

Italy

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent whilst PHBs in Italy are less optimistic about 2008 (0 per cent) than they were about 2007 (+21 per cent).

Levels of optimism have fallen amongst European Union (EU)² businesses. This year a balance of +34 per cent of EU businesses are positive about their economy compared to a balance of +46 per cent in 2007. However, levels of optimism vary extensively throughout the EU economies with Denmark recording the highest balance with +74 per cent optimistic, while Spanish PHBs are most pessimistic about their economy over the next year (-5 per cent).

The Italian economy

Compared with a dismal start to the decade, Italian performance has improved in the last two years. Real GDP rose by an estimated 1.7 per cent in 2007, slightly slower than in 2006, but healthy by recent standards. Activity was led by domestic demand, with household spending up almost two per cent on the year – its best performance since 2000.

However, growth is estimated to have slowed further in the final months of last year. The business confidence index has fallen to its lowest level in three years, pointing to a further slowdown in industry. Consumer confidence has declined to its weakest since the start of the decade, with political instability contributing to concern.

Demand indicators have not been any better. The latest retail spending figures showed a dismal Christmas, while industrial production has moved sharply into reverse of late, contracting for four successive months.

Inflation has also hit a six-year high, with headline HICP rates exceeding three per cent in January 2008. This is largely a result of higher food and energy prices and was seen across much of the EU, albeit that the upturn has been much steeper in Italy.



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¹ the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

² for the purposes of IBR, the term 'EU' refers to those EU economies covered by our survey – Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

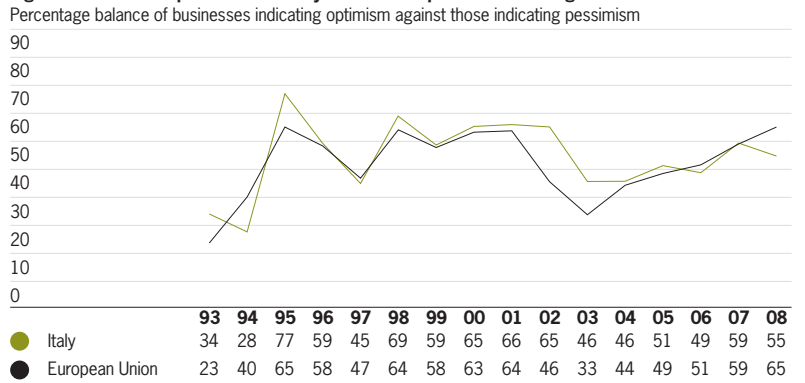
Business expectations/revenue

- PHBs in Italy are less optimistic about their revenue prospects in 2008 (+55 per cent) compared to 2007 (+59 per cent).
- Their levels of optimism regarding revenue performance are below both the EU (+65 per cent) and the global (+63 per cent) averages.
- Levels of optimism regarding exports in 2008 (+32 per cent) represent a 1 per cent rise from 2007. This is above the EU (+28 per cent) and global (+18 per cent) averages.

Employment

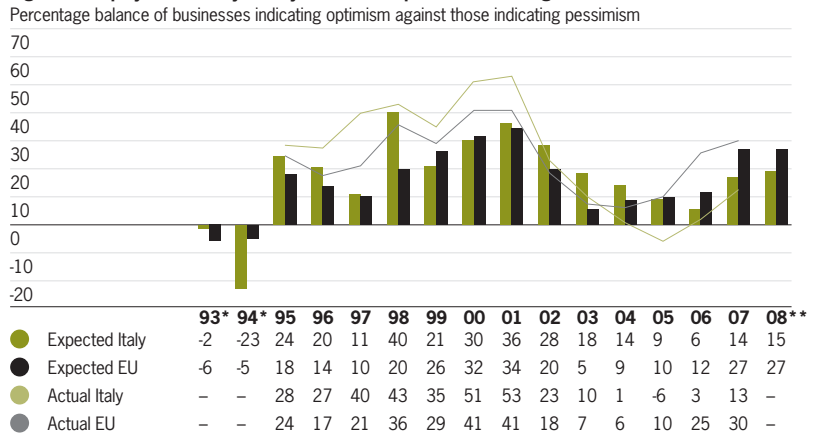
- Expected employment growth in Italy rose marginally from +14 per cent in 2007 to +15 per cent in 2008.
- Businesses in the EU as a whole remain more optimistic (+27 per cent) with regard to employment growth in 2008 than Italian businesses.
- Actual reported employment growth in Italy (+13 per cent) was marginally lower than expected in 2007.

