

Survey on Inflation and Growth Expectations

10 July 2017

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www.bancaditalia.it/statistiche/index.html

Main results

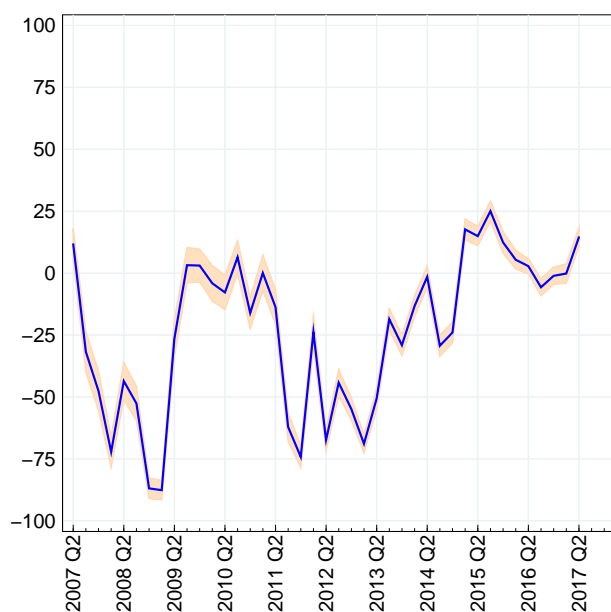
The survey conducted in June 2017 on a sample of Italian firms with 50 or more employees suggests a strengthening of the recovery under way since the end of 2016, with a positive balance between reports of improvement and deterioration in the general economic situation. Consumer price inflation expectations have risen across all time horizons, probably also influenced by the temporary acceleration recorded in April, which was the most recent data available at the time of the survey.

In all sectors firms indicate an increase in demand for their products; in construction, positive assessments prevail for the first time since last year, driven by the non-residential sector. For the next quarter, firms expect an improvement in the conditions in which they will be operating, along with a better outlook for demand; however, demand is not expected to exert any significant pressure on selling prices. Firms estimate that their selling prices will increase over the next twelve months at a quicker pace than that recorded in the previous survey, but will remain subdued.

The assessment of investment conditions has markedly improved; the investment expenditure planned for 2017 is greater than that of the previous year for all sectors, with a higher growth in the second quarter. Employment expectations have further improved, in particular for industry excluding construction.

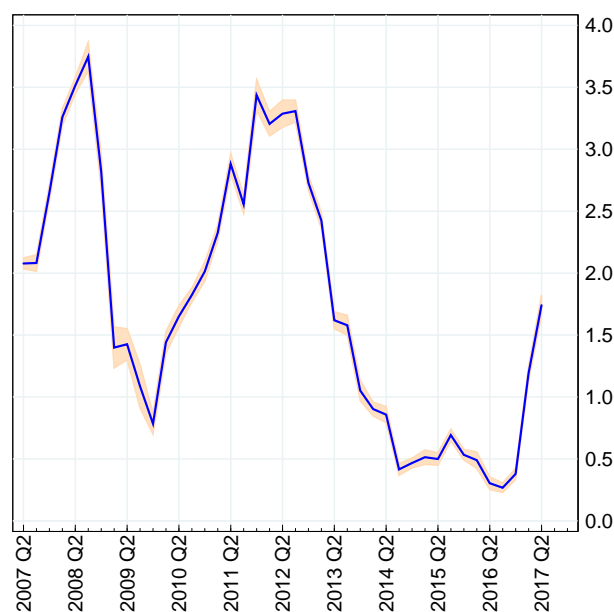
General state of the economy (1)

(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 Q1. See tabb. s1 and s4 of the statistical appendix.

Survey on Inflation and Growth Expectations¹

Assessments of the general economic situation improve across all sectors

In the second quarter of 2017, the balance between reports of improvement and deterioration regarding the general economic situation became positive again after three consecutive quarters, as the signs of recovery already observed in the previous survey strengthened (Table 1). Improvement judgements prevail in industry excluding construction and services, while the balance moved from negative to zero in construction, mainly owing to more favourable assessments among non-residential construction firms. Firms believing that the general economic situation is stable continue to account for the greatest share, standing at around three quarters of the sample. There was an increase in the average probability assigned to an improvement in the economic outlook for the next three months.

