

Focus on: Italy

International Business Report 2011 – Economy focus series

The economy

Italy's economy is in severe crisis, the countries debts have now surpassed 120% of GDP, driving rates on government bonds upwards of 7%. The new government of technocrats led by Mario Monti, which came into power in November, now has an enormous task ahead of them to regain trust on the markets and in Europe.

Consumer and business sentiment has dramatically declined as a result of the economic turmoil and uncertainty. The domestic economy remains subdued with household consumption and investment extremely low, unemployment continues to rise and industrial production has also remained flat.

The key indicators¹ are highlighted below:

- in Q2 GDP grew by 0.3%, largely due to falling imports. Q3 data has not been released but the consensus forecast is for a contraction
- industrial sales decelerated sharply and orders dropped in September, growing just 1.9% from 12 months previously, as domestic demand slumped with orders down 8.1%
- the trade deficit widened to €2.7bn in August as imports (0.9%) grew faster than exports (0.1%)

The business perspective

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of more than 11,500 businesses in 39 economies around the world. This report focuses on the experiences of privately held businesses in Italy and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Italy are becoming increasingly pessimistic about the outlook for the economy over the next 12 months. However, expectations for revenue and profits are up from 2010 and constraints on expansion have declined.



¹ Source: International Monetary Fund, The Economist and Experian.

The outlook

The outlook for the economy remains shrouded in uncertainty. However, in light of the painful austerity measures to tackle the debt crisis, the economy is expected to expand by just 0.6% in 2011, before contracting by 0.4% in 2012. With moderately stronger demand elsewhere in Europe and an easing of credit conditions to households and businesses, the economy is expected to achieve modest growth of 0.9% per annum in 2013-16.

Employment growth is likely to return in the medium-term, and this will offset some of the losses incurred during the economic crisis, but it is unlikely that it will return to pre-crisis employment levels in the next decade. A loss of export competitiveness is expected to widen the current account deficit to 3.6% in 2011.

Figure 1: Key indicators for PHBs

Italy compared with the EU average	2009 Italy	2010 Italy	2011 Italy	2011 EU
Outlook for the economy over the next 12 months				
Net optimism	-45%	+9%	-20%	0%
Change in employment levels				
Net hiring expectations	-11%	-14%	+8%	+17%
Constraints on expansion				
Regulations/red tape	58%	43%	31%	29%
Shortage of order/reduced demand	70%	53%	28%	27%

Source: Grant Thornton IBR 2011

Over the longer term Italy faces a number of challenges to reaching its economic potential. An ageing population poses a key concern and as a result participation and employment rates are likely to be lower in the country than elsewhere in the eurozone. Italy also cannot rely on growth through productivity gains as it underperforms the rest of the region on this measure.

Talk to us to find out how we can help you deal with the challenges your business is facing today.



Giuseppe Bernoni

T +39 02 76008751

E giuseppe.bernoni@gtbernoni.it

W www.gtbernoni.it

International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped sharply in the third quarter. Businesses sentiment in Italy nosedived in Q3 with a balance² of -20% of businesses optimistic, down from net 46% in the previous quarter. Globally the quarter-on-quarter average declined from 31% to 3%.

Optimism dropped sharply in many markets across the globe including mainland China and India; net optimism fell by -29% in both markets. Optimism in North America as a whole fell by 40%, and by 35% in both the Eurozone and across the G7.

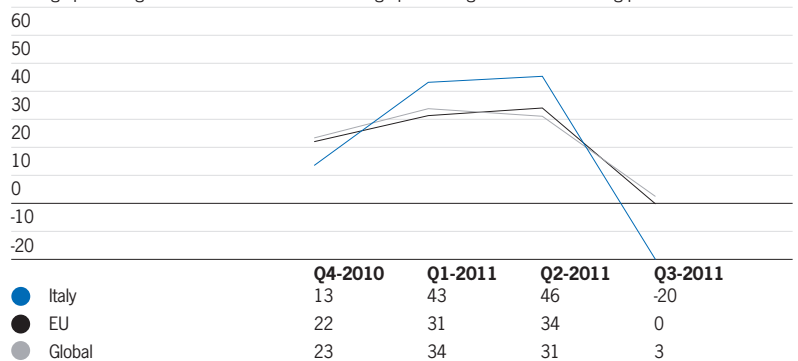
Year-on-year optimism amongst businesses has declined slightly from net 24% in 2010, to net 22% across 2011.