Figure 1: Revenue expectations for Italy and the European Union average 1993-2008



Source: Grant Thornton IBR 2008

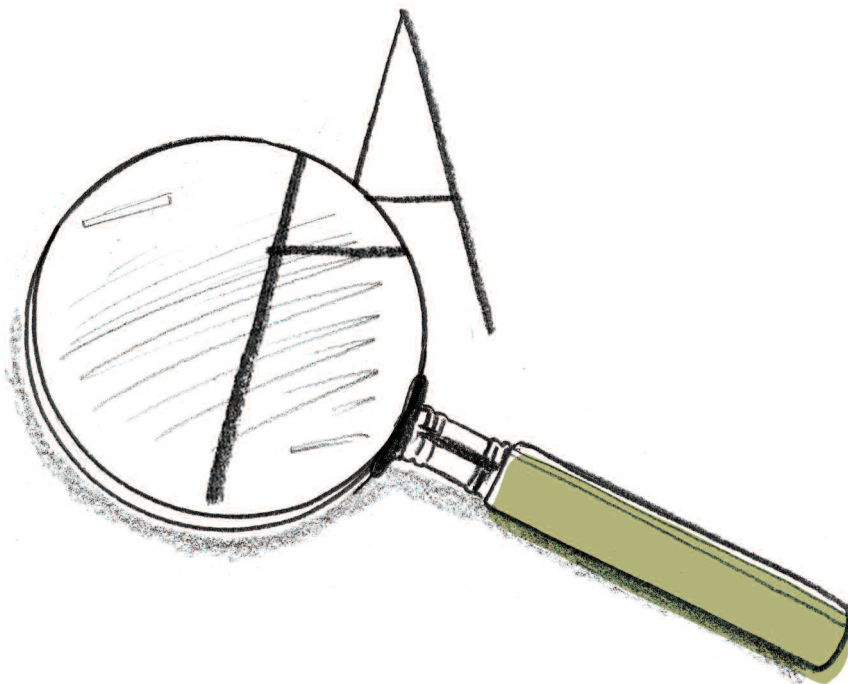
Figure 2: Employment history of Italy and the European Union average 1993-2008



*no data available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



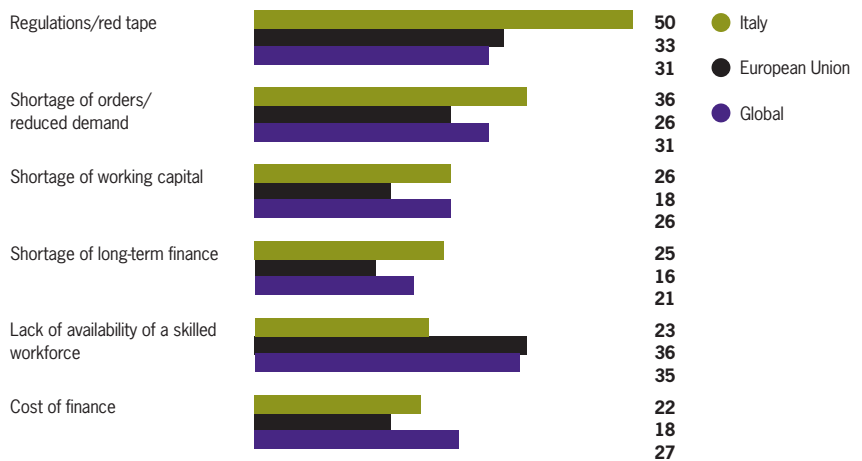
Constraints

- Regulations/red tape is the constraint restricting expansion cited most by businesses in Italy (50 per cent).
- More than one-third of businesses in the EU and globally cite the availability of a skilled workforce, compared to less than a quarter of PHBs in Italy.
- Ten per cent more PHBs in Italy cite shortage of orders/reduced demand compared with businesses in the EU as a whole.

