

# Survey on Inflation and Growth Expectations

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## Main results

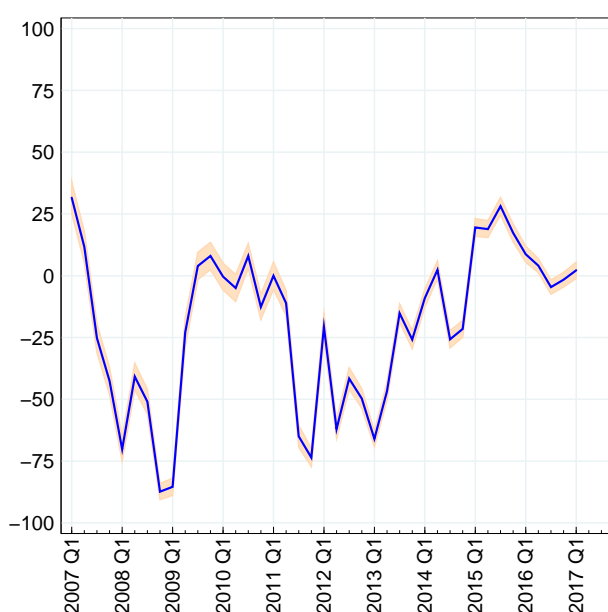
The survey conducted in March 2017 on a sample of Italian firms with 50 or more employees shows widespread improvement in the assessment of the general economic situation and a moderate upward revision of consumer inflation expectations at all horizons.

The majority of firms expect demand for their products to grow further, while opinions regarding current demand and investment conditions are more varied. Over the next 12 months firms expect their prices to grow at a similar rate to the one reported for consumer inflation; this trend is primarily bolstered by the expected increase in the prices of raw materials and, to a lesser extent, in the cost of labour and intermediate inputs.

Increasing investment plans for 2017 are overall confirmed, even if construction and services firms are less optimistic.

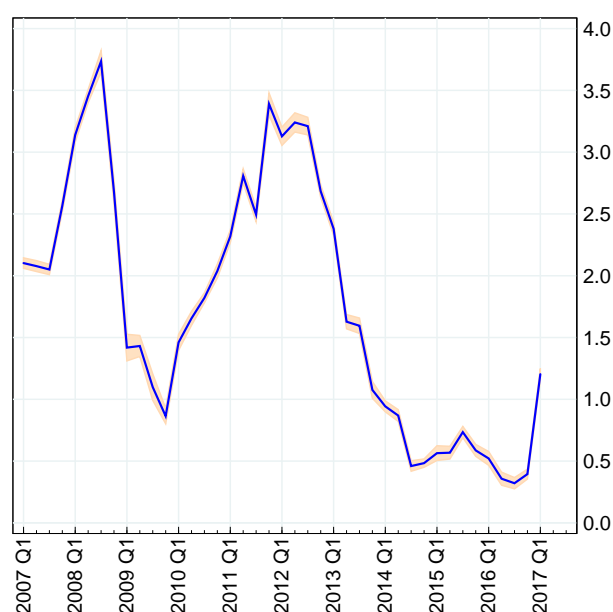
### General state of the economy (1)

(balance between positive and negative assessments with respect to previous quarter)



### Consumer price inflation expectations over the next 12 months (1)

(percentage changes on the preceding 12 months)



(1) The shaded areas represent the 95% confidence intervals. Construction firms are included from 2013 Q3. See tabb. s1 and s4 of the statistical appendix.

## Survey on Inflation and Growth Expectations<sup>1</sup>

### Assessments of the general economic situation improve across all sectors, albeit unevenly

In the first quarter of 2017, the balance between reports of improvement and deterioration, while remaining negative, was less so for the second straight period (Table 1), reflecting improvements across all sectors. However assessments of deterioration in industry excluding construction and among non-residential construction firms still prevail. The share of firms that believe the general economic situation is stable, while still representing the majority, decreased. There was an increase in the share of firms, mainly large industrial and service firms, that expect the economic situation to improve over the next three months.

Firms' expectations of the conditions in which they will be operating over the next three months remained stable overall, but trends differ across the main sectors. The balance between expectations of improvement and deterioration widened in industry excluding construction and, albeit remaining negative, in the construction sector, while the balance stabilized at a positive level for service firms (Figure 1). In line with the findings since the start of 2014, firms' expectations were dampened mainly by uncertainty, but were driven primarily by the better outlook of demand and, in construction, by production trends.

