



Survey on Inflation and Growth Expectations

16 January 2018

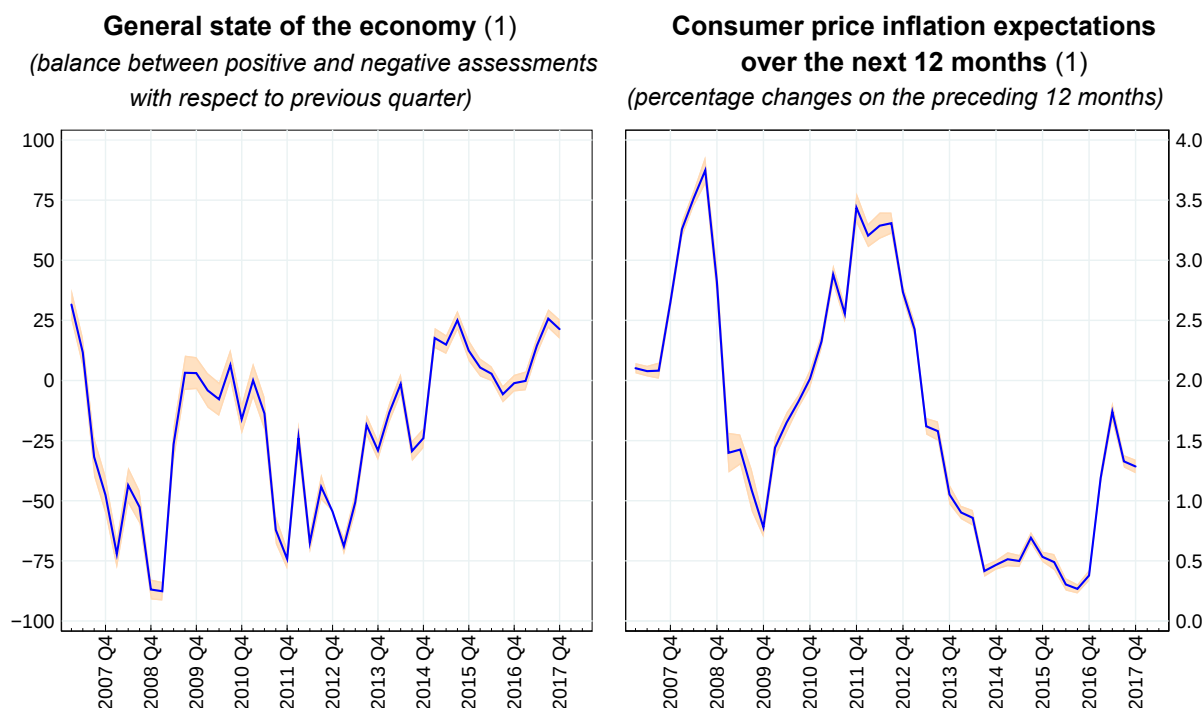
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www.bancaditalia.it/statistiche/index.html

Main results

According to the survey conducted in December 2017 among the Italian firms with 50 or more employees, opinions regarding the current economic situation and expectations for the next three months remain positive, although less so than those expressed in the last survey.

Inflation expectations are still moderate over all time horizons, in line with the recent trend and expectations regarding firms' own prices. Both service firms and those in industry excluding construction report an increase in demand for their products in the next three months, while in the construction industry the opposite is true. Expectations for the next three months regarding firms' operating conditions appear slightly less favourable, mainly owing to assessments coming from the construction sector.

Investment plans for 2018 point to an increase in expenditure with respect to last year. Employment expectations indicate a further, albeit limited, increase in industry excluding construction and services; in the construction sector the outlook suggests a worsening.



(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 Expectations¹

Assessments of the economic situation worsen slightly but remain positive

In the fourth quarter of 2017, the balance between reports of improvement and deterioration regarding the general economic situation remained positive, despite narrowing slightly compared with the previous survey: it declined to about 22 percentage points in industry excluding construction and in services (from 26 in the September survey) and to 15 points in construction (from 18; Table 1). The share of firms reporting an improvement was higher in industry excluding construction; reports that the general economic situation was stable continued to prevail across all sectors.

