

Navigator

Now, next and how for business

Italy



Together we thrive

Overview

Businesses upbeat despite leisurely pace of growth

GDP growth in Italy has remained modest over the last few years, yet Italian businesses are positive in their outlook¹. While plans to increase government debt have caused concern among some commentators², new finance minister Roberto Gualtieri has promised to pursue a "wise middle ground" between overstepping budget constraints agreed with the European Commission and increasing government spending to stimulate the country's economy³.

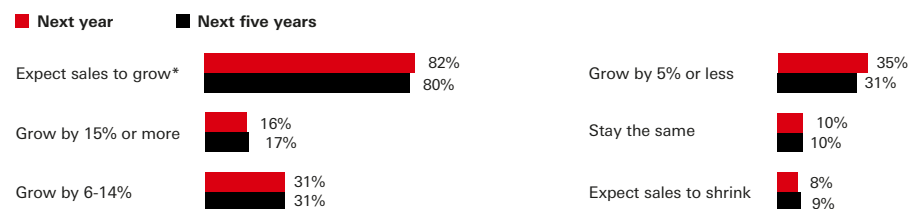
State of play

New tech and new markets inspire business confidence

82% of Italian businesses expect to see growth in the next year – higher than the European average of 79%. While this is positive, compared with their global peers, Italian firms have a more subdued expectation about the level of growth they will see. Only 16% of businesses project growth of 15% or more, compared to 22% globally.

Investing in technology is considered the most important internal growth driver by 40% of businesses – notably more than the global average of 32%. Meanwhile, agile and resilient firms highlight breaking into new markets as vital for protecting and growing revenue.

Expectations for future business growth



* This is the sum of grow by 5% or less, 6 - 14%, 15% or more



What you need to know

- 1 Italian firms are feeling upbeat. More than four in five (82%) are projecting growth for their business in the next year.
- 2 24% of Italian firms see a favourable regulatory/taxation environment as a key driver for growth, the second highest level in Europe.
- 3 Nearly half (46%) of Italian companies expect to see cost reductions from making changes to their supply chain over the next three years.

What your business can do



Invest in innovation, particularly digital/technology. This is seen as the best strategy to address threats to growth by 34% of Italian companies.



Expand into new markets. 32% of Italian businesses plan to grow internationally to mitigate for threats or potential declines.



Change to more international suppliers. The number of companies interested in this approach to changing supply chains has increased from 14% in 2018 to 21% in 2019.

¹ https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/italy/economic-forecast-italy_en

² <https://www.cnbc.com/2019/10/01/imf-says-italy-needs-a-credible-budget-plan-for-its-finances.html>

³ <https://www.ft.com/content/f4e9cf46-e2ce-11e9-b112-9624ec9edc59>

Trade outlook

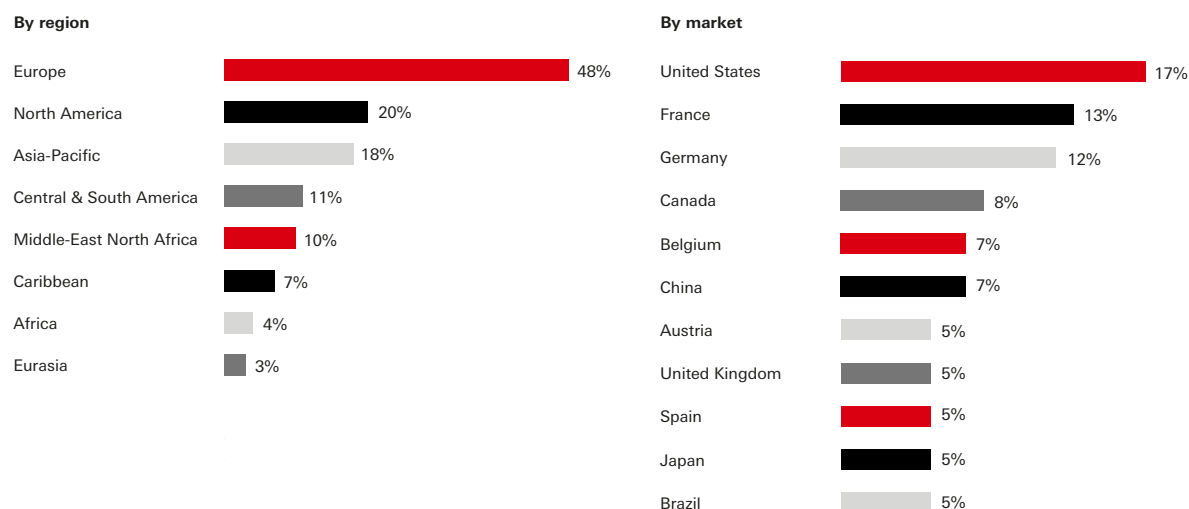
Europe fundamental as trade with the US drops

