

News Release

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S&P Global Italy Business Outlook

Bounce in business confidence during February

Key findings

Activity expectations improve noticeably

Non-staff cost inflation to fall, but staffing costs to rise at sharper rate

Employment and capital spending set to increase

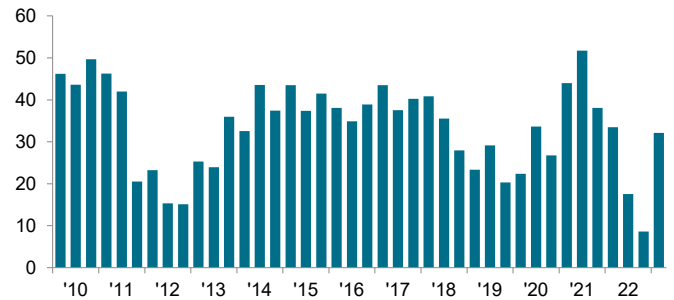
There was a noticeable improvement in business confidence amongst Italian private sector companies during February as firms looked to the future with greater optimism than in October last year. Firms are widely expecting a continuation of the recent economic recovery, looked towards an end to the war in Ukraine and, from their own perspective, hope to release new products. This improvement in sentiment fed through to better forecasts for employment and investment. However, worries that inflation will be elevated, especially with staff costs anticipated to rise markedly, weighed on confidence. Profitability will likely remain under some pressure, albeit to a much lesser degree than in 2022.

The headline S&P Global Italy Business Outlook net balance for activity posted +32% during February. That was a noticeable improvement since October 2022's survey low of +9%, a one-year high and well above the average for the Eurozone as a whole (+23%). The uptick reflected concurrent gains across both the manufacturing and services economies: the respective net balance for manufacturing rose to +34% (from +6%), whilst that for services rose to +31% (up from +9%).

Opportunities for growth were widely linked to hopes of better economic stability following a challenging 2022. Firms are expecting to see the recent downward trends in cost inflation, especially from energy, to persist and provide a greater degree of market sentiment and, with that, demand. Some firms are hoping to see a pick-up in tourism, with the recovery from the pandemic forecast to continue. An end to the

Italy Business Activity expectations

% net balance



Source: S&P Global.

Data were collected 10-23 February 2023.

Comment

Commenting on the Italy Business Outlook survey data, Paul Smith, Economics Director at S&P Global Market Intelligence, said:

"February's S&P Global Italy Business Outlook showed a noticeable bounce in confidence, with many of the survey's indicators improving to their highest level since at least late 2021. A milder winter, a greater than expected resilience in spending to high energy prices and a stabilisation of supply chains have all helped to bolster forecasts for growth in 2023. With worst case scenarios from a severe economic winter storm not coming to pass, this positivity has spilled over into labour markets, with firms now anticipating a rise in employment, a noticeable turnaround since late last year. Moreover, key long-term business growth drivers related to R&D and capex have also strengthened to levels above historic norms.

"Nonetheless, great uncertainty in the outlook and the path to growth persists. There is still much concern over inflation, despite it being on a slowing trajectory, whilst developments in global geo-politics in 2023 and the direction of the war in Ukraine remain difficult to predict. Subsequently, confidence levels for activity, and especially for profitability, remain below trend."

war in Ukraine would also help boost confidence and sales, according to panellists.

That said, considerable uncertainty persists over the paths of inflation, the economy in general and the war in Ukraine. Many companies continued to cite these factors having the potential to derail any recovery and push the economy into recession.

Divergent trends in costs apparent

Non-staff cost inflation is widely forecast to decline over the coming months, in line with expectations for lower energy prices, better availability of products and the stabilisation of supply chains. Overall, a net balance of +33% of firms anticipates an increase in non-staff costs in 12 months' time. That's well down on the survey high of +51% seen last October and a two-year low.

In noticeable contrast, staffing costs are forecast to rise sharply. The respective net balance of +42% is a new series high (which at the composite level began February 2019). Both service providers (+40%, record high) and manufacturers (+47%) are expecting noticeable pick ups in staffing costs.