Firms' expectations of the conditions in which they will be operating in the next quarter have improved overall, but trends differ across sectors. While the share of firms that expects conditions to hold stable remains by far the greatest, the positive balance between expectations of an improvement and those of a deterioration doubled in industry excluding construction and services (Figure 1). In firms' assessment of the factors most affecting their activity in the next three months, for the first time since the second quarter of 2016 the weight attributed to the favourable performance of demand was greater than the negative weight assigned to uncertainty.

Inflation expectations continue to grow

Firms' expectations of consumer price inflation grew by about half a percentage point across all time horizons, returning to mid-2013 levels: they stand at 1.6, 1.7 and 1.9 per cent for 6, 12 and 24 months ahead respectively (Figures 2, 3 and 4), and at 2.0 per cent for the longest time horizons (between three and five years ahead). The rise was likely affected by the acceleration in the consumer price index observed in April (the last month for which official data were available when the survey was conducted), mainly owing to the calendar effects arising from the different timing of the Easter holidays compared with last year.

Current demand strengthens also for construction firms overall

In all sectors, firms' assessments of the demand pattern for their products improved considerably in the second quarter of 2017 compared with the previous quarter. Positive assessments prevailed across all geographical areas and for all firm size classes. The positive balance between expectations of an increase in demand and those of a decrease tripled in industry excluding construction and widened by about 10 percentage points in services; in construction, positive assessments outpaced negative ones for the first time since the second quarter of 2016, owing to the more favourable assessments submitted by the firms that are more active in non-residential construction. For firms overall, the positive balance between expectations of an improvement and those of a deterioration regarding demand in the next quarter, which had been rising since the end of 2016, grew further to 25.2 percentage points, up from 21.1 points in March.

The share of firms expecting the demand for their products to expand increased, the rise being steepest among those more active in foreign markets. For construction firms, the positive performance mainly reflected the favourable assessments in the non-residential sector, while the expectations of those operating mostly in the residential sector deteriorated, though still remaining positive.

¹ The survey report was prepared by Tatiana Cesaroni e Sergio Santoro.

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 of privacy. We would like to thank the 1014 firms with 50 or more employees (of which 379 in industry excluding construction, 423 in services and 212 in construction) that participated in June 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/06/en_quest_II_trim_2017.pdf?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/06/dati_2017_06_eng.zip?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/methods_and_sources.pdf?language_id=1

Selling prices accelerate and are expected to rise further, though less than inflation

The selling prices of firms in industry excluding construction and services rose by 1.0 per cent year-on-year, displaying stronger growth compared with the 0.3 per cent recorded in March. This was exclusively due to an upswing in industry excluding construction (from 0.3 to 1.8 per cent), as the rate of growth in services was modest and stable at 0.3 per cent (Figures 5.1 and 5.2). Conversely, construction firms lowered their selling prices more than they had done in the previous quarter (Figure 5.3).

For firms in industry excluding construction and services as a whole, the expected rate of growth of their own selling prices in the next twelve months remained stable and smaller than the inflation expectations for the same horizon (0.9 per cent). Prices appear to be driven by the increase in the prices of raw materials, the cost of labour and intermediate inputs, although seemingly curbed by competitors' pricing policies; the evolution of demand is still not seen as a significant factor.

Firms see an improvement in investment conditions and plan to increase expenditure in 2017

In the second quarter of 2017 the gap between positive and negative expectations of investment conditions widened to 8.5 percentage points, up from 0.9 points in March; the increase was widespread across all sectors (Figure 6). In construction the improvement on the previous quarter was ascribable to the non-residential branch, for which the balance regained positive territory. At four fifths, the share of firms reporting investment conditions similar to the previous quarter remains dominant across all sectors. The balance of assessments regarding access to credit conditions, which was already positive, widened

slightly in industry excluding construction and in services and was practically stable at negative values in construction.

The gap between the share of firms expecting a rise in their nominal investment expenditure over the course of 2017 and those predicting a fall widened to 21.0 percentage points, up from 14.4 points in March. The balance improved across all sectors, turning positive again in construction and remaining particularly high in industry excluding construction. About half of the firms expect investment expenditure to hold stable.

Employment expectations are more favourable, especially in industry excluding construction

Firms' employment expectations continue to improve, though with differing intensity across sectors. In industry excluding construction the balance between the share of firms planning to increase staff numbers and those expecting to reduce them rose significantly compared with March; conversely, the widening was more modest in services and in construction, the balance remaining negative for the latter.