Europe is a key market for nearly 80% of Italian companies, a proportion that has increased year on year. However, North America's importance as a trade partner is down from 31% last year to 22% in 2019 and Asia Pacific (APAC) has reduced slightly from 16% to 14%. Within Europe, France has overtaken Germany as the most important trading partner, lifting from 25% in 2018 to 34% in 2019. Meanwhile, the proportion of companies trading with the UK is up from 6% to 11%, despite Brexit uncertainty.

In terms of future expansion, Europe is still of keen interest, with 48% of firms expecting to grow in the region in the next three to five years. Meanwhile, interest in North America is relatively similar (20% in 2019 versus 21% in 2018), while interest in APAC is up slightly, from 15% to 18%.

Italian firms have an optimistic view of international trade. They agree with the sentiment that trade is a force for good, and over the next five years they believe international trade will drive innovation (81%), improve efficiency (80%) and provide new business opportunities (76%).

Future trading expansion markets in the next three to five years



What you need to know

- 1 The percentage of firms trading with Europe has increased from 76% in 2018 to 79% in 2019.
- 2 Businesses see Europe as attractive thanks to favourable partnership opportunities, the availability of a skilled workforce and the perception of the region as an innovation hub.
- 3 Over the next five years, Italian firms believe international trade will drive innovation (81%), improve efficiency (80%) and provide new business opportunities (76%).

What your business can do



Consider diversifying into markets beyond Europe, both to protect revenue and stimulate growth.



Look for partnership opportunities. 42% of businesses cite this as a key driver for trading with Europe, and 31% of businesses trading into Italy are looking for local companies to work with.



Source and secure your workforce. If you can't find the right skills at home, look further afield.

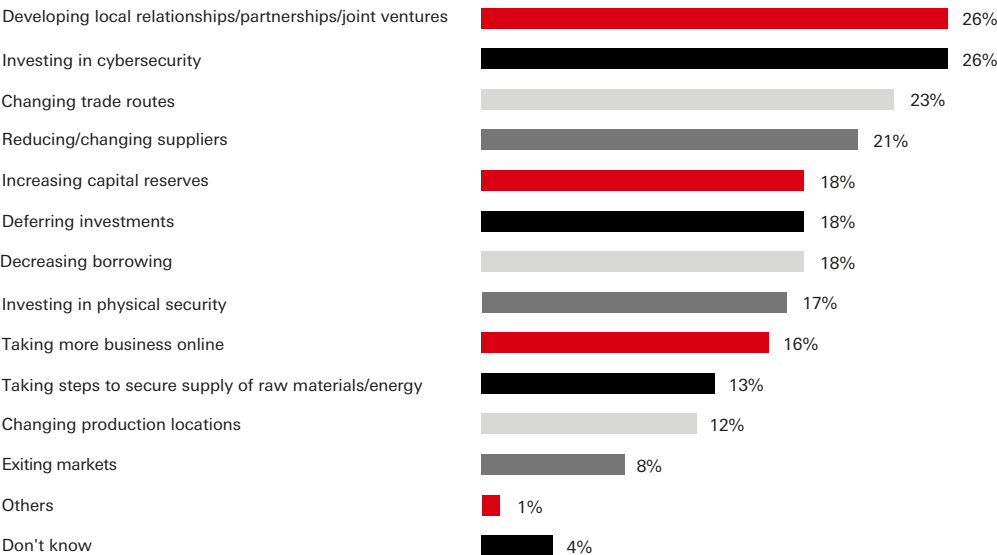
Protectionism and geopolitics

Not an issue for many, but impacting the few

European businesses as a whole are feeling the impact of protectionism less than firms globally, and Italy is no exception. However, a considerably higher proportion of goods businesses (67%) feel affected compared to the service sector (48%).

