News Release

Embargoed until 0001 UTC 14 November 2022

S&P Global Italy Business Outlook

Profit forecasts most downbeat on record as output expectations sink further

Key findings

Net balance towards business activity sinks to record low of +9%

Most negative expectations towards profits seen in survey history

Forecasts of higher output prices hit fresh survey peak

Confidence amongst Italian firms towards business activity over the next year sunk further in October, with the respective net balance the lowest recorded since the survey began 14 years ago. Subsequently, profit forecasts turned more negative, with expectations the most downbeat on record, despite a growing proportion of firms anticipating higher output prices over the next year.

The S&P Global Italy Business Outlook survey pointed to a further moderation in confidence towards output over the next year amongst firms, with the respective net balance sinking from +18% in June to a record low of +9% in October, well below the global average of +17%. The latest reading for Italy was nonetheless above the EU average (+4%).

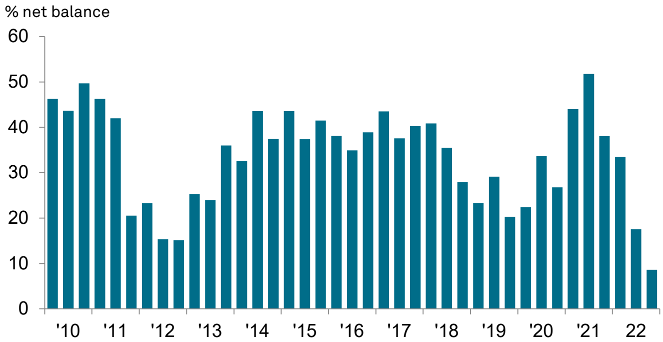
Goods producers registered weaker optimism towards output over the next year than services firms, though both saw confidence moderate sharply since June.

Profitability forecasts most downbeat on record

With confidence towards the outlook for output sharply muted, firms registered sustained expectations of falling profitability over the next 12 months. In fact, the respective net balance moved further into negative territory, hitting a record low of -11%. At the sector level, expectations towards profits were noticeably more downbeat at manufacturers (-18%) than services firms (-8%).

At the global level, profitability forecasts moderated since June, but nonetheless remained just inside positive territory (+1%).

Italy Business Activity expectations



Source: S&P Global.
Data were collected 12-26 October 2022.

Comment

Commenting on the Italy Business Outlook survey data, Lewis Cooper, Economist at S&P Global Market Intelligence, said:

"Confidence towards business activity over the next 12 months at Italian firms sunk further in October, with the respective net balance reaching a record low of +9%, and both manufacturers and services firms downgrading their expectations.

"Inflationary pressures are expected to remain elevated over the next 12 months, with the net balance of firms expecting non-staff costs to increase hitting a survey record, while the reading for staff costs remained elevated, despite falling. Consequently, firms predict they will continue to raise their charges over the next year.

"Nonetheless, forecasts for profits dropped further into negative territory, with firms anticipating weaker demand and activity, combined with ongoing inflationary pressures, will continue to squeeze margins, despite forecasts of job shedding. At -11%, the respective net balance for profits was the lowest on record, led by a sharp drop in profit expectations at goods producers."

Job cuts expected for first time in two years

Subsequently, Italian companies downgraded their hiring intentions into negative territory in October, signalling an expectation of job cutting over the coming year for the first time since October 2020. The negative net balance compared with contrasting expectations of muted, but sustained, job creation across the eurozone (+2%), and globally (+9%).

In addition, companies also recorded a moderation in investment intentions during October. Though on balance, spending on both R&D (+6%) and Capex (+19%) are expected to increase over the coming year, the respective net balances were the lowest since October 2020 and February 2021, respectively.

That said, forecasts for investment across Italy remained favourable relative to the EU average (0% for Capex, -3% for R&D). In fact, Italy recorded the second-highest net balance for capex across the 12 nations monitored globally (behind only Russia, +20%).

Inflationary pressures remain sharply elevated

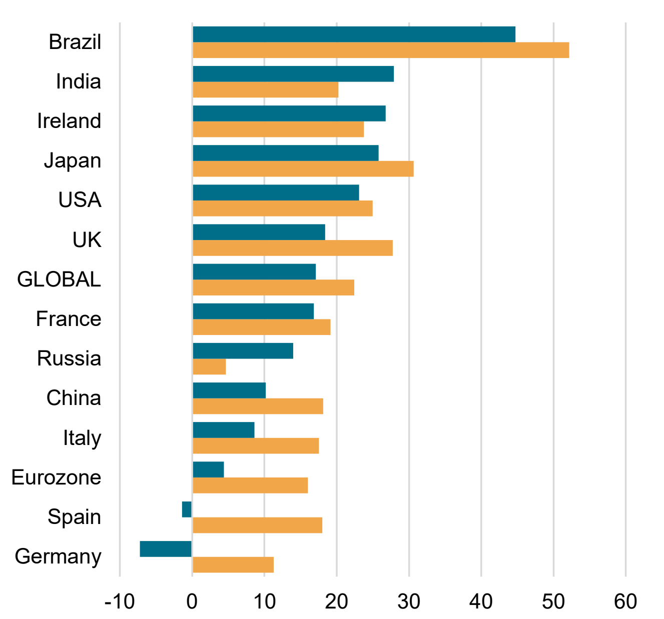
Turning to prices, expectations with respect to inflationary pressures remained sharply elevated in October. The respective net balance for non-staff costs rose to a survey record high of +51%, well above the global average of +34%. Notably, services firms recorded expectations of stronger non-staff costs than manufacturers for the first time since mid-2019.

Meanwhile, the reading for staff costs fell slightly since June to +31% - below the global average of +40%. Service providers (+29%) expect a lower increase in staff costs than manufacturers (+36%).

Subsequently, forecasts of higher output charges were sustained, with a survey record net balance (+30%) expecting to raise their charges over the coming year. However, the latest reading was the second-lowest in Europe (behind Spain, +23%).

Global Business Activity expectations

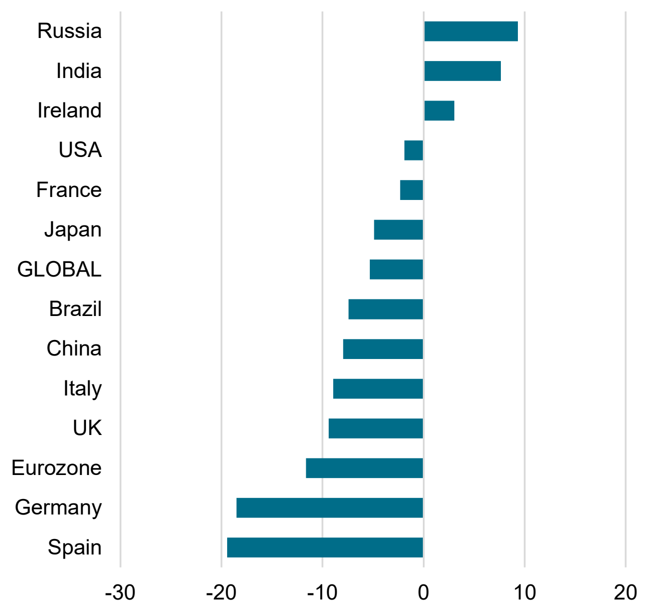
% net balance



Source: S&P Global.

Global Business Activity expectations

Change in % net balance, Oct '22 vs. Jun '22



Source: S&P Global.
Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

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