Firms' expectations of the conditions in which they will be operating in the next quarter were less favourable overall, especially in construction: the share of firms expecting conditions to hold stable prevailed, but the balance between expectations of an improvement and those of a deterioration fell from 7.1 to 2.2 percentage points (Figure 1). Firms still believe that the performance of demand would positively affect activity over the following three months, while the negative impact of economic and political uncertainty was expected to be more moderate.

Inflation expectations remain modest

Firms' expectations of consumer price inflation (Figures 2, 3 and 4) were substantially unchanged compared with the September survey: while modest, they remained above the lows recorded at the end of 2016. Inflation expectations stood at 1.2, 1.3 and 1.4 per cent for 6, 12 and 24 months ahead respectively, and at 1.5 for the longest time horizons (between three and five years).

Current and projected growth in selling prices remains moderate

As a whole, firms continued to report a small increase in their selling prices compared with a year ago (0.9 per cent, down from 1.0 in September), with trends that varied by sector: the increase was higher in industry excluding construction (to 1.5 per cent from 1.7) and more moderate in services (0.5 per cent, as in September) and construction, which recorded its first increase since the start of 2016 (0.4 per cent).

Over the next twelve months, firms expect to increase their selling prices by 1.1 per cent; list prices are expected to continue to be heavily influenced by the price for raw materials and the cost of labour and intermediate inputs. Demand was again deemed to play a smaller role (Figures 5.1, 5.2 and 5.3).

Demand assessments remain positive while expectations worsen slightly

Positive assessments of the change in demand for their products compared with the previous quarter prevailed over negative ones in all sectors: in industry excluding construction and in services the balance increased to 16.1 percentage points (from 13.8 in September) and was even wider for firms more active in foreign markets. In construction, the balance narrowed to 8.8 points (from 16.3).

The positive balance between expectations of an improvement and those of a deterioration regarding demand in the next quarter narrowed slightly to 18.1 percentage points from 19.8. The fall, attributable to industry excluding construction, was tempered by increases in services and in construction (where the balance was especially wide for firms operating mostly in the non-residential sector).

Investment conditions remain favourable

In the fourth quarter of 2017 the balance between positive and negative expectations of investment conditions remained at historically high levels (13.6 percentage points) despite declining in construction (Figure 6) though to a level that was higher than at the start of the year. Credit access conditions improved overall: the positive balance of assessments regarding access to credit widened from 2.8 to 4.0 percentage points; in

¹ The survey report was prepared by Tatiana Cesaroni and Cristina Conflitti.

The survey was conducted in collaboration with // 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 1,013 firms with 50 or more employees (of which 387 in industry excluding construction, 434 in services and 192 in construction) that participated in the December 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/12/en_quest_IV_trim_2017.pdf

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/12/dati_2017_12_eng.zip

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/methods_and_sources.pdf

contrast, conditions worsened in construction where the negative balance widened from -2.6 to -10.6 percentage points.

For the first time, firms were asked whether their average investment expenditure over the last three years was adequate for their production needs. Some three-quarters of firms reported that it was sufficient; however, more than a fifth deemed it insufficient (the share was higher among small firms and those in construction), while less than 3 per cent reported that it was excessive.

**The investment
outlook for 2018
is favourable**

Favourable investment conditions were met with expectations of further growth in capital accumulation, both in the first six months of 2018 and for the year as a whole. The share of firms expecting to increase their nominal investment expenditure in 2018 exceeded those planning a reduction by 28.1 percentage points. In industry excluding construction and in services, the balance was especially wide among larger firms (35.1 points); it increased to 19.8 points in construction, driven by firms operating mostly in the non-residential sector.

**Employment
expectations
improve, though
they vary by
sector**

Firms' employment expectations improved overall, though they diverged greatly by sector. The balance between the share of firms planning to increase staff numbers in the coming quarter and those planning to reduce them widened to 11.1 percentage points for firms in industry excluding construction (from 6.2 in September) while the balance widened only slightly for service firms (to 5.3 from 4.8). After the recovery recorded in the September survey, the balance deteriorated markedly for construction firms, falling from -3.7 to -10.9 percentage points.