Emerging markets

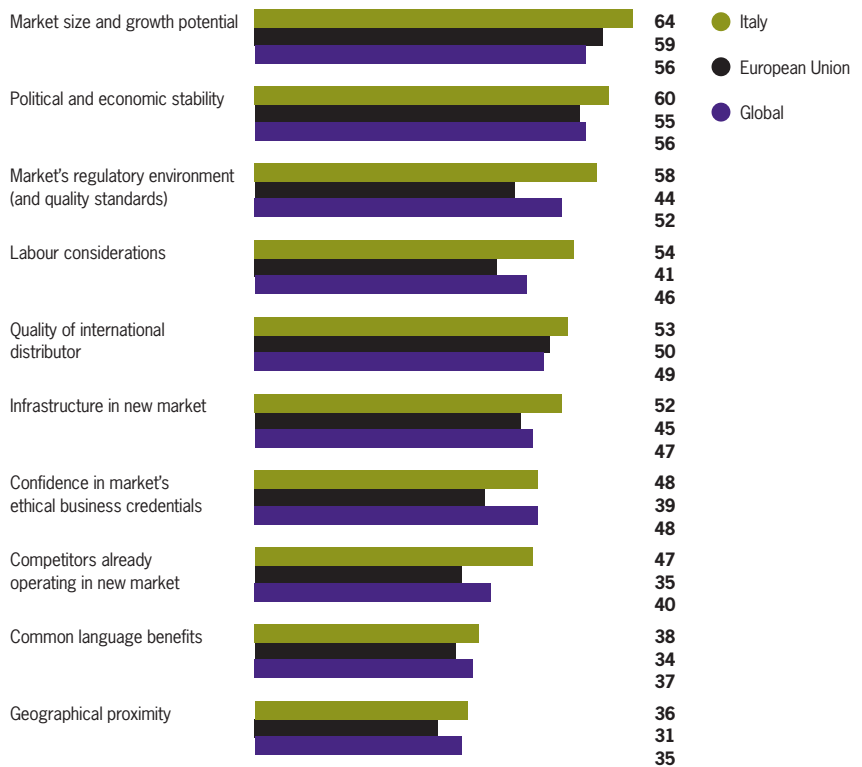
- The most important factor for PHBs in Italy, when determining whether to invest internationally, as is the case for businesses globally, is market size and growth potential (64 per cent).
- The number of Italian businesses which export (63 per cent) is higher than both the EU (53 per cent) and global (39 per cent) averages.
- 60 per cent of PHBs in Italy import, which is above the global average of 39 per cent.
- Similarly to businesses globally, 40 per cent of Italian businesses see their main competition coming nationally.

Figure 3: Largest constraints on growth for Italian businesses compared to the European Union and the global average
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 2008

Figure 4: Importance of factors determining foreign investment
Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

Competitiveness

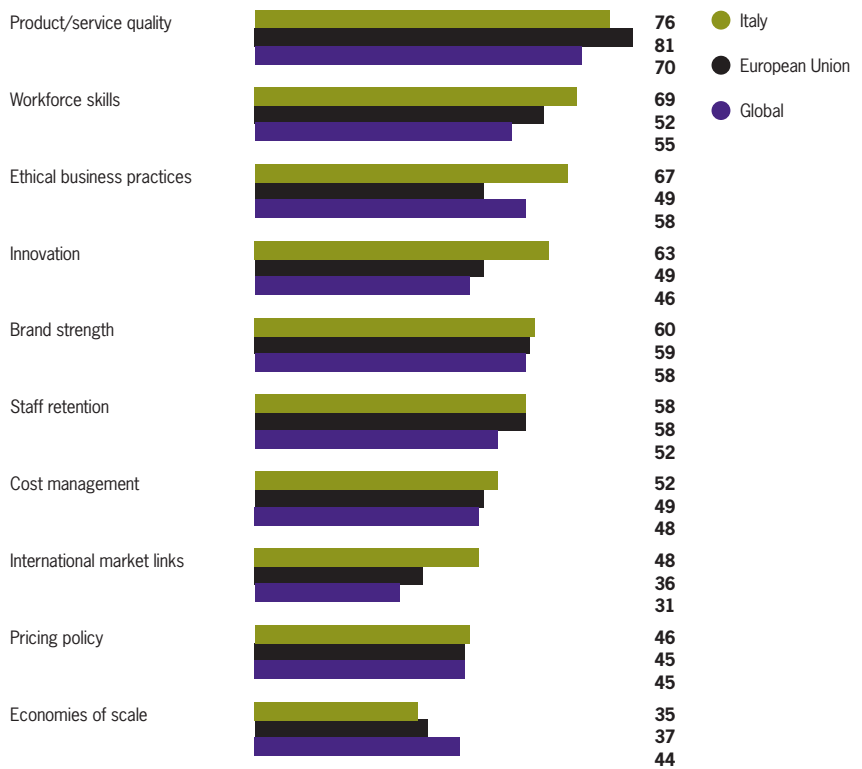
- PHBs in Italy see their greatest source of competitive advantage as product service quality (76 per cent), as is true of businesses globally.
- 69 per cent of Italian businesses see workforce skills as a source of competitive advantage. This is above the global business average of 55 per cent.
- Economies of scale are cited by 44 per cent of businesses globally but by just 33 per cent of PHBs in Italy.