### Inflation expectations are revised upward

Firms' expectations of consumer price inflation, after stabilizing at low levels over the last three years, began again to rise across all time horizons, although still remaining low. Expected inflation was 1.0, 1.2 and 1.4 per cent for 6, 12 and 24 months ahead respectively (Figures 2, 3 and 4), and 1.6 per cent for the longest time horizons (from three to five years ahead).

### Current demand strengthens only in industry excluding construction, driven by foreign demand ...

Firms' assessments of the demand pattern for their products in the first quarter of 2017 compared with the previous quarter varied widely; the positive balance between expectations of an increase and those of a decrease grew in industry excluding construction (to 9.9 from 5.0 percentage points ) but fell in services (to 2.5 from 8.6 percentage points); in construction the negative balance widened (to -6.6 from -4.5 percentage points), especially for the firms more active in non-residential construction. The improvement in the views expressed in the industrial sector was concentrated among firms that are more focused on foreign markets; by contrast the assessment of those operating primarily in the domestic market worsened with the balance turning slightly negative once again.

### ... but expectations continue to be positive in all sectors ...

The positive balance between expectations of improvement and deterioration in demand in the next quarter rose to 21.1 from 12.9 percentage points in the December 2016 survey. The increase was more marked for large firms and those more active on foreign markets.

### ... although they are still not reflected in firms' selling prices

Firms' year-on-year selling prices remained essentially stable, interrupting the negative trend of the last three years. Firms expect their selling prices to increase in the next 12 months at a rate similar to the one expected in the last quarter (0.9 per cent); the pace is expected to be slightly more intense for firms in industry, although they nonetheless indicated a slight slackening (to 1.2 from 1.5 per cent). Prices continue to be driven mainly by the expected increase in the prices of raw materials,

the cost of labour and intermediate inputs, while curbed by competitors' pricing policies; the trend of demand is still not seen as a significant factor (Figures 5.1, 5.2 and 5.3).

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<sup>1</sup> The survey report was prepared by Tatiana Cesaroni and Alessandro Mistretta.

The survey was conducted in collaboration with *Il Sole 24 Ore*. The data were collected exclusively for the purpose of economic analysis and have been handled and processed in aggregate form, in full compliance with the rules on privacy. We would like to thank the 1,008 firms with 50 or more employees (of which 377 in industry excluding construction, 411 in services and 220 in construction) that participated in the March 2017 survey. The survey questionnaire, the statistical appendix and the methodological note are available on the Bank's website:

[http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/03/en\\_quest\\_1\\_trim\\_2017.pdf?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/03/en_quest_1_trim_2017.pdf?language_id=1)

[http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/03/dati\\_2017\\_03\\_eng.zip?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/03/dati_2017_03_eng.zip?language_id=1)

[http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/methods\\_and\\_sources.pdf?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/methods_and_sources.pdf?language_id=1)

**Assessments of investment conditions remain positive on the whole**

In the first quarter of 2017 the balance of positive and negative expectations of investment conditions remained nil, but there were differences between the main sectors, reflecting in part the development in assessments of credit access conditions. The improvement in industry excluding construction (to -0.4 from -2.3 percentage points; Figure 6), wholly attributable to medium/large firms, was seen together with a modest deterioration in services, where however the assessments remain largely positive (at 2.9 from 3.8 percentage points), and in construction (to -5.4 from -4.7 percentage points). In the construction sector, assessments were still mainly negative among construction companies in the non-residential sector, while the balance remained positive for residential construction firms. In all sectors the share of firms reporting that investment conditions are similar to those in the preceding quarter remains the overwhelming majority (more than four fifths).

**Planned investments for 2017 are again on the rise**

The share of firms that expect an increase in their nominal investment expenditure was still greater than that of firms envisaging a reduction (14.4 percentage points for all firms); the positive gap is wider in industry excluding construction; it narrowed in the service sector, especially among firms with fewer than 200 employees; the balance turned negative among smaller construction firms. Compared with the previous survey, the assessments regarding the effects of the measure introduced by the 2017 budget law (the 'hyper-amortization' incentive to encourage investments in advanced digital technologies) remained stable. The measure was deemed important by around one fifth of industry and service firms; the share rises to over one third among those planning to increase capital investments in 2017.

