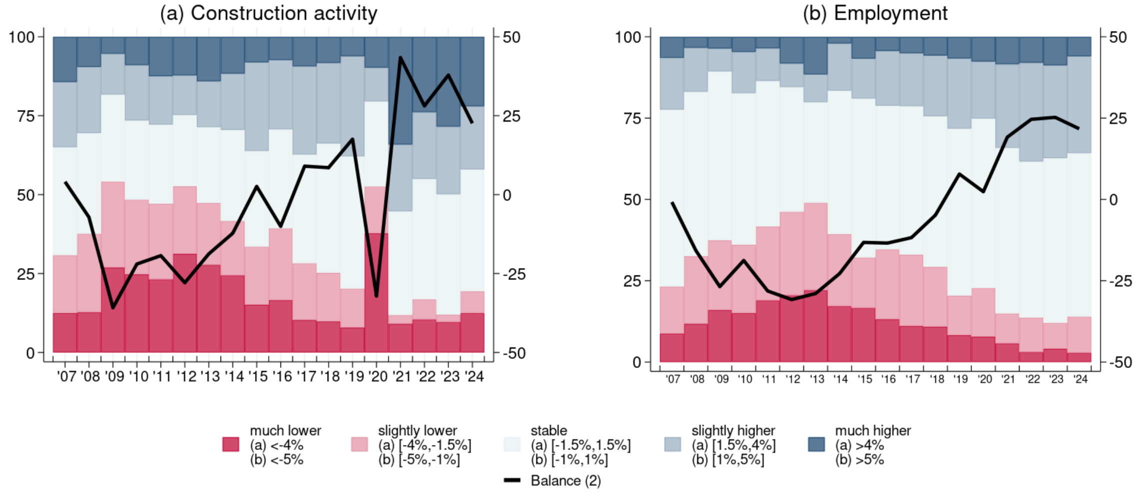
The balance between the share of firms that reported an increase in headcount in 2024 and those that saw a reduction is 22 percentage points (Figure 5b), driven by larger firms.

Bank loan applications remained broadly stable in the first half of 2024 compared with the previous half-year period, reflecting an increase among firms with 200 or more workers and a contraction among those below that threshold. Borrowing conditions improved, with the difference between positive and negative assessments rising to 8 percentage points (from -20 points in 2023).

The balance between the share of firms expecting an increase in output in 2025 and those anticipating a reduction is 28 percentage points overall (-2 points in residential construction and 34 points in the public sector).

Figure 5

Change in output and headcount (1)
(*construction, percentage shares*)



(1) The bars indicate the share of firms by change in output (a) and in headcount (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.

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