Optimism/pessimism

- businesses optimism in Italy dropped sharply in Q3, falling from 46% to -20%
- the EU³ average fell from 34% in Q2 to 0% in Q3
- globally, business sentiment dropped by 28 percentage points in Q3 to stand at just 3%

Figure 2: Outlook for the economy over the next 12 months: Q4-2010 to Q3-2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

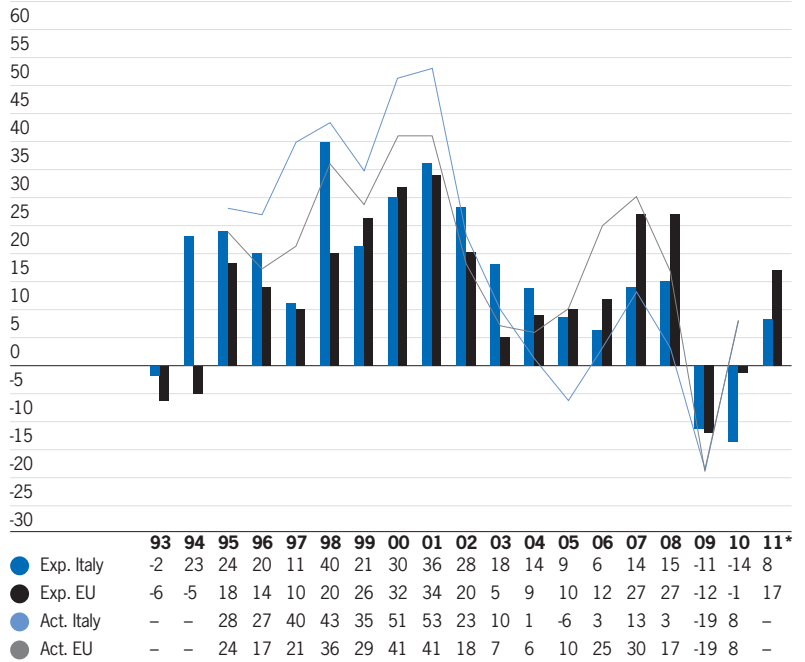
³ for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Employment

- net 8% of businesses in Italy expect employment to grow in 2011, compared with 17% of businesses across the EU
- actual employment growth reported by businesses in Italy for 2010 (8%) was significantly higher than expected 12 months previously (-14%).

Figure 3: Employment history: 1993-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



*2011 data will be documented in IBR 2012

Please note that the expected values are represented by the bars and the actual values by the lines

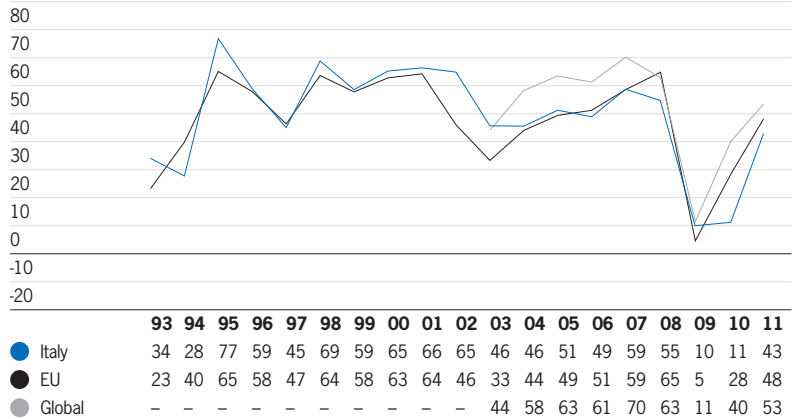
Source: Grant Thornton IBR 2011

Revenue expectations

- expectations for increasing revenues remain well above the levels seen over the previous 24 months, rising to 43% in 2011
- however, revenue prospects over the last quarter took a turn for the worse, dropping to just 16% in Italy in Q3, down from 56% in Q2
- across the EU, revenue prospects have improved year-on-year, but declined by 17 percentage points in the last quarter.

