

Survey on Inflation and Growth Expectations

9 April 2018

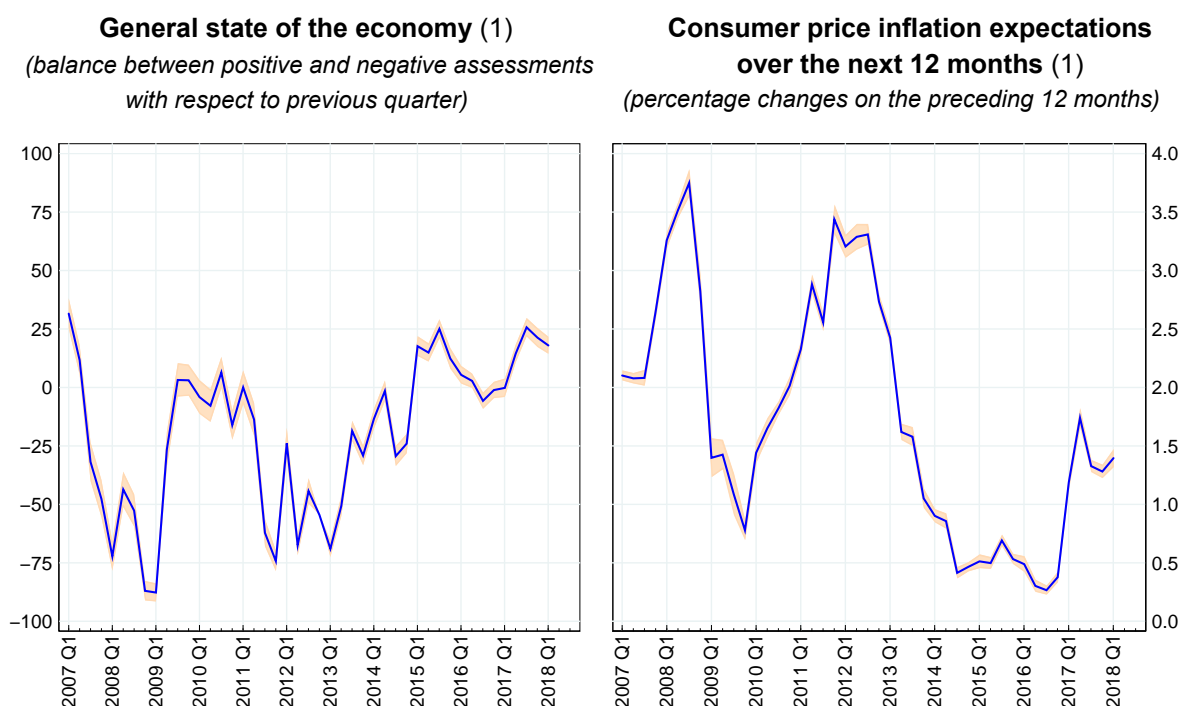
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Main results

According to the survey conducted in March 2018 among Italian firms with 50 or more employees, opinions regarding the general state of the economy continue to be positive, though slightly less so than in the previous survey, especially in the construction sector. While they remain at historically high levels, overall assessments of current demand have deteriorated, particularly as regards the domestic component; demand expectations in the next quarter have instead continued to strengthen.

Consumer price inflation expectations are still moderate, though they are up slightly over all time horizons. For the next twelve months, firms in industry excluding construction and in services expect the trend in their sales prices to stabilize; construction firms instead expect prices to grow at a faster pace.

Firms essentially confirmed their investment plans for the current year as reported in the last quarter, with positive assessments, albeit less favourable, on investment. Employment expectations are improving, especially for construction firms.



(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

Levels of optimism about the general economic situation remain high

In the first quarter of 2018 the balance between reports of an improvement or of a deterioration in the general economic situation remained positive and at historically high levels, though it did narrow slightly: from 14.6 to 7.6 percentage points in the construction sector, from 22.6 to 18.1 percentage points in services, and from 20.7 to 19 percentage points in industry excluding construction.

The majority of firms continue to deem it probable that the general economic situation would improve in the next three months, though this share fell by around 3 percentage points, to 15.4 per cent. In industry excluding construction the balance between expectations of an improvement or of a deterioration in firms' operating conditions narrowed, while the balance in the services sector was unchanged (Figure 1). According to the firms interviewed, in the next three months uncertainty stemming from economic and political factors will continue to be the main drag on output.

Expected inflation rises slightly ...

Consumer price inflation expectations reported by firms remained moderate over all time horizons, though they rose a little compared with the previous survey (reaching 1.3, 1.4 and 1.5 per cent for 6, 12 and 24 months ahead respectively, and 1.6 per cent for between three and five years ahead; Figures 2, 3 and 4), above all in industry excluding construction.