Table 1

Main findings (1)

(per cent)

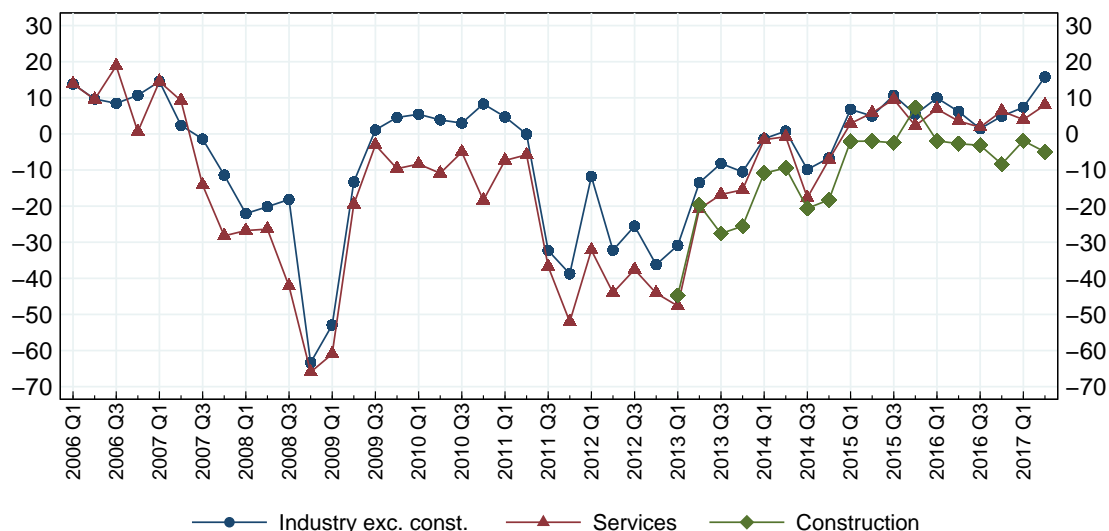
	Industry exc. const.		Services		Construction		Total	
	2017 Q1	2017 Q2	2017 Q1	2017 Q2	2017 Q1	2017 Q2	2017 Q1	2017 Q2
Rate of change								
Inflation expectation 6 months ahead	1.1	1.7	1.0	1.5	0.9	1.6	1.0	1.6
Inflation expectation 12 months ahead	1.2	1.8	1.1	1.7	1.1	1.7	1.2	1.7
Change in own prices 12 months ahead	1.2	1.3	0.6	0.6	0.4	0.5	0.9	0.9
Balance between reports of improvement and deterioration								
Judgments on the previous quarter								
General economic situation	-1.5	14.7	2.0	15.9	-8.0	-0.2	-0.2	14.5
Total demand	9.9	25.2	2.5	13.7	-6.6	5.3	5.6	18.8
Foreing demand	18.3	28.3	5.3	12.4	—	—	14.6	23.9
Investment conditions	-0.4	8.7	3.0	9.1	-5.4	2.2	0.9	8.6
Forecast 3 months ahead								
Total demand	24.2	32.0	18.7	19.2	13.8	16.9	21.1	25.2
Foreing demand	30.2	32.4	23.4	23.0	—	—	28.2	29.8
Firms' economic conditions	7.4	15.8	4.0	8.0	-1.9	-5.0	5.3	11.0
Employment	1.3	10.0	7.6	10.6	-7.6	-7.0	3.8	9.4
Forecast of investment expenditure								
H2 2017 on H1 2017	—	29.1	—	16.7	—	10.0	—	22.3
2017 on 2016	18.6	25.4	11.7	18.2	-1.7	6.4	14.3	21.0

(1) The statistical appendix is available at

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/06/dati_2017.06.eng.zip?language.id=1