**In the second quarter of 2017 employment expectations improve generally**

After two quarters of slight deterioration, firms' employment expectations began to rise, although to varying degrees depending on the sector of activity. In industry excluding construction the difference between the share of firms that plan to increase staff numbers and those that expect to decrease them remains positive, but lower than in December (1.4 from 4.9 percentage points), whereas in services the balance rose significantly from the previous survey (to 7.7 from 0.9 percentage points) as it did for construction companies, even though it remains negative (-7.5 from -16.2 percentage points). The restriction of social security contribution relief for new open-ended payroll hires to certain geographical areas and categories of workers did not have a marked impact on hiring plans for 2017: just under a tenth of the firms reported that they scaled back hiring as a result of the termination of the relief; around a quarter of firms nevertheless expect to hire new staff; half of the firms state that they do not plan to increasing staffing levels in 2017 in any case.

Table 1

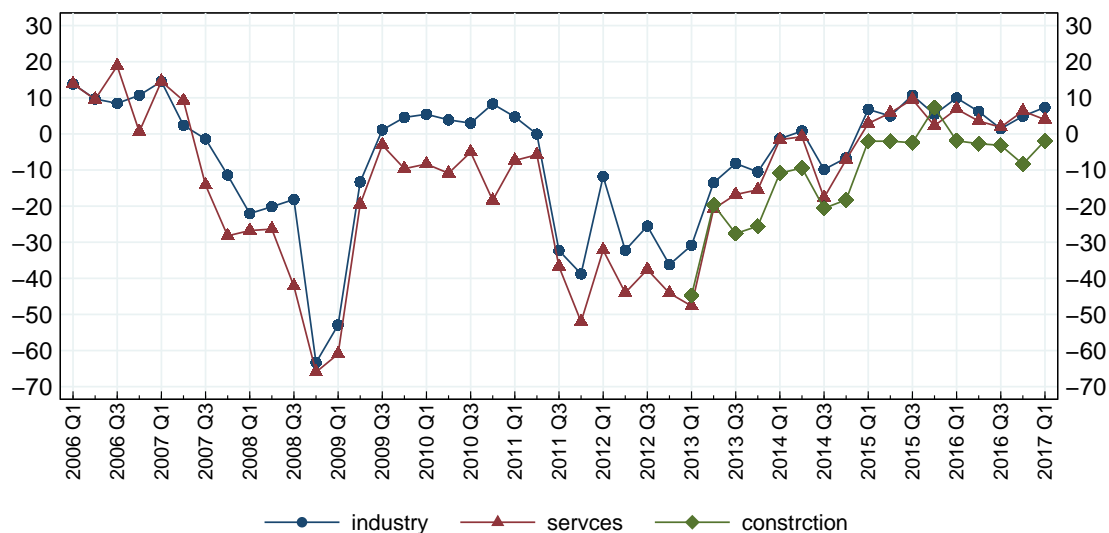
**Main findings (1)**  
(per cent)

	Industry		Services		Construction		Total	
	Q4 2016	Q1 2017	Q4 2016	Q1 2017	Q4 2016	Q1 2017	Q4 2016	Q1 2017
<b>Rate of change</b>								
Inflation expectations 6 months ahead	0,3	1,1	0,2	1,0	0,2	0,9	0,2	1,0
Inflation expectations 12 months ahead	0,4	1,2	0,3	1,1	0,3	1,1	0,4	1,2
Change in own prices 12 months ahead	1,5	1,2	0,4	0,6	0,2	0,4	0,9	0,9
<b>Balance between reports of improvement and deterioration on the previous quarter</b>								
	-2,4	-1,5	1,3	2,0	-11,0	-8,0	-1,0	-0,2
General economic situation	5,0	9,9	8,6	2,5	-4,5	-6,6	6,2	5,6
Total demand	8,8	18,4	7,0	5,3	---	---	8,3	14,6
Foreign demand	-2,3	-0,4	3,8	2,9	-4,7	-5,4	0,4	0,9
<b>Forecast 3 months ahead</b>								
Total demand	15,0	24,1	11,1	18,8	8,4	13,7	12,9	21,1
Foreign demand	23,2	30,2	22,6	23,3	---	---	23,0	28,2
Firms' economic conditions	4,9	7,3	6,4	3,9	-8,4	-1,9	4,8	5,3
Employment	4,9	1,4	0,9	7,7	-16,2	-7,5	1,9	3,8
<b>Forecast of investment expenditure</b>								
H1 2017 on H2 2016	15,4	12,7	15,1	5,0	4,6	-5,5	14,7	8,1
2017 on 2016	18,5	18,6	21,9	11,7	4,6	-1,7	19,4	14,4

