The European House-Ambrosetti has launched a project for creation of a set of indicators that can be used in forecasting the future status of the economy, employment and corporate investments in Italy. The stages of testing, quantitative auditing of results and fine tuning of the method and tools to be used in the appraisals, took more than a year. The results we have obtained are highly satisfactory and have prompted us to ensure the continuity of this activity and commit our organization to publication of the results.

The set of indicators of the Ambrosetti Club Economic Indicator will be published on a quarterly basis to make two types of particularly sensitive information available to businesses, institutions, policy makers and the general public. The first is a sentiment analysis of the performance of the Italian economy, employment and investments, with a predictive capability of up to six months. The second is a sentiment analysis of performance of the economic system in real time, indicating the information in advance of the data published by official sources (Istat, Eurostat, OECD, IMF) which are made with delays between 1.5 and 3 months. Why is it important to have these indicators? Having a tool capable of interpreting the future is a source of competitive advantage. The information provided by sentiment analysis of the performance of the economy, employment, investments and the economic cycle is necessary to enable a company to program its business decisions and corporate policies, and act promptly to meet the changes and the increasingly frequent economic shocks to the country’s system in general.

It does not seem possible to eliminate negative shocks from the system. They have always existed and recur in cycles. They seem to be an aspect of the market economy that produces growth and wealth and are caused by imbalances of various kinds which, when prolonged in time, tend to explode. The crises caused by the absence of liquidity, the currency crises, the crises caused by excess of debt, the bank defaults, the bursting of numerous bubbles on the markets (real estate or stock market or derivatives) are just a few examples.

Just think how important it is, and how useful it would have been, to be in possession of reliable information of prospects capable of indicating in advance what to expect the economic cycle to do and how serious the shocks would be. The sooner the information is made available the better and faster companies will be able to respond to the negative shocks and changes. This is essential for businesses and countries to survive, but also to seize any developing opportunities. Being able to foresee changes in advance, predict trends and the magnitude of their effects on the economic system is the challenge to which we are trying to respond with these new indicators.

The strength, the distinctive and unique characteristic of the Ambrosetti Club Economic Indicator’s indexes is based on two elements: the method and the reference sample target used. We have created a specific qualitative/quantitative method for the collection of data and processing of results, capable of generating a new database that enables us to work on proprietary data not available from the official sources. The reference target of the analysis consists of a sample of entrepreneurs, CEOs, general directors and representatives of top management in the most important Italian companies.

At this time we can say that there are no other indexes comparable to those produced by the Ambrosetti Club Economic Indicator. The method used and the target of the appraisals are unique among the indicators published today in Italy and among those published by international companies and institutions with reference to Italy. John Galbraith, one of the most celebrated and influential economists of the past century said, in the Nineties «the only function of economic forecasting is to make astrology look respectable». It was a provocation, certainly, but not without some truth.
We would only have to glance through the articles and interviews in the newspapers in the last few months, and read the periodical reports containing economic forecasts, to see important, authoritative institutions making estimates about economic activity, employment, industrial production and investments that were, almost systematically, revised or significantly amended over and over again a short time later.

One of the main problems generating these distortions is the fact that most of the estimates use methods that, though sophisticated and scientifically at the state of the art with respect to our knowledge on the subject are based almost entirely on quantitative data that, by definition, refer to the past.

Future estimates based on quantitative methods must take account of the fact that they suffer from this “past memory” and therefore include the conduct, events, trends and ratios of cause and effect that have characterized the historical series of the indicator that we are trying to assess. These indicators encounter more and more difficulty in predicting radical innovations and changes in the economic paradigm.

The methods of the Ambrosetti Club Economic Indicator are qualitative and quantitative sentiment analyses and are not related to the past, to the historic series. They are a "purely" predictive indicator, "100% forward-looking", detached from its historic series and past events. Expectations based on plans and projects that are either ongoing or under study by the sample of businesses considered. How did we do all this? The innovation consists of obtaining sentiment information from entrepreneurs and top managers of the most important companies in the country, with reference to the expectations they have for their business, on the investments they are planning, the expertise on which the company can count, the plans for development they have for recruiting and training new personnel, their new orders and the progress of sales.

We are aware that the target is particularly attentive and informed about economic performances and to some extent may be influenced in their expectations by other indicators tainted by "past memory", but the type of information we obtain is based on facts and is objective as regards the current and future situation of the business, incorporating the vision and strategic planning of the specific company. In this sector, the indexes of the Ambrosetti Club Economic Indicator developed on the basis of the information obtained from the top managers of the companies differ significantly from the other PMI (Purchasing manager indexes) built on information obtained from the purchase managers, i.e. from a single, specific corporate function.

By collecting information on strategic business planning, we provide a set of sentiment indicators on future trends not related to the dynamics or past performance of the historic series and variables analyzed.

Let’s look at the results you can read in the charts on the page, referring to the economic situation, economic prospects, employment and investments. The values of the Ambrosetti Club Economic Indicator range between -100 (maximum negative situation) and +100 (maximum positive situation), with zero representing the watershed between expansion and recession or improvement and deterioration.

In particular, with regard to the forecasts for the next six months, there appears to be an improvement with respect to the current values reached, although the speed of improvement tends to decrease with respect to the findings of October and July 2013. This reduction is explained by the current situation which is better than the previous findings (last year the Italian economy shrank by 1.9%; now the estimates of the European Commission, IMF and OECD predict an increase between 0.5 and 0.7%). It is physiological that with the increase in economic activity and improvement of the indicators prospects for further improvement tend to decrease. The element to watch is the sign of the indicator which, as long as it remains positive, gives us good hopes for the future. Finally, the results indicate that the Italian economy has entered a period of expansion, and in the next 6 months further improvement is expected with respect to the current values.

Valerio De Molli, Managing Partner
The European House-Ambrosetti.
First of a series of articles

The European House-Ambrosetti has launched a project for creation of a set of indicators that can be used in forecasting the future status of the economy, employment and corporate investments in Italy, which it will make available on a quarterly basis to the readers of "Il Sole 24 Ore".

As of January 2014 the indicator of the economic situation has reached 5.3 points

Investments. The value is still negative, although to a limited degree, indicating that the acute stage is behind us.

The Italian Picture

THE ECONOMIC SITUATION

The indicator of the economic situation has, for the first time since it has been calculated, a positive sign (5.3 indicates that the economy is in an expanding stage). The value for January 2014 is definitely improving with respect to October and July 2013, and shows a positive economic situation, through the growth is still weak.

For the next six months we can expect an improvement over the current data, although the rate of improvement is slower with respect to the findings for October and July 2013. This reduction is explained by the fact that the current situation has improved significantly compared to that of the two previous findings.

EMPLOYMENT FORECASTS

Negative situations and serious worries are apparent on the employment front. The indicator on the 6 month prospects of work not only remain negative, but will continue to worsen and has already reached -25.2, compared to -18.2 in October 2013 and -17 in July 2013. The results indicate a labor market that is still in difficulty and very weak.

INVESTMENT FORECASTS

The indicator on investments of the businesses is still negative, although to a very limited degree, and is now at -1.8, in line with the figure for October 2013. Prospects for recovery of investments do not indicate a positive sign yet, however the acute stage of the decrease seems to be over.