Table 1

Main findings (1)

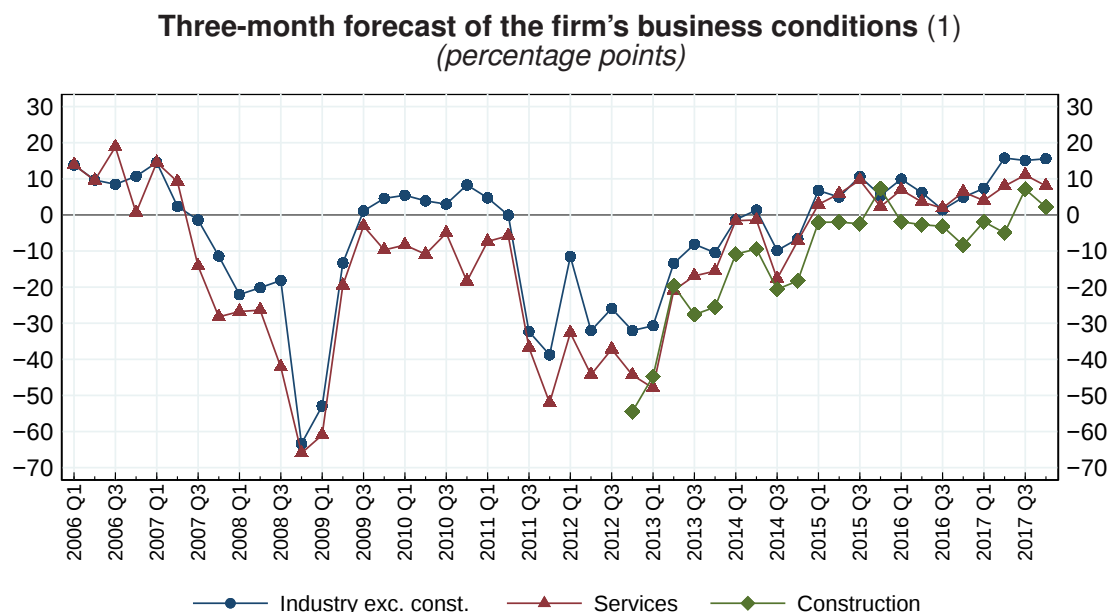
(per cent)

	Industry exc. const.		Services		Construction		Total	
	2017 Q3	2017 Q4	2017 Q3	2017 Q4	2017 Q3	2017 Q4	2017 Q3	2017 Q4
Rate of change								
Inflation expectation 6 months ahead	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Inflation expectation 12 months ahead	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Change in own prices 12 months ahead	1.4	1.5	0.6	0.8	0.6	0.6	0.9	1.1
Balance between reports of improvement and deterioration								
Judgments on the previous quarter								
General economic situation	28.3	20.7	24.0	22.6	17.7	14.6	25.7	21.3
Total demand	20.4	20.6	7.2	11.6	16.3	8.8	13.9	15.7
Foreing demand	22.3	23.4	17.8	14.9	—	—	21.0	21.1
Investment conditions	14.6	14.6	14.7	13.5	10.6	5.4	14.4	13.6
Forecast 3 months ahead								
Total demand	26.6	21.3	13.6	14.8	15.4	17.7	19.8	18.1
Foreing demand	30.0	33.6	25.4	15.6	—	—	28.7	28.8
Firms' economic conditions	15.1	15.6	11.1	8.0	7.1	2.2	12.8	11.3
Employment	6.2	11.1	4.8	5.3	-3.7	-10.9	5.0	7.2
Forecast of investment expenditure								
H1 2018 on H2 2018	—	25.8	—	18.4	—	13.1	—	21.6
2018 on 2017	—	29.4	—	27.7	—	19.8	—	28.1