... and the positive performance of firms' selling prices is confirmed

Firms in industry excluding construction and in services expect the trend in their selling prices to stabilize in the next 12 months (rising to 1.5 and 0.8 per cent, respectively), after the slightly faster pace of growth recorded in the previous year, mostly involving large firms. Firms in the construction sector, instead, expect their selling prices to accelerate only slightly, to 0,8 per cent, a high level by historical standards (Figures 5.1, 5.2 and 5.3). In line with the opinions expressed in the last six quarters, the cost of the factors of production (raw materials, labour and intermediate inputs) contributed the most to the increase in prices, while demand contributed only marginally.

Assessments of demand are less positive but expectations have improved for the next quarter

Overall assessments of the quarter-on-quarter trend in demand deteriorated, especially for firms in industry excluding construction, though they were more favourable compared with the year-earlier corresponding period. This mainly reflects the sharp decline in expectations of an improvement while expectations of a deterioration were basically unchanged; the balance between the two, however, remains positive and wide by historical standards. This trend is entirely attributable to the domestic component.

Expectations for demand in the next quarter have, on the contrary, improved further, for both the domestic and foreign components. For firms as a whole, the balance between firms expecting demand to increase and those expecting it to decline rose from 18.1 to 24.2 percentage points (and from 28.8 to 32.9 per cent for foreign demand).

Assessments of investment conditions are less favourable

In the first quarter of 2018 the balance between opinions of an improvement and those of a deterioration in investment conditions narrowed, though it remains at high levels (falling from 13.6 to 6.5 percentage points). The main contribution came from the reduction in positive assessments of firms in industry excluding construction and services, while assessments of no change increased.

¹ The survey report was prepared by Valentina Aprigliano and Marco Bottone.

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 compliance with the rules on privacy. We would like to thank the 1,120 firms with 50 or more employees (of which 413 in industry excluding construction, 488 in services and 201 in construction) who participated in the March 2018 survey. The survey questionnaire, the statistical appendix and the methodological note are available on the Bank's website at:

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2018-indagine-inflazione/03/en_quest_1_trim_2018.pdf?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2018-indagine-inflazione/03/dati_2018_03_eng.zip?language_id=1

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

Investment forecasts for 2018 remain positive overall

In industry excluding construction and in services the share of firms expecting nominal expenditure this year to remain stable compared with 2017 rose slightly, to about 50 percentage points. The increase reflects the moderate fall both in the share of firms that expect to reduce expenditure, which reached its lowest level since the survey began (11.5 per cent), and in that of those expecting to increase it (40 per cent): the gap between the two remains historically wide and similar to that of the previous survey. The assessments of construction firms were more uneven: for those that operate primarily in the residential sector, the difference between the share of firms that expect to spend more and those planning a reduction both in the first half of 2018 and in the year as a whole has increased; by contrast, among the firms that operate primarily in the non-residential sector the difference has narrowed, though it nonetheless remains positive and at historically high levels.

Employment expectations have improved, especially for construction firms

The balance between the share of firms that plan to increase employment in the next quarter and those that plan to reduce it rose to 14.3 percentage points (from 11.1 percentage points) for industry excluding construction and to 9.4 percentage points (from 5.3) for services. Among the firms in the construction sector the balance expanded to a significant extent and, for the first time since the start of the survey, turned positive (reaching 0.3 percentage points, from -10.9).

Table 1

Main findings (1)

(per cent)