Figure 1

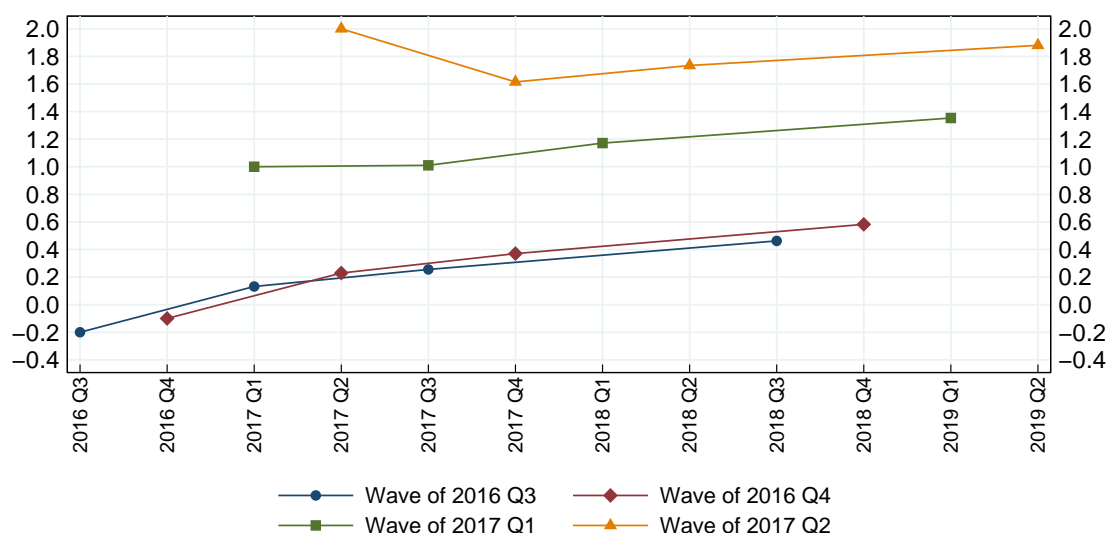
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2

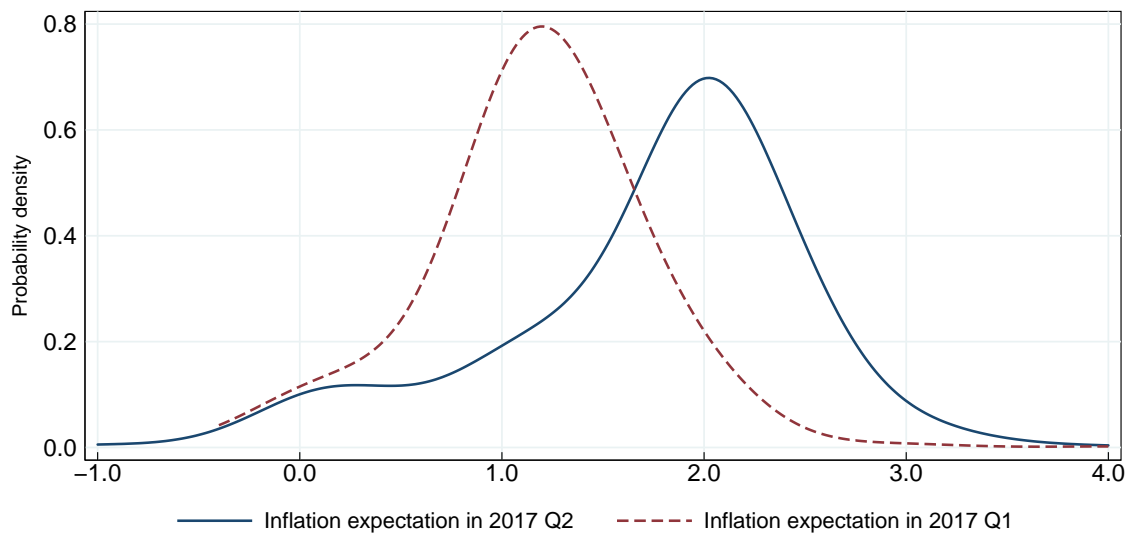
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