(1) The statistical appendix is available at

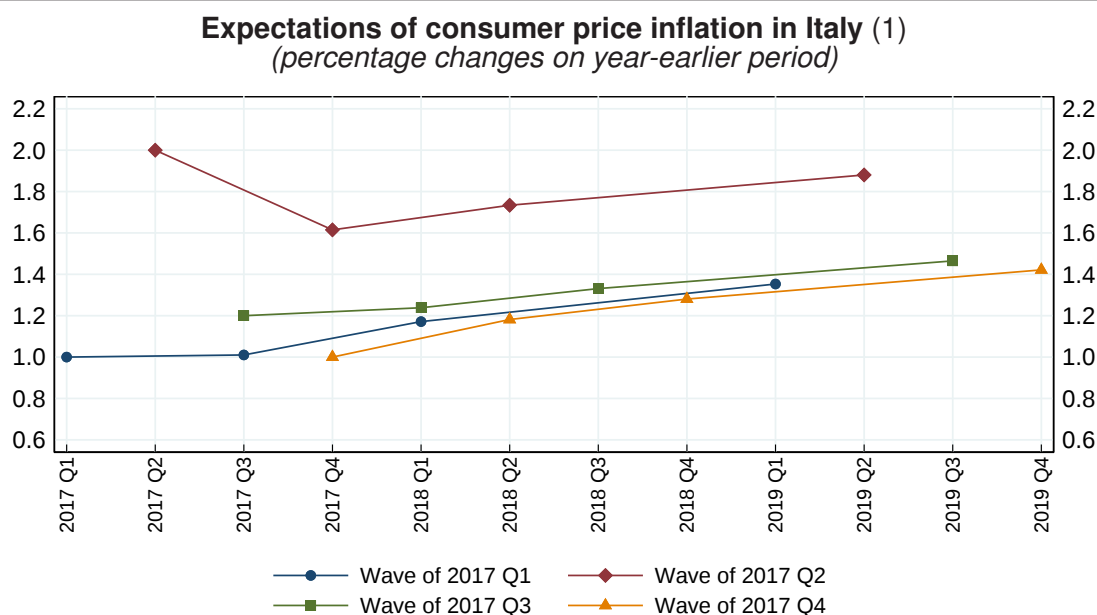
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/12/dati_2017_12_eng.zip?language_id=1

Figure 1



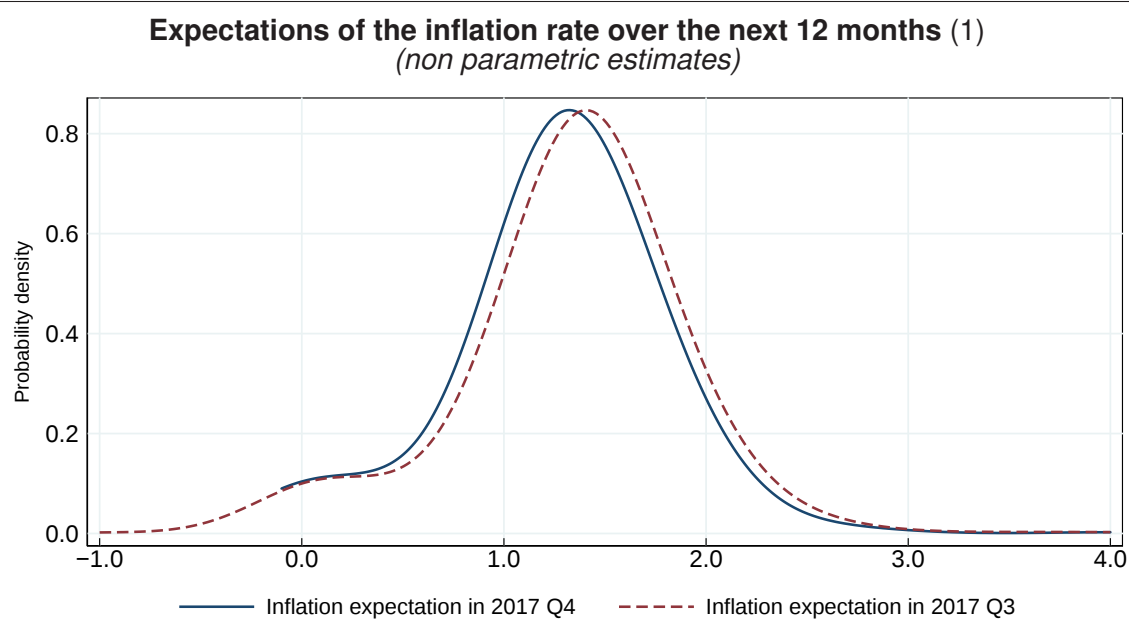
(1) Balance between expectations of an increase and expectations of a decrease.