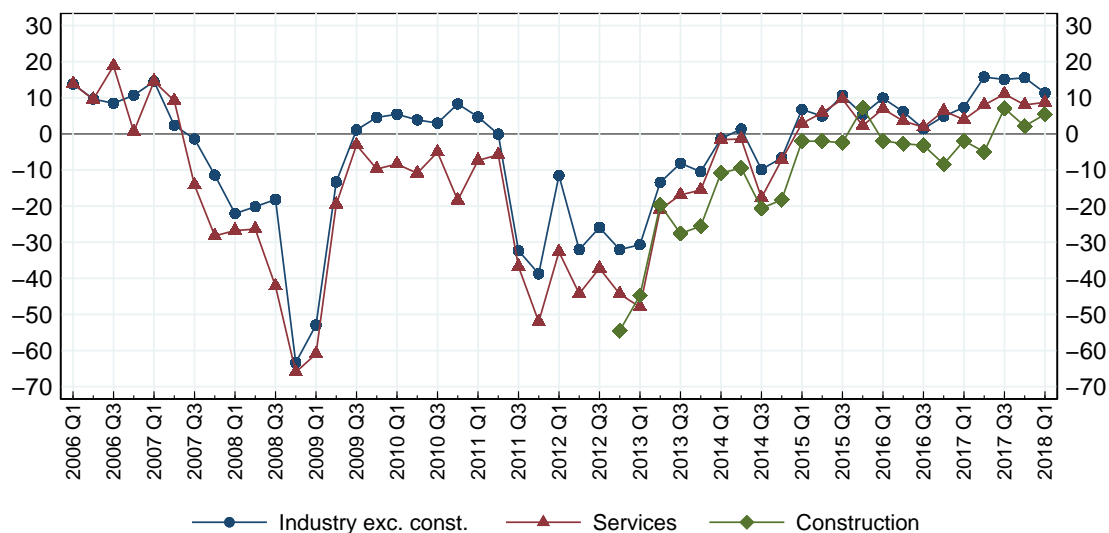
	Industry exc. const.		Services		Construction		Total	
	2017 Q4	2018 Q1	2017 Q4	2018 Q1	2017 Q4	2018 Q1	2017 Q4	2018 Q1
Rate of change								
Inflation expectation 6 months ahead	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.3
Inflation expectation 12 months ahead	1.3	1.5	1.3	1.3	1.3	1.3	1.3	1.4
Change in own prices 12 months ahead	1.5	1.5	0.8	0.8	0.6	0.8	1.1	1.1
Balance between reports of improvement and deterioration								
Judgments on the previous quarter								
General economic situation	20.7	19.0	22.6	18.1	14.6	7.6	21.3	18.0
Total demand	20.6	12.8	11.6	10.2	8.8	5.9	15.7	11.2
Foreing demand	23.4	22.7	14.9	20.5	—	—	21.1	22.0
Investment conditions	14.6	8.6	13.5	4.7	5.4	4.3	13.6	6.5
Forecast 3 months ahead								
Total demand	21.3	30.2	14.8	18.7	17.7	18.8	18.1	24.2
Foreing demand	33.6	34.5	15.6	29.3	—	—	28.8	32.9
Firms' economic conditions	15.6	11.4	8.0	8.7	2.2	5.4	11.3	9.8
Employment	11.1	14.3	5.3	9.4	-10.9	0.3	7.2	11.3
Forecast of investment expenditure								
H1 2018 on H2 2018	—	23.0	—	16.1	—	7.6	—	18.9
2018 on 2017	29.4	32.5	27.7	24.5	19.8	10.2	28.1	27.5

(1) The statistical appendix is available at

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2018-indagine-inflazione/03/dati_2018.03.eng.zip?language.id=1

Figure 1

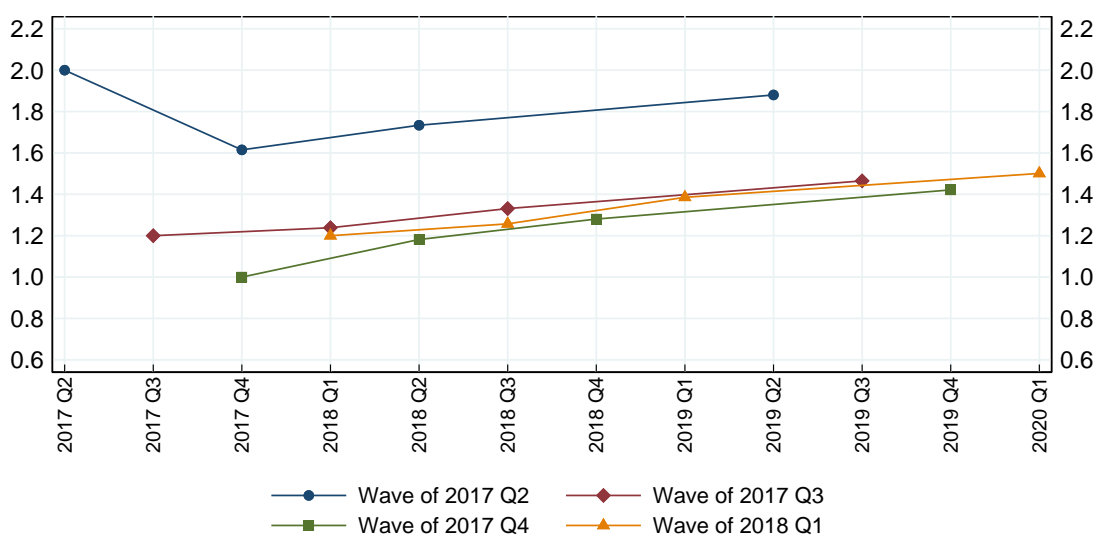
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2