Many companies are hoping to pass on their higher costs to clients over the coming 12 months. Whilst the respective net balance for output prices has fallen to +24%, from +30% in the preceding survey, it remains historically high.

Firms anticipate higher employment

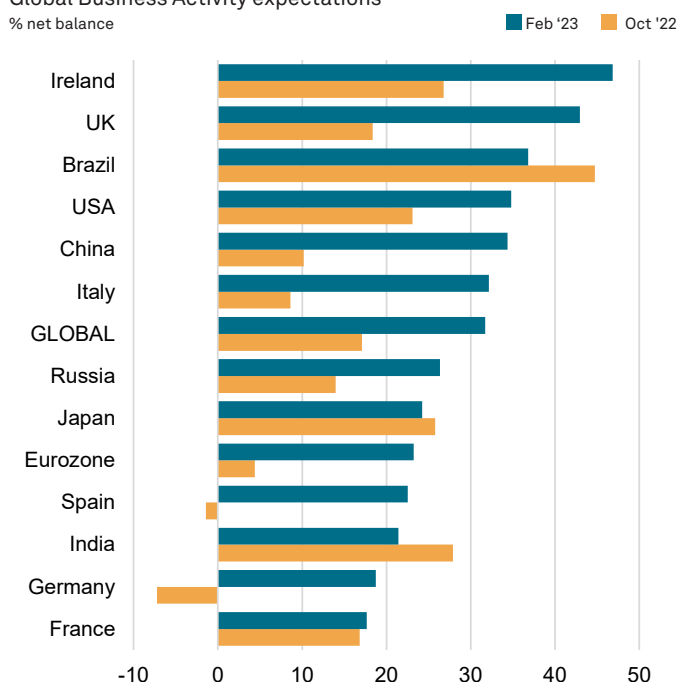
An expected upturn in activity and sales has led firms to anticipate a rise in employment over the coming 12 months. Overall, the net balance rose to +16%, a noticeable turnaround from -2% last October and the best since mid-2021. Similar improvements were seen across the manufacturing (+20%) and service sectors (+15%).

Plans for capital expenditure and R&D investment have also picked up. For capex, the net balance has edged up to +21%, up from +19% in October 2022 and driven by a strong improvement in manufacturing. The respective net balance for R&D strengthened to +17%, from +6% last October and the highest level since late 2021.

Profitability set to improve

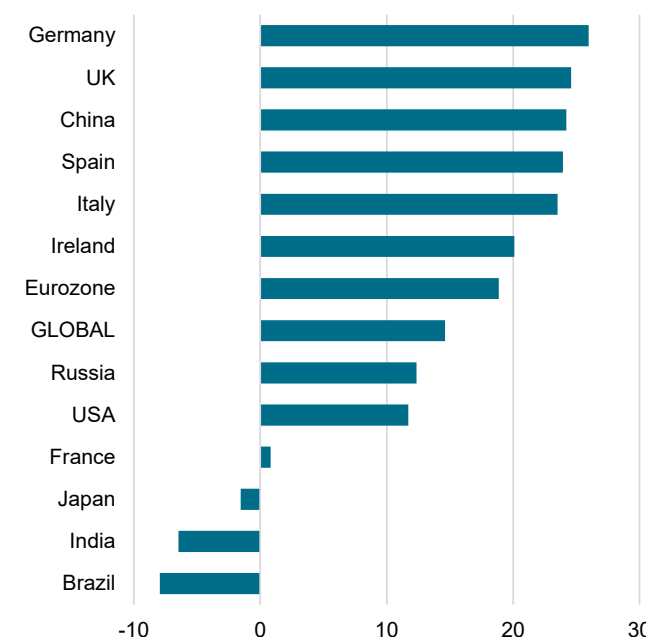
Against the backdrop of positive expectations for growth in activity and slower cost inflation, Italian manufacturers are more confident of an improvement in profitability over the coming 12 months. Overall, the net balance for profitability rose to +12%, up sharply from -11% since October 2022 and the highest level since late 2021.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Feb '23 vs. Oct '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*. 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.

** The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.*

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