Figure 4: Revenue expectations: 1993-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



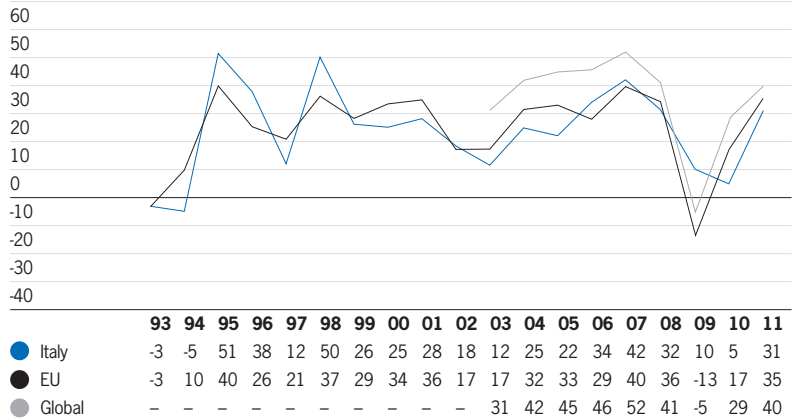
Source: Grant Thornton IBR 2011

Profitability expectations

- net 31% of businesses in Italy expect their profits to rise over the next 12 months, up from just 5% in 2010
- however, this optimism was mostly extinguished in Q3 with profitability expectations down 38 percentage points to just 12%
- the EU business average rose by 18 percentage points year on year, this has been largely eroded by a 16 percentage point decline from Q2 to Q3.

Figure 5: Profitability expectations: 1993-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



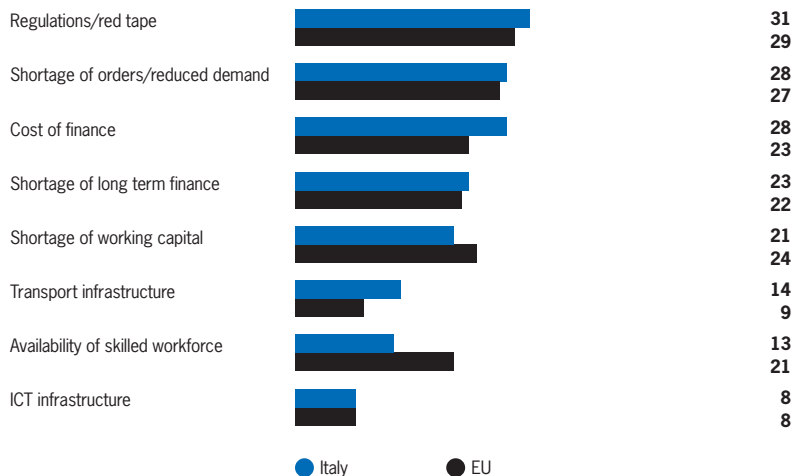
Source: Grant Thornton IBR 2011

Constraints

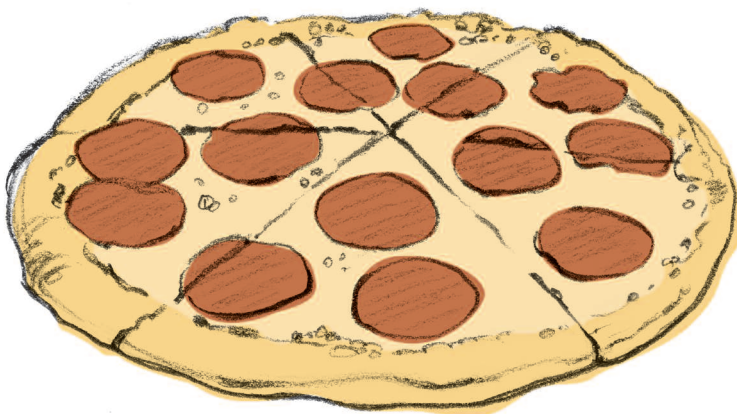
- regulations and red tape (31%) is cited as the most pressing constraint on expansion by businesses in Italy this year, similar to the EU business average (29%)
- a shortage of orders/reduced demand is also a key concern with some 28% of businesses in Italy, and 27% across the EU as a whole identifying it as a concern
- a shortage of skilled workers is not cited as a major concern in Italy (13%) compared with the EU (21%).