Figure 2



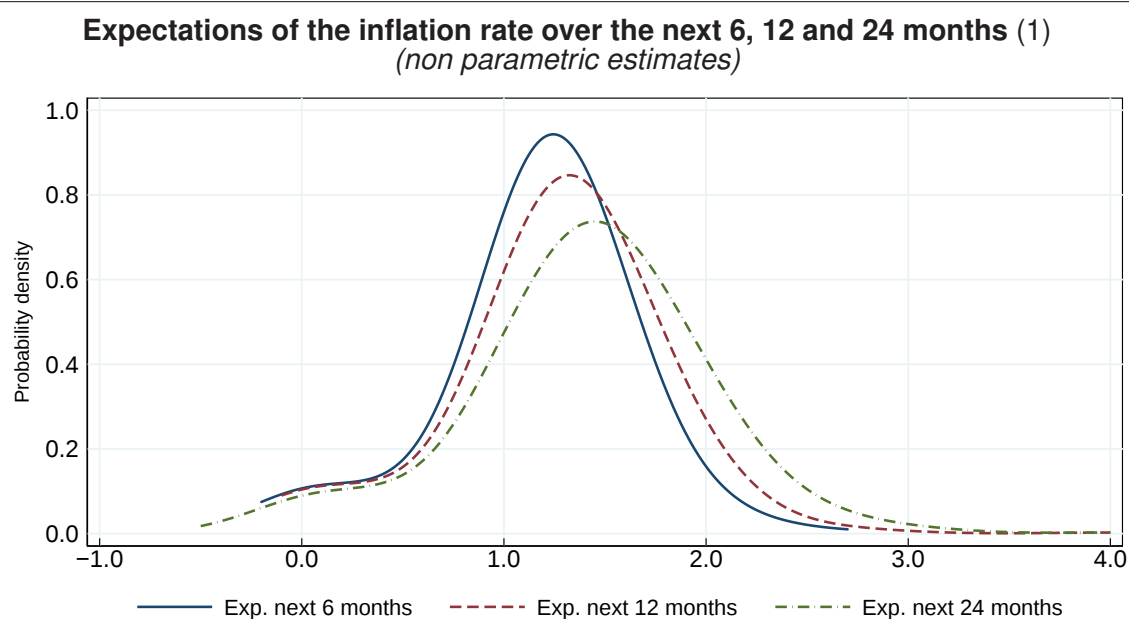
(1) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next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