Geopolitics is less of a concern than protectionism for Italian companies. Although over half (52%) are feeling the impact on their business, this is well below both global and European averages (64% and 60% respectively). To counter the threat, 26% of businesses are looking to develop local relationships and joint ventures, while a similar proportion are investing in cybersecurity and 23% are changing trade routes.

Ways in which businesses are coping with geopolitics



What you need to know

1

While relatively few Italian firms are feeling the effect of protectionism, the number who feel they will lose more than they gain is twice the level seen globally (30% versus 16%).

2

Protectionism is an issue for 59% of Italian companies, while geopolitics affects fewer firms (52%).

3

Only 16% of Italian firms are taking business online to cope with the impact of geopolitics. Globally the figure is considerably higher at 28%.

What your business can do



Consider cutting costs or accepting lower margins to increase competitiveness and counter protectionism.



Develop local relationships, partnerships or joint ventures. This is seen as a top strategy to cope with geopolitical risk for 26% of Italian firms.

The sustainable future

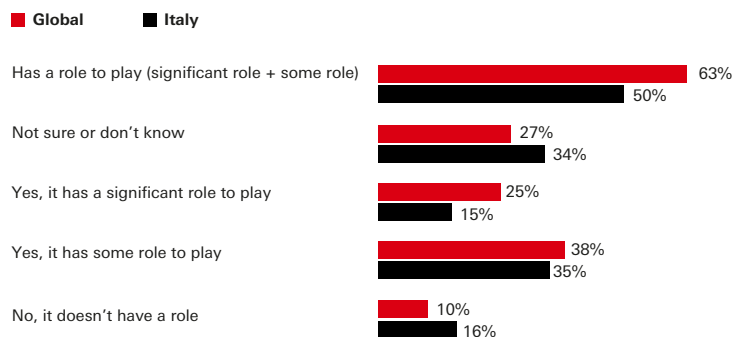
A sustainable future has potential to drive growth

Like their global counterparts, Italian companies are reacting to pressure from all sides to become more sustainable in the next five years. As well as the expectations of end consumers, firms are feeling the pressure from governments and competitors. 22% see a sustainable approach as an opportunity to gain reputational advantage and 24% are motivated by improved transparency and traceability, but the top motivation in Italy is meeting regulatory standards (29%).

Businesses are recognising the importance of sustainability, not just as an environmental issue but across social and governance aspects of their business as well. They are also increasingly measuring their environmental, social and governance (ESG) efforts.

In terms of environmental factors, 17% of firms monitor their energy use, while 15% measure emissions and 14% keep track of waste through packaging material. Social factors including product safety and quality and workplace safety and conditions are also considered important, though fewer firms are measuring them as yet. From a governance perspective, companies are most focused on anti-bribery and corruption, anti-competitive behaviour and tax transparency.

Businesses' role in delivering the UN's SDGs



What you need to know

- 1 Over the next five years, end consumers are the top drivers of a sustainable approach for 35% of firms, closely followed by governments and competitors.
- 2 A lack of support, advice and knowledge are cited as the main barriers to improving sustainability over the next five years.
- 3 Half of Italian businesses feel they have a role to play in delivering the UN's Sustainable Development Goals (SDGs). This is significantly less than 63% of firms globally.

What your business can do



Aim to reduce your energy usage. This was considered the most relevant and measurable environmental metric by Italian companies.



Focus on safety, both of your products and your workplace. Italian firms see these as the key metrics in terms of social sustainability.



Address governance issues such as anti-bribery and corruption, anti-competitive behaviour and tax transparency.

Breakthrough tech

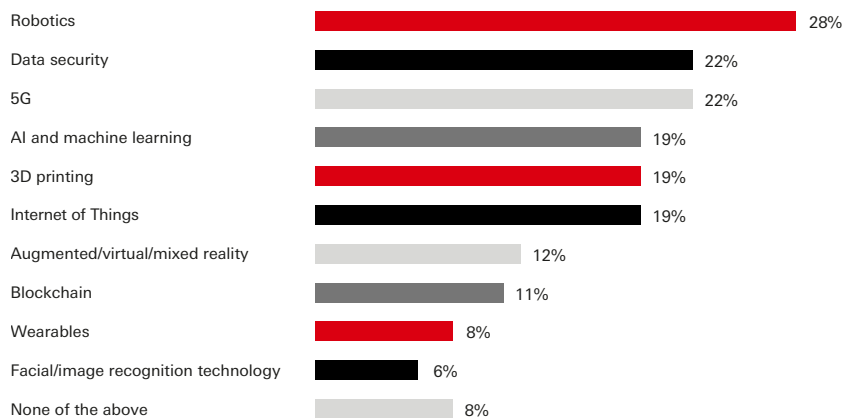
Advances in tech a boon for businesses

Like their global peers, Italian firms see technology as a key driver for growth over the next five years. Robotics is seen as most important, with 28% of businesses expecting it to have an impact. Data security and 5G are also seen as highly relevant, with 22% of companies ranking each among the top two technologies expected to benefit their business.