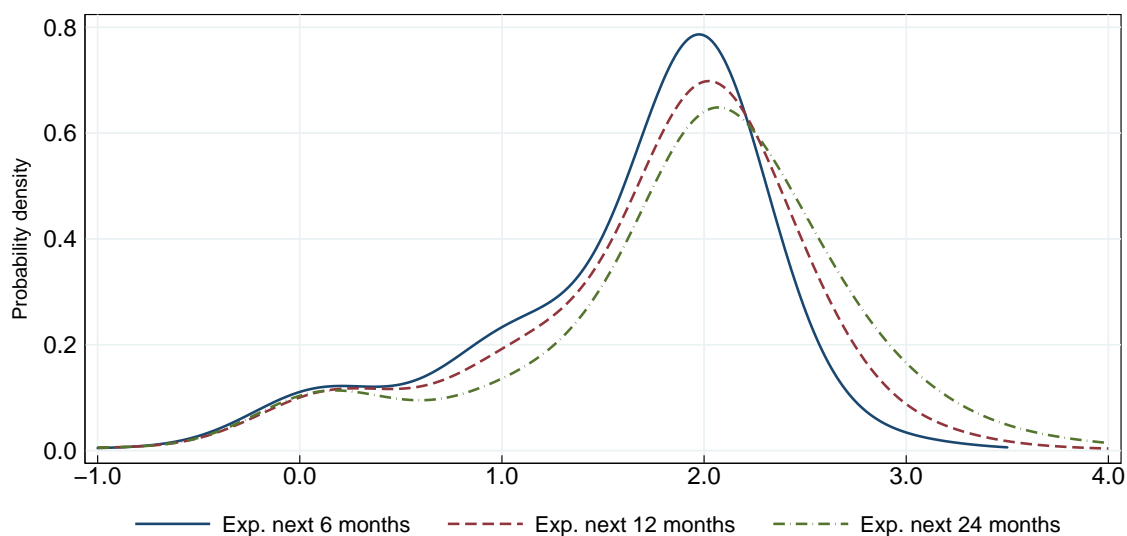
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



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

Figure 4

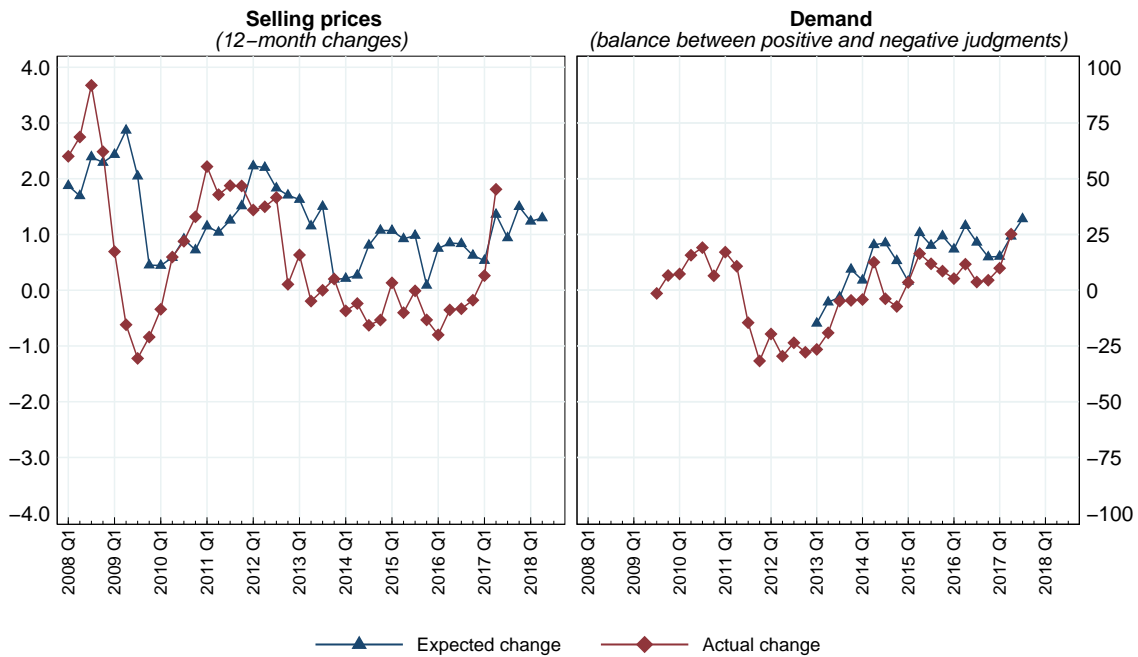
Expectations of the inflation rate over the next 6, 12 and 24 months (1)
(non parametric estimates)