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

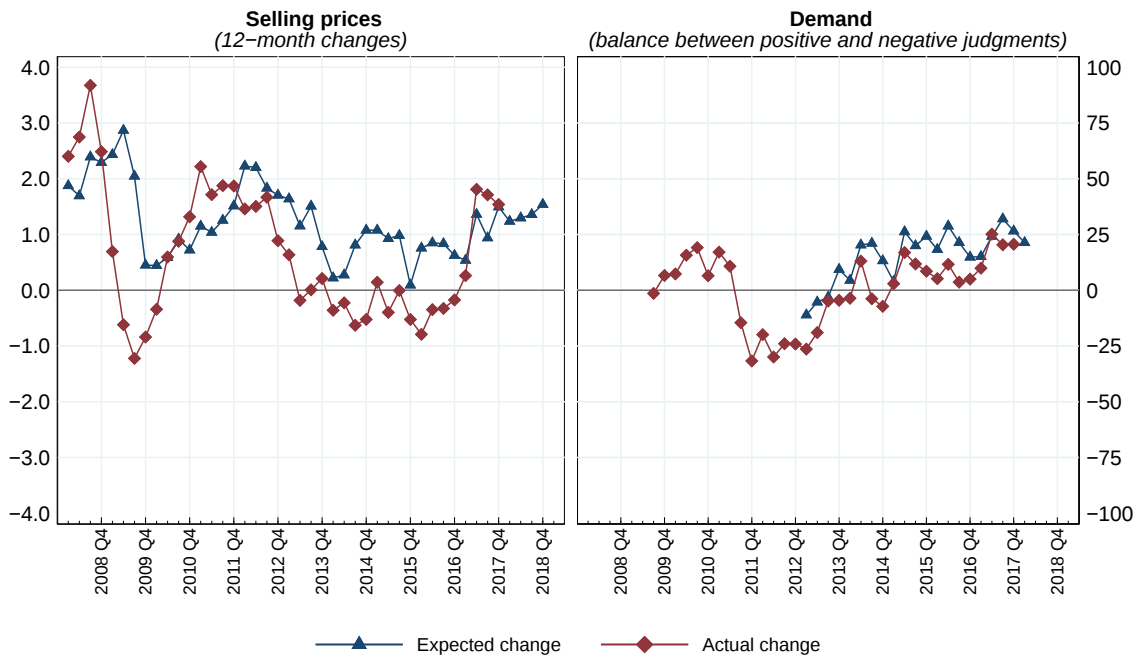
Figure 4



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

Figure 5.1

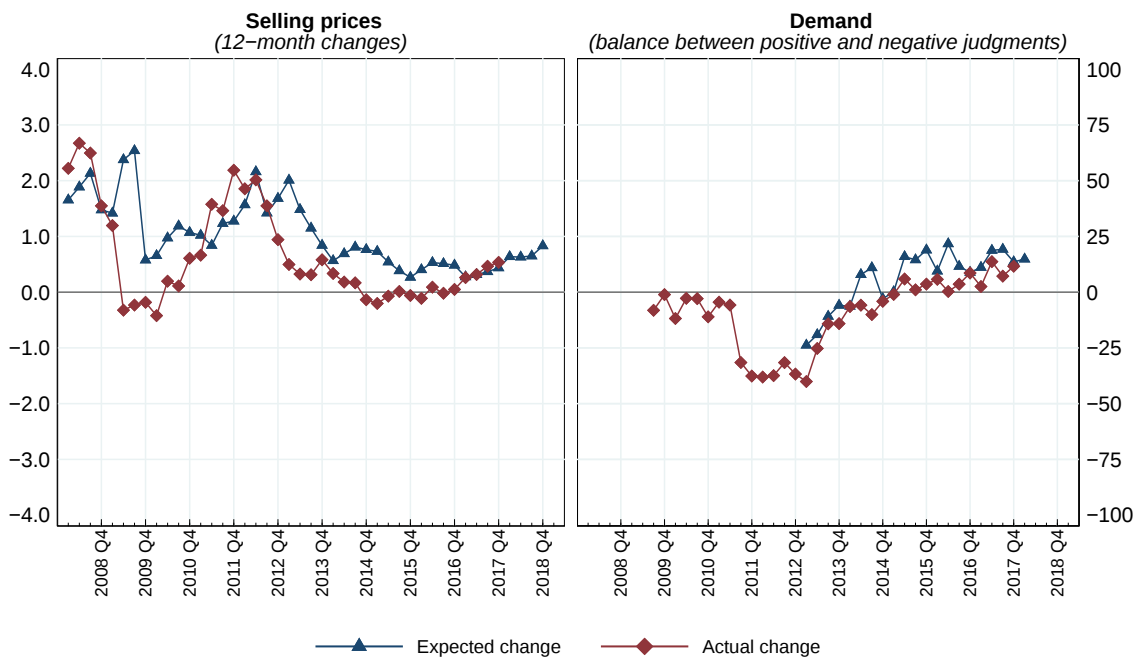
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