Corporate social responsibility (CSR)

- Cost management is viewed as the biggest driver towards more ethical practices by PHBs in Italy (73 per cent). This is higher than the EU (59 per cent) and global (63 per cent) averages.
- 65 per cent of PHBs in Italy improved waste management in the past year, compared to 59 per cent of businesses globally.
- 53 per cent of Italian businesses have incorporated their policies in to a written CSR document, which is slightly higher than the EU average of 45 per cent.

Figure 5: Main sources of competitive advantage for Italian businesses compared to the European Union and the global average

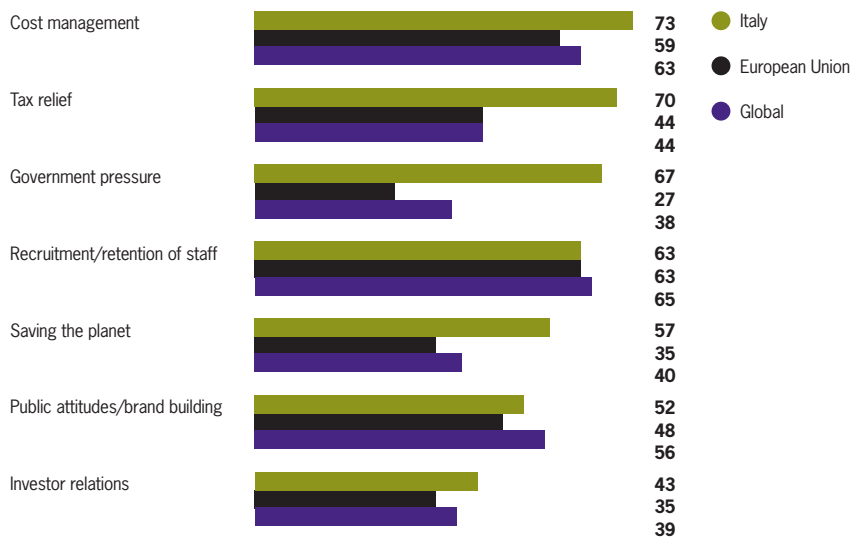
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Italian businesses compared to the European Union and the global average

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



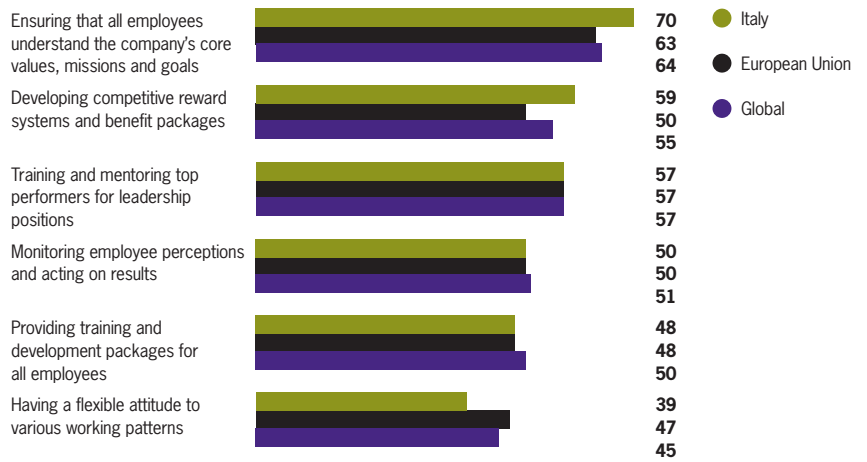
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of PHBs in Italy more focused on retention than one year ago is +59 per cent. This up from +20 per cent in 2005, and is higher than the EU average (52 per cent).
- Similarly to PHBs in the EU in general, 70 per cent of Italian businesses ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention.
- Cited by 97 per cent of PHBs in Italy, loss of business to competitors is viewed as the major problem staff retention issues have caused.
- It is costing 45 per cent of Italian businesses significantly more to pay their staff than it was 12 months ago, although this is below both the EU (58 per cent) and global (63 per cent) averages.

Figure 7: Usage of recruitment and retention tools for Italian businesses compared to the European Union and the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the Italian economy

There have been clear signs of a slowdown in the Italian economy and the growth momentum is not forecast to be sustained in 2008-09. Output growth is expected to fall below one per cent this year, improving only slowly thereafter. The dip mirrors the pattern across the EU (albeit at a lower rate). It reflects the impact of tight monetary and fiscal policy on domestic demand, along with the drag from the global downturn.

Consumer spending is particularly sluggish and its weakness prevents a stronger upturn in GDP after next year. Investment spending follows a similar pattern. The strong euro and slowdown in the United States are negative for net trade, though Italian exports hold up relatively well as weakening domestic demand curbs imports.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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