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

Figure 5.1

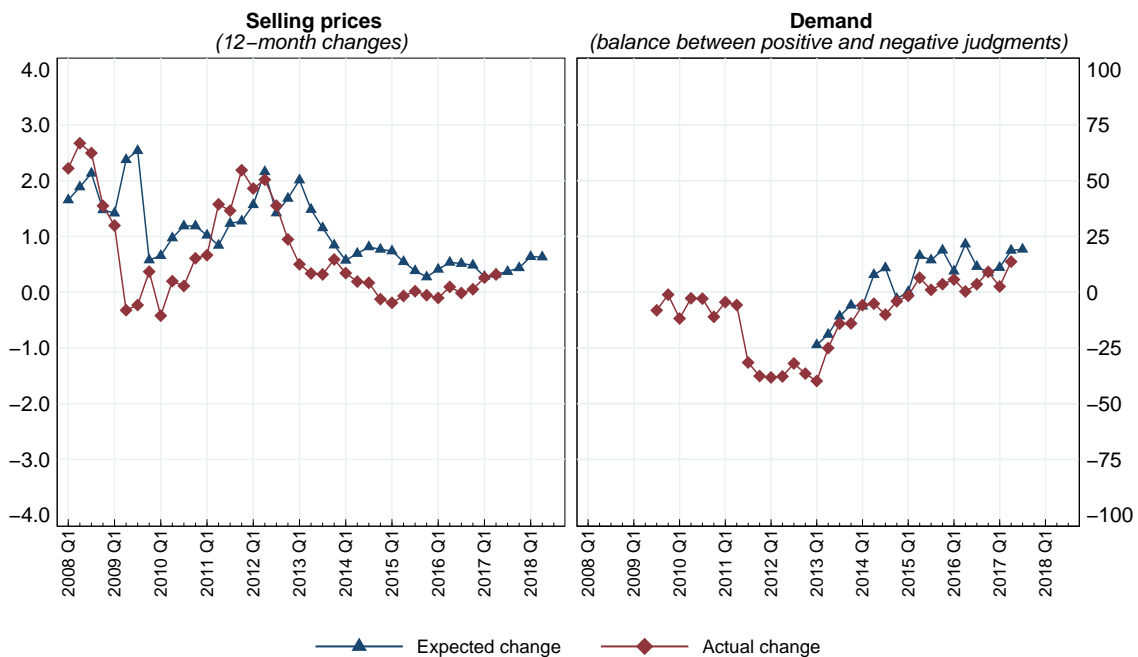
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

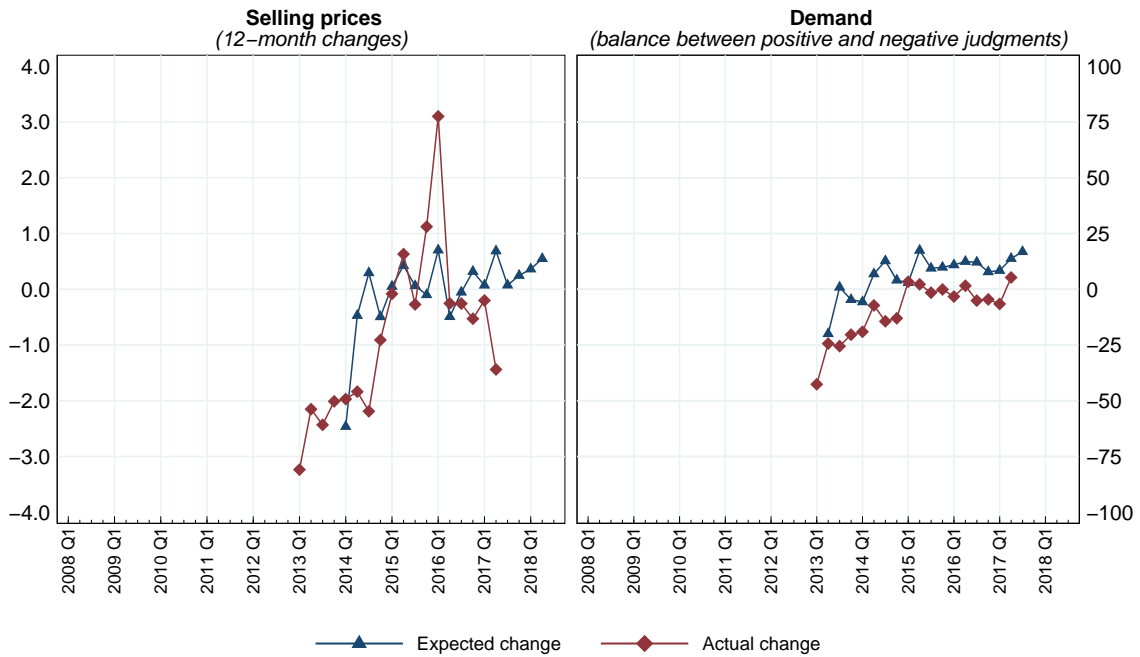
Expected and actual changes in selling prices and demand (1)
(services)



(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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<http://www.bancaditalia.it/statistiche/>

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