

News Release

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S&P Global Italy Business Outlook

Business confidence remains comfortably in positive territory during June

Key findings

Expectations soften compared to February, but positive sentiment prevails

Hopes of lower cost inflation supports optimism...

...but rising interest rates a concern

Italian private sector companies signalled ongoing optimism about future activity heading into mid-2023. Hopes of slower inflation, an expected improvement in the broader macroeconomic environment and expectations of new product releases were signalled. However, sentiment was somewhat tempered by concerns over elevated interest rates and the ongoing conflict in Ukraine. Employment and investment are both forecast to increase in the next 12 months, whilst costs are expected to rise at a slower rate. Profitability growth is set to be maintained, but at a below-trend pace.

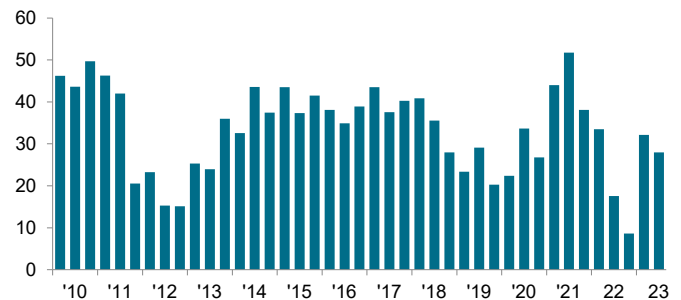
The S&P Global Italy Business Outlook net balance was slightly lower in June, recording +28% down from +32% in February. Despite falling, the headline figure remained well above the average for the Eurozone (+19%) and matched June's global figure. Both manufacturing (+31%) and services (+27%) recorded lower net balances when compared to February.

Where opportunities for growth were reported, this was linked by panellists to hopes of lower raw material costs and a normalisation of energy prices. Firms are also keen to expand their promotional and marketing activities, release new products and services, whilst also increasing their presence in international markets.

However, the outlook remains clouded by uncertainties over inflation and the direction of the Ukraine-Russia war in the coming months. How these two factors develop are likely to have a major bearing on how business activity growth develops over the coming year. Also widely reported as a concern amongst firms in June was the restrictive impact on economic growth

Italy Business Activity expectations

% net balance



Source: S&P Global PMI
Data were collected 12-27 June 2023.

Comment

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

"June's S&P Global Italy Business Outlook data showed only a slight drop in confidence compared to February, with firms overall remaining optimistic about the future. Inflation expectations are on balance falling, whilst firms have plans to release new products and services in an improved macroeconomic environment. Companies are also confident enough in the outlook to forecast the addition of new staff at their units and are amongst the most optimistic in the world when it comes to capex and R&D plans.

"However, the outlook remains somewhat clouded by hard to forecast inflation and the unknown trajectory of the Russia-Ukraine conflict. Moreover, the higher interest rate environment is leading to worries amongst firms, with many noting tighter financial conditions as a noticeable downside risk to growth in the coming 12 months."

of rising interest rates.

Slower inflation forecast

Non-staff input costs are widely forecast to increase again over the coming months, although anticipated inflation has sunk to its lowest level since February 2021. Overall, the respective net balance dropped to +25%, a considerable reversal from last October's survey high of +51%.

Staffing costs are still forecast to rise at an elevated pace, although similarly the respective net balance has fallen, slipping to +34%, compared to February's series record of +42%. Manufacturers (+45%) continued to signal higher expectations than services companies (+30%).

Output prices are also forecast to increase over the next 12 months. A drop in the respective net balance to +14% in June, from +24% in the previous survey period however, pointed to weaker expectations compared to earlier in the year. This was especially the case for manufacturers, where the net balance fell to +8%, down from +15% and its lowest level since October 2009. For services, the respective reading was +17%, down from +27% in February. There was some indication amongst firms of the need to remain price conscious against the backdrop of market competition.