(1) The statistical appendix is available at [http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/03/dati\\_2017\\_03\\_eng.zip?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/03/dati_2017_03_eng.zip?language_id=1)

Figure 1

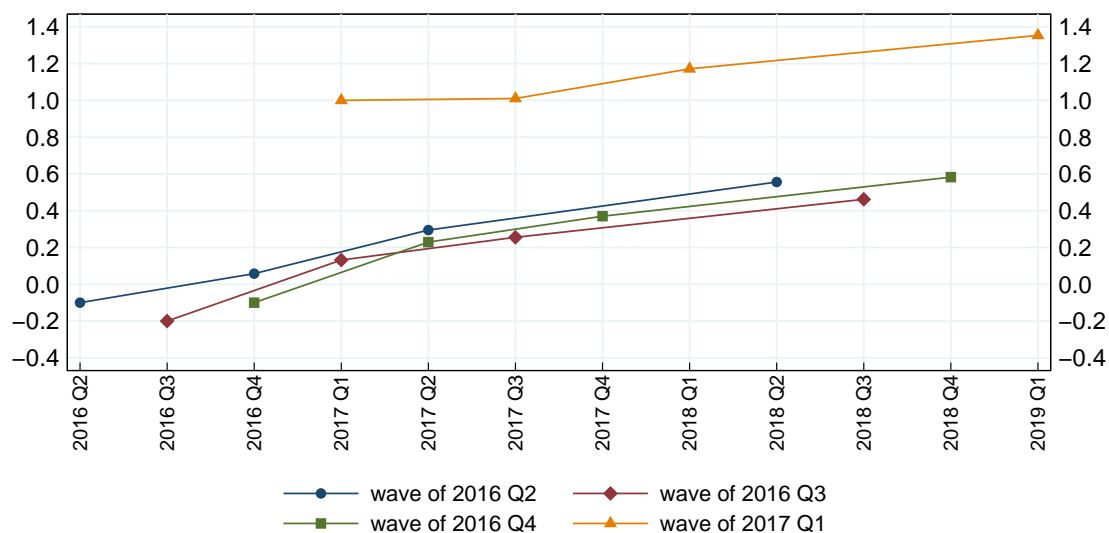
Three-month forecast of the firm's business conditions (1)  
(percentage points)



(1) Balance between expectations of an increase and expectations of a decrease.

Figure 2

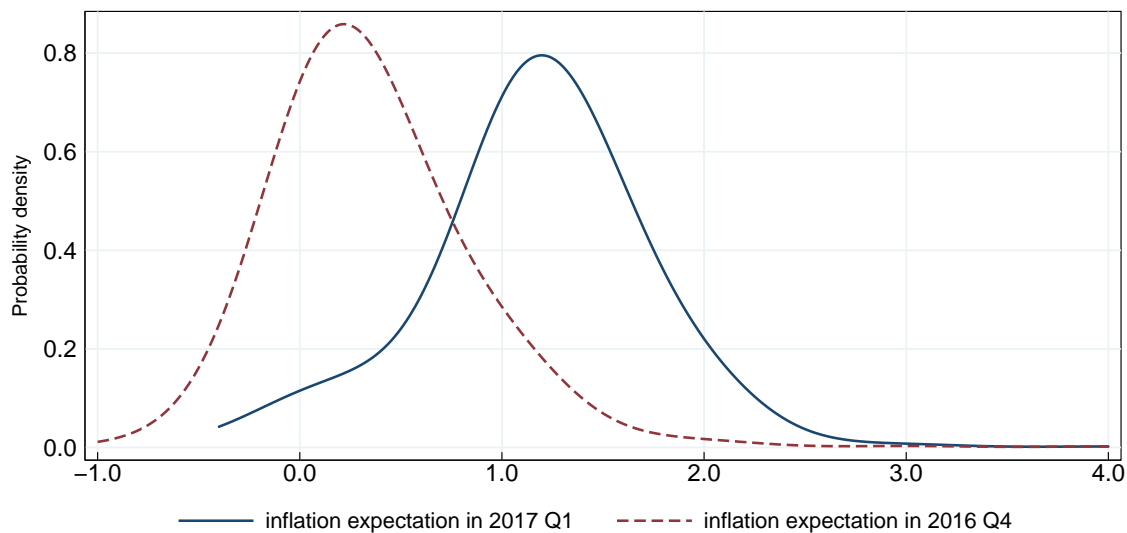
Expectations of consumer price inflation in Italy (1)  
(percentage changes on year-earlier period)



(1) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next six months; the third point is the average of the interviewees' forecasts for the next twelve months; the fourth point is the average of the interviewees' forecasts for the next twenty-four months.