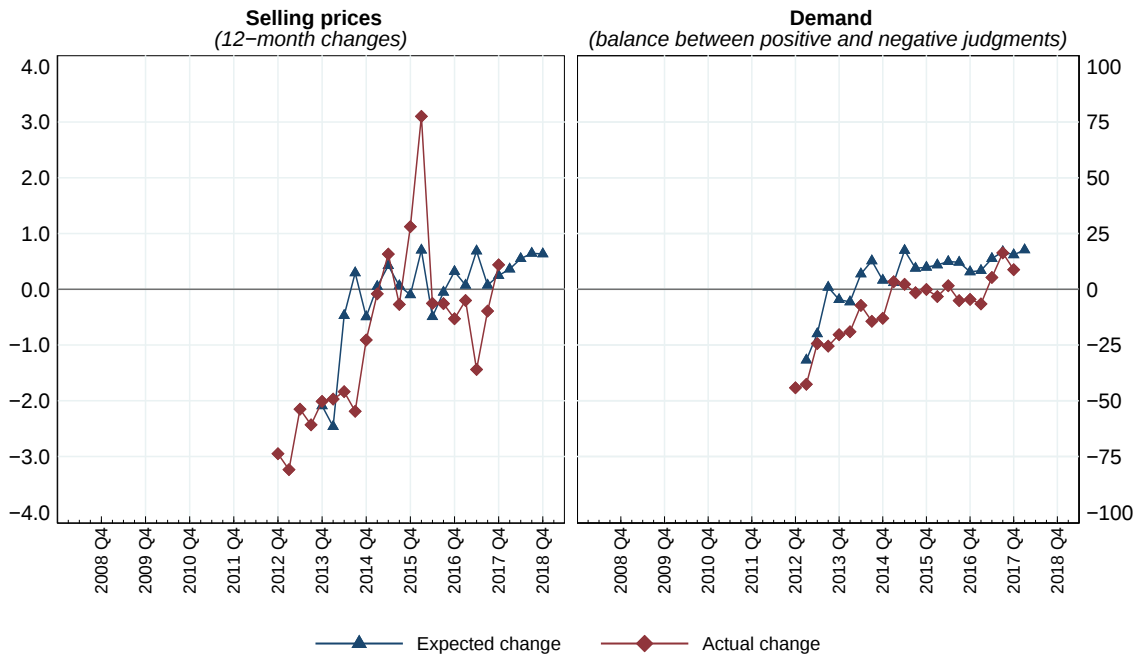
Expected and actual changes in selling prices and demand (1)
(services)



(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

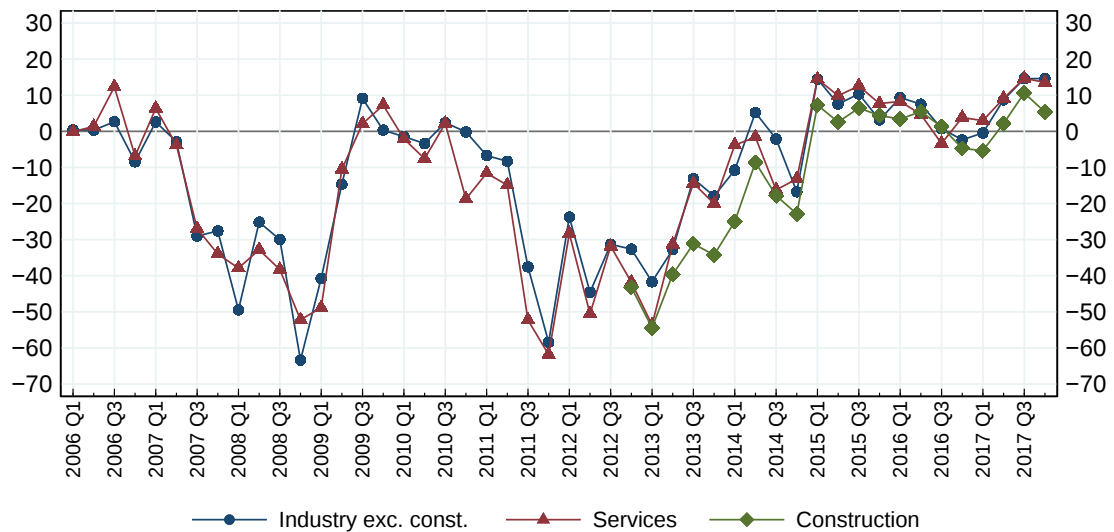
Expected and actual changes in selling prices and demand (1)
(Construction)



(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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