Employment set to increase

With firms anticipating a rise in activity over the next year, they are also forecasting an increase in staffing levels. Overall, a net balance of +11% of firms expects to experience a rise in employment, down from +16% in February. The latest reading was above trend, though a little below the Eurozone average (+12%).

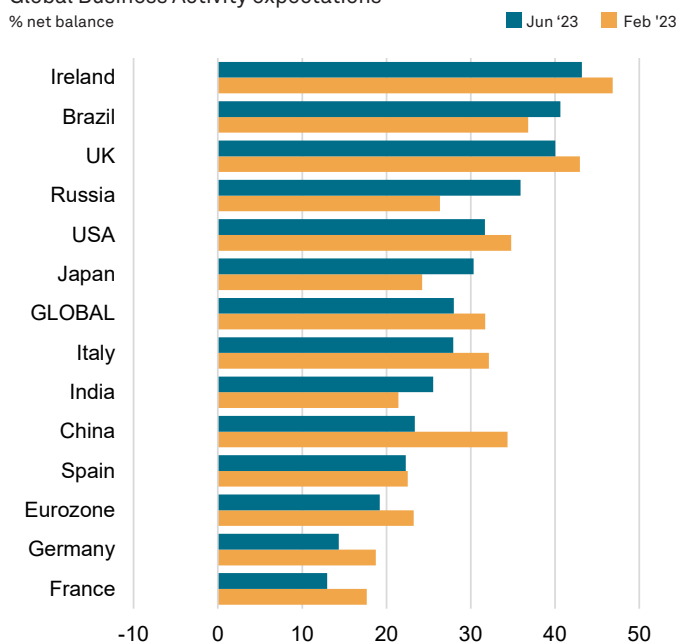
Despite rising interest rates, Italian private sector companies are optimistic of increases in both capital expenditure and R&D investment over the next year. The net balance for capex was +17%, comfortably the highest reading of all European countries surveyed. For R&D, a reading of +14% was the best seen across all countries covered by the Global Business Outlook survey.

Profitability growth expected for year ahead

Profitability is set to improve over the next 12 months, according to the latest survey data. The respective net balance of +12% was also unchanged since February. Services companies (+13%) were slightly more upbeat than manufacturers (+10%).

Although remaining below its historical trend, the overall net balance for Italy remained well above the Eurozone average of -2%.

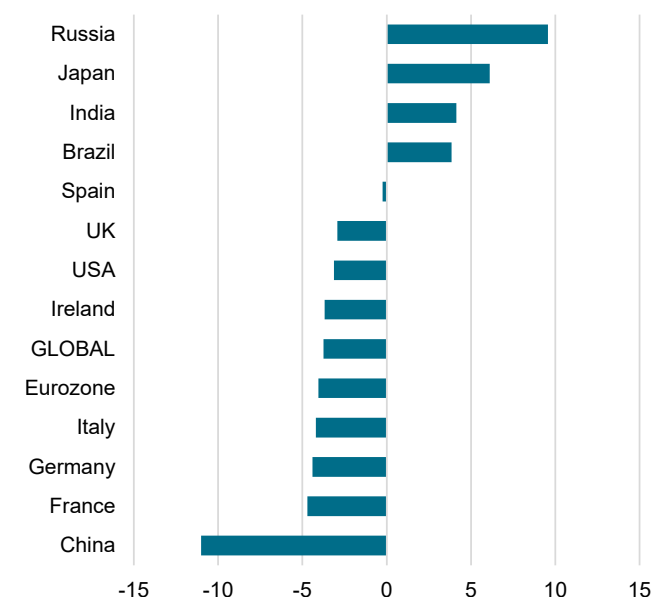
Global Business Activity expectations



Source: S&P Global PMI

Global Business Activity expectations

Change in % net balance, Jun '23 vs. Feb '23



Source: S&P Global PMI

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 8,000 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.*

Contact

Paul Smith
Economics Director
S&P Global Market Intelligence
T: +44 149 146 1038
E: paul.smith2@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
E: sabrina.mayeen@spglobal.com

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