**Figure 3**

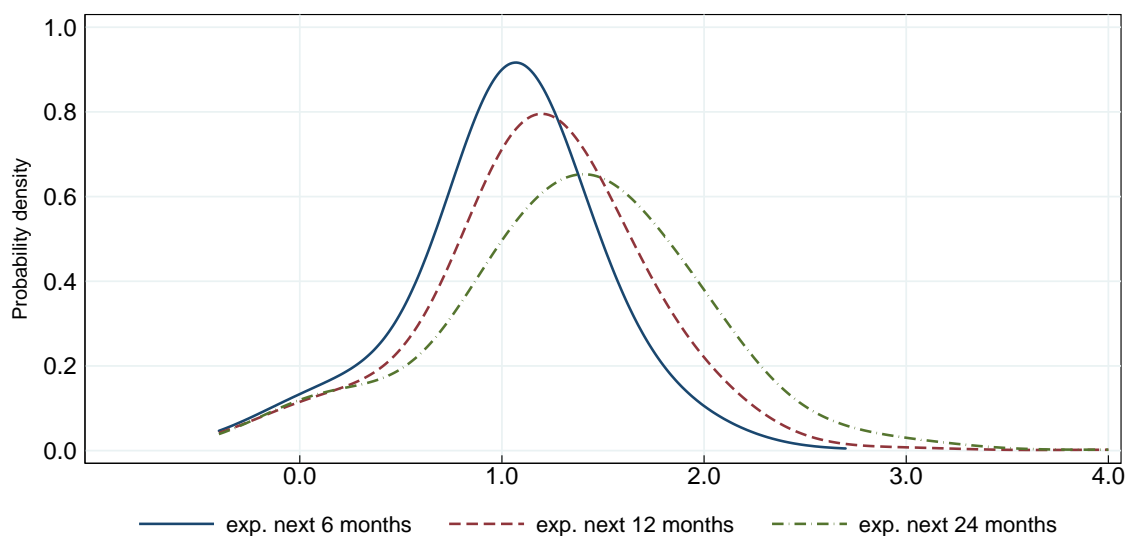
**Expectations of the inflation rate over the next 12 months (1)**  
*(non parametric estimates)*



(1) The estimates are obtained using a Gaussian kernel density with a bandwidth equal to 0.2.

**Figure 4**

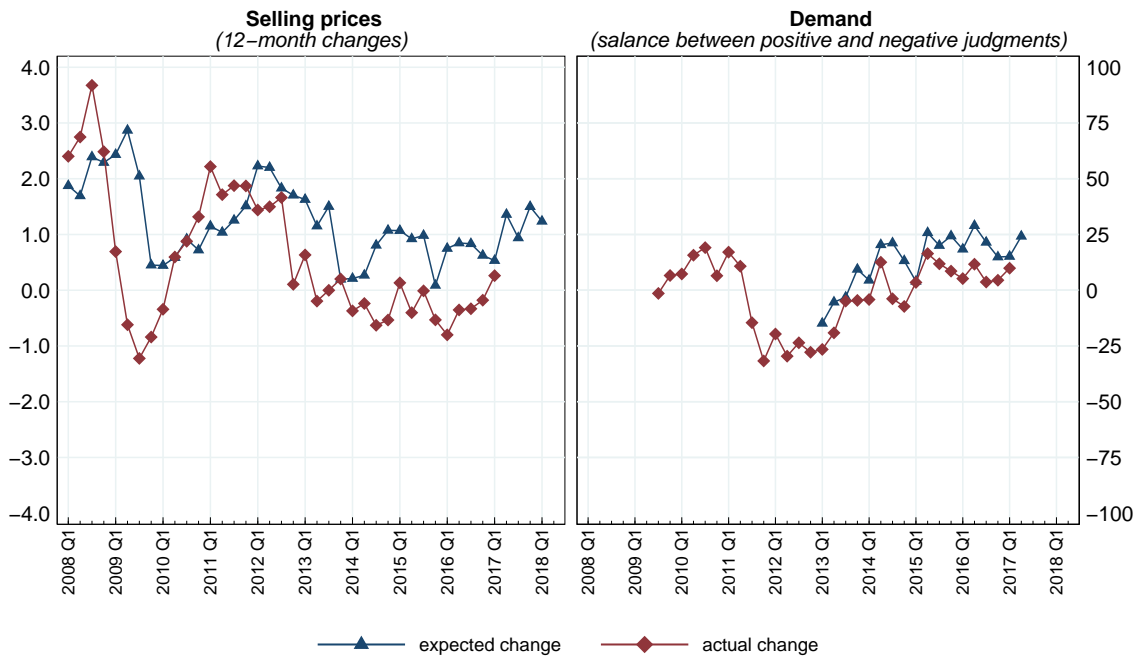
**Expectations of the inflation rate over the next 6, 12 and 24 months (1)**  
*(non parametric estimates)*



