News Release

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S&P Global Italy Business Outlook

Confidence drops to near decade low in June

Key findings

Output expectations weakest since October 2012

Profit forecasts turn negative for first time on record

Net balance of firms expecting to raise charges hits fresh peak

Italian private sector companies downgraded their growth prospects sharply midway through the year. Although still in positive territory, output expectations were the weakest since October 2012, with survey respondents citing inflationary pressures, supply issues, the war in Ukraine and fears of an economic downturn as key threats to the outlook.

Meanwhile, expectations of higher costs remained amongst the strongest on record and, despite the net balance of firms expecting to raise their own charges hitting a fresh peak, sentiment around profitability turned negative for the first time since data became available in 2009.

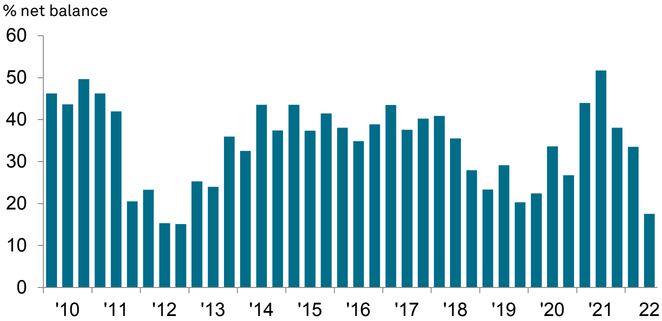
Some positive news came with respect to investment spending, as capex forecasts remained amongst the most upbeat in the series history and expectations for R&D spending were little-changed from February.

The S&P Global Italy Business Outlook survey highlighted a sharp moderation in confidence amongst firms towards business activity over the next 12 months. The respective net balance, at +18%, was down notably from +33% in February and the lowest since October 2012. The reading was also subdued relative to the global average in June (+22%), albeit slightly above that for the eurozone (+16%).

Both Italian goods producers (net balance +14%) and services firms (+19%) downgraded their activity forecasts sharply in June, though the latter remained more upbeat overall.

The steep downgrading of output prospects reflected forecasts of severe inflationary pressures, concerns

Italy Business Activity expectations



Source: S&P Global.
Data were collected 13-27 June 2022.

Comment

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

“Italian firms registered noticeably weaker expectations towards business activity over the next year in June. Confidence was the lowest for nearly a decade as inflationary pressures, supply issues and fears of an economic downturn weighed heavily on sentiment.

"Companies expect further severe inflationary pressures in the coming 12 months, reflected in a survey record net balance of firms who are expecting to raise their average charges. That said, price hikes are not predicted to hold margins steady, as forecasts for profitability turned negative for the first time on record.

"Hiring intentions subsequently weakened to the lowest since February 2021, as expectations of jobs growth eased in response to profitability concerns and cost pressures.

"It's apparent from the latest Business Outlook data that Italian firms are bracing for a challenging period ahead, and expect to battle against a double-edged sword of weaker activity growth and surging inflationary pressures."

around geopolitical tensions and predictions of an economic downturn, according to survey respondents.

Inflationary pressures expected to continue

Indeed, the latest data highlighted expectations of severe inflationary pressures over the next year. The net balance of firms predicting greater staff costs was the highest since the series started in 2019 (+38%), with that for non-staff costs ticking down only fractionally from February's peak to +47%. That said, the latest figures remained noticeably weaker than the averages across the eurozone where the net balances for non-staff and staff costs were at +63% and +60%.

Italian firms subsequently expect to pass greater costs through to clients over the coming 12 months. Forecasts for output prices hit a fresh survey peak (since October 2009). Nonetheless, Italy recorded the lowest reading across the monitored European nations in June.

Hiring intentions weakest since February 2021

Despite weaker output forecasts and expectations of surging costs, Italian private sector firms expect to add to their workforces over the next year. At +8%, however, the respective net balance for employment was the lowest since February 2021, signalling a moderation of hiring intentions.

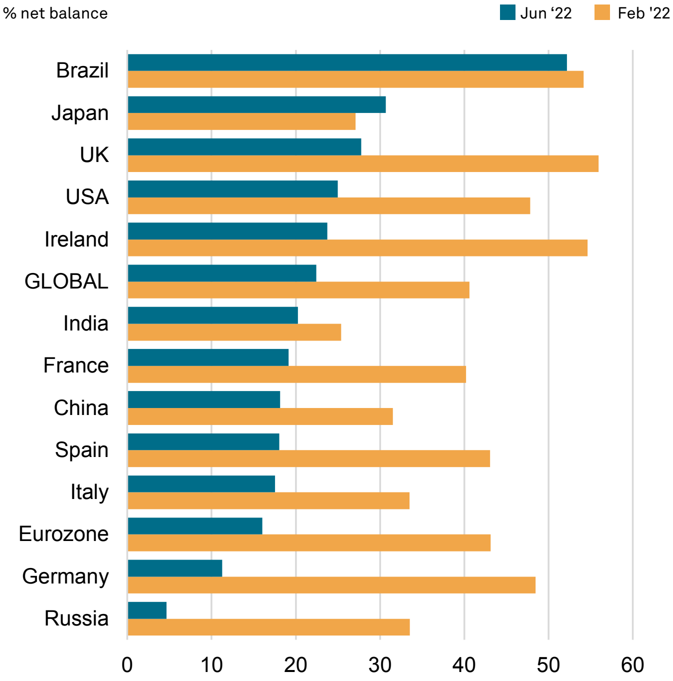
Investment forecasts remained strongly positive in June, however. The respective net balance for capital expenditure was amongst the highest on record at +20%, albeit down further from the recent peak in June 2021. Similarly, R&D spending was expected to continue over the coming year, with the net balance at +13%. However, the latest reading for R&D was the lowest since October 2020.

Profitability forecasts turn negative

For the first time on record, profit forecasts amongst Italian firms moved into negative territory during June. At -2%, the latest net balance signalled expectations of lower profitability over the coming year overall, as surging input costs were expected to be less than offset by higher charges and further weighed on by a weaker uplift in business activity.

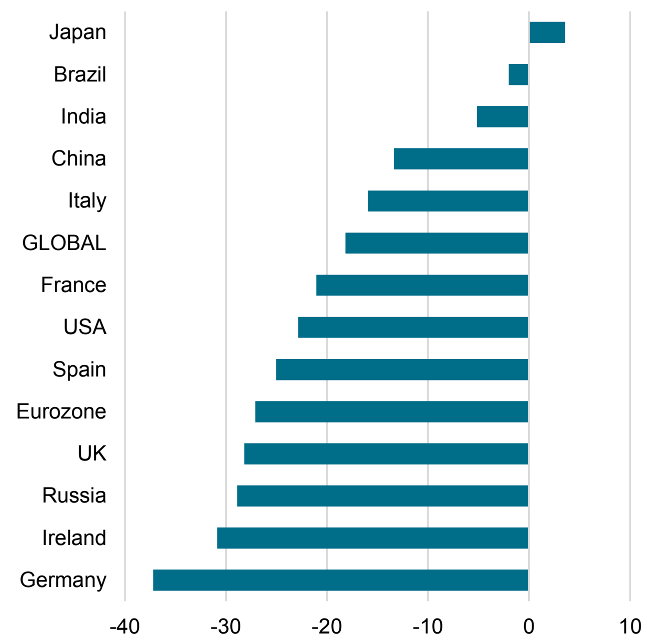
At the global level, profit forecasts moderated steeply since February, but remained in positive territory (+3%). The average net balance for profitability across the eurozone (-14%) was notably more negative than that for Italy, however.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Jun '22 vs. Feb '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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