Robotics are expected to boost productivity as well as improving product and service quality and reducing costs. Firms who foresee an impact from data security believe it will improve transparency/compliance, improve customer experience and reduce costs, while those who rate 5G as important expect it to impact on customer experience and product/service quality and delivery.

In common with businesses globally, Italian companies see the US and China as the leading global technology hubs, while within Europe, Germany leads the way. Japan is also seen as a leading market in this respect.

Technologies businesses think will be important over the next five years



What you need to know

1

Italy is the third highest in Europe along with Belgium (also 28%) to find robotics to be the most impactful technology in the next five years.

2

While 32% of international operators see robotics as key, a mere 15% of domestically focused businesses agree.

3

30% of domestic operators consider 5G to be the key technology for their firms, which is above the 25% figure for firms globally.

What your business can do



Consult sector experts and analyse competitor behaviour to understand the relevance of different technologies to your particular sector.



Back up your investment in new technology with a strong data and cybersecurity strategy.



Consider North America and APAC as a source for your company's tech solutions. A high proportion of Italian businesses see these regions as tech hubs.

About HSBC Navigator Italy

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 200 businesses surveyed in Italy. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

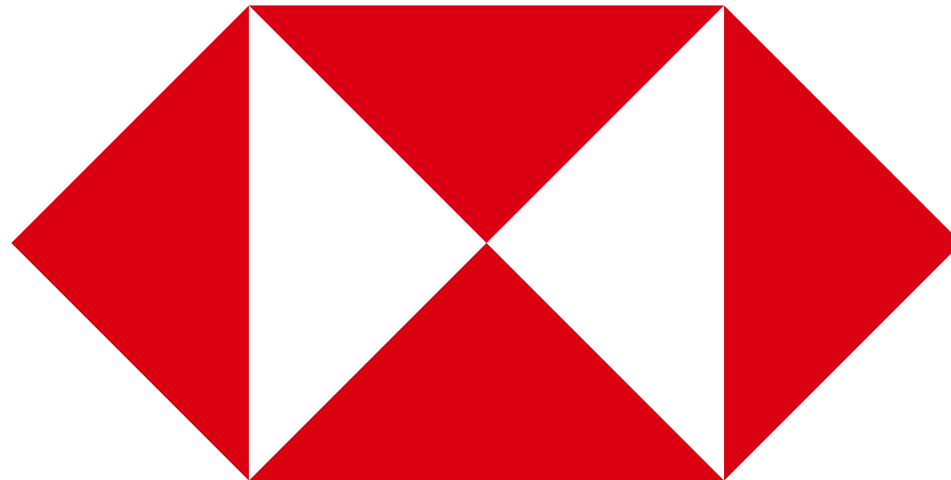
Data visualisations based on the following:

Page 2: international operators. n=150

Page 3 & 6: all companies. n=200

Page 4: companies who are impacted by geopolitics. n=183

Page 5: all companies. n=9131/200



For enquiries please contact:

Kate Woodyatt

HSBC Global Communications

katewoodyatt@hsbc.com

Or go to www.business.hsbc.com/trade-navigator

All images copyright © HSBC Holdings plc. All reasonable efforts have been made to obtain copyright permissions where required. Any omissions and errors of attribution are unintentional and will, if notified in writing to the publisher, be corrected in future printings.

Photo Credits: Getty Images

Note: Whilst every effort has been made in the preparation of this report to ensure accuracy of the statistical and other content, the publishers and data suppliers cannot accept liability in respect of errors or omissions or for any losses or consequential losses arising from such errors or omissions. The information provided in this report is not intended as investment advice and investors should seek professional advice before making any investment decisions.

Issued by HSBC Bank plc 8 Canada Square London E14 5HQ United Kingdom www.hsbc.com