(1) The estimates are obtained using a Gaussian kernel density with a bandwidth equal to 0.3.

Figure 5.1

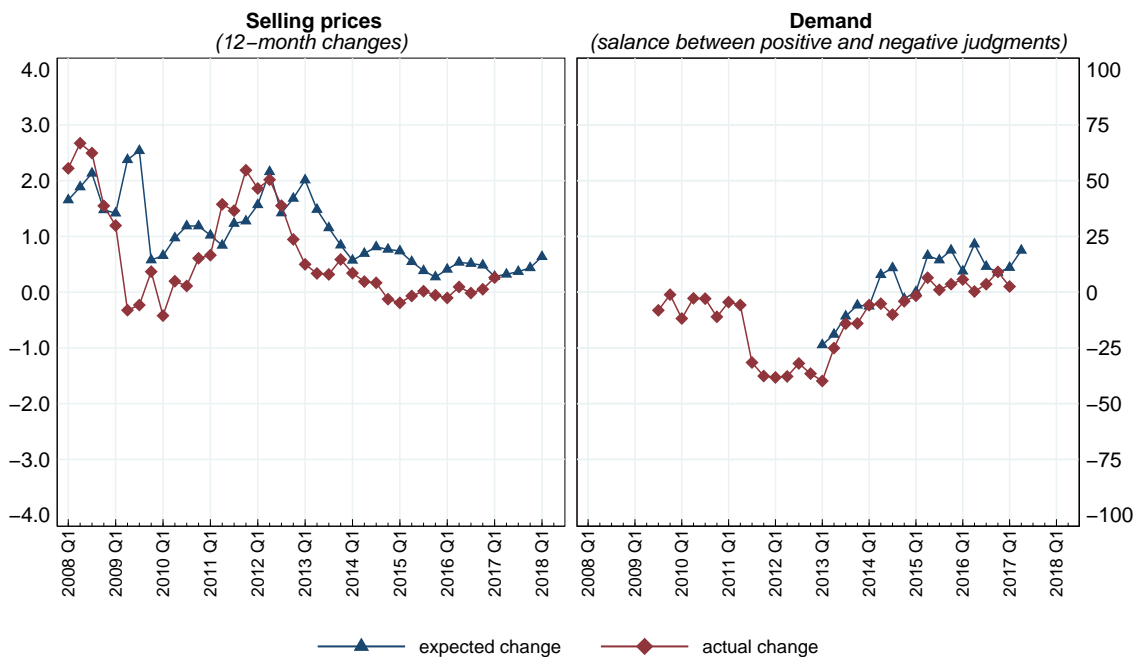
**Expected and actual changes in selling prices and demand (1)**  
*(industry excluding construction)*