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



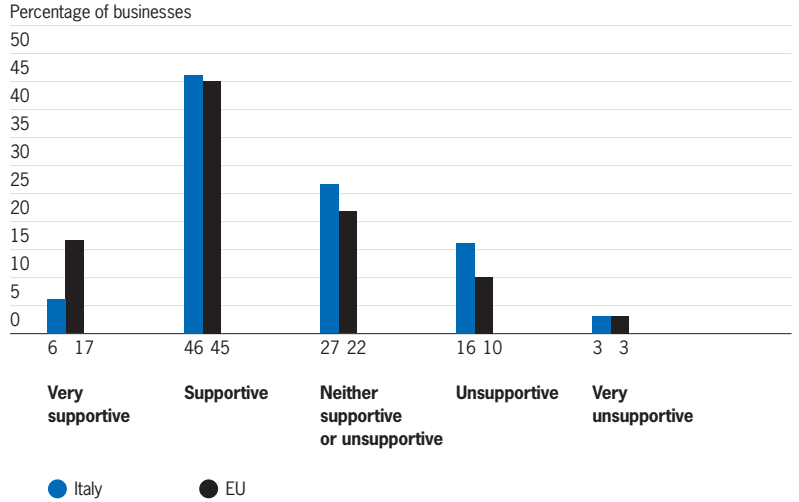
Source: Grant Thornton IBR 2011



Support of lender

- just over half of businesses in Italy are happy with the level of support provided by lenders; 52% class lenders as supportive or very supportive towards their business
- this compares with 62% of businesses in the EU region as a whole
- a significant 19% of businesses in Italy believe that lenders are unsupportive or very unsupportive of their business, higher than the average across the EU region as a whole.

Figure 7: Level of support provided by lenders

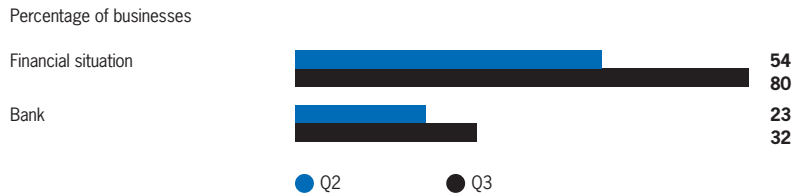


Source: Grant Thornton IBR 2011

The financial crisis

- over the year just over half of businesses in Italy have expressed concern about the current financial situation (54%), however this rose to 80% in Q3
- the proportion of businesses worried about their relationship with their bank stood at just 23% across 2011, although this rose to 32% in Q3.

Figure 8: How worried are you about the current financial situation and your relationship with your bank?

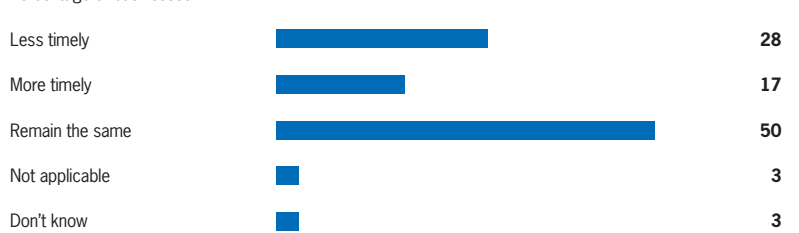


Source: Grant Thornton IBR 2011

Payment and collections

- half of businesses in Italy have noticed no change in the collection of trade debtors (clients) and payment of trade creditors (suppliers)
- 28% felt that it had become less timely, but a further 17% believe it has become more timely.

Figure 9: In the last 12 months, how has the collection of trade debtors (clients) and payments of trade creditors (suppliers) changed?



Source: Grant Thornton IBR 2011