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

Figure 5.2

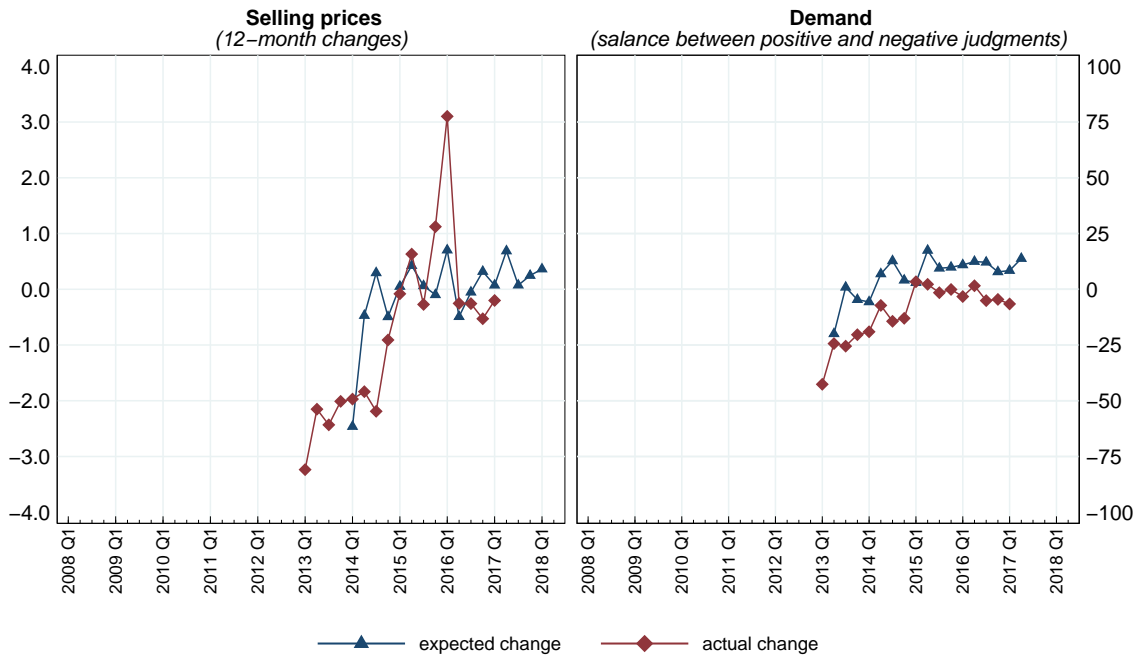
**Expected and actual changes in selling prices and demand (1)**  
*(services)*



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

Figure 5.3

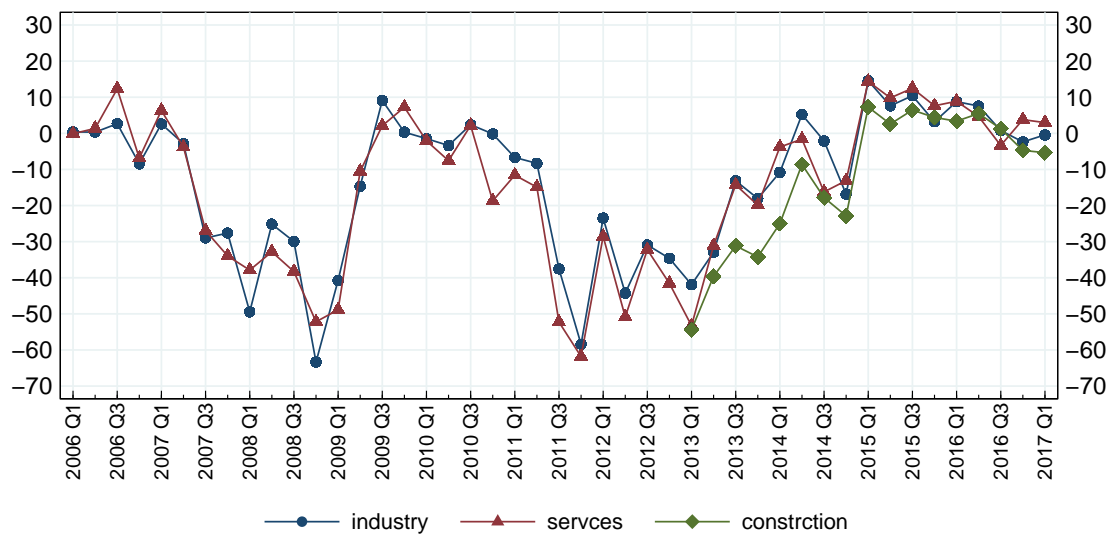
**Expected and actual changes in selling prices and demand (1)**  
(Construction)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

Figure 6

**Conditions for investment with respect to previous quarter (1)**  
(percentage points)



(1) Balance between positive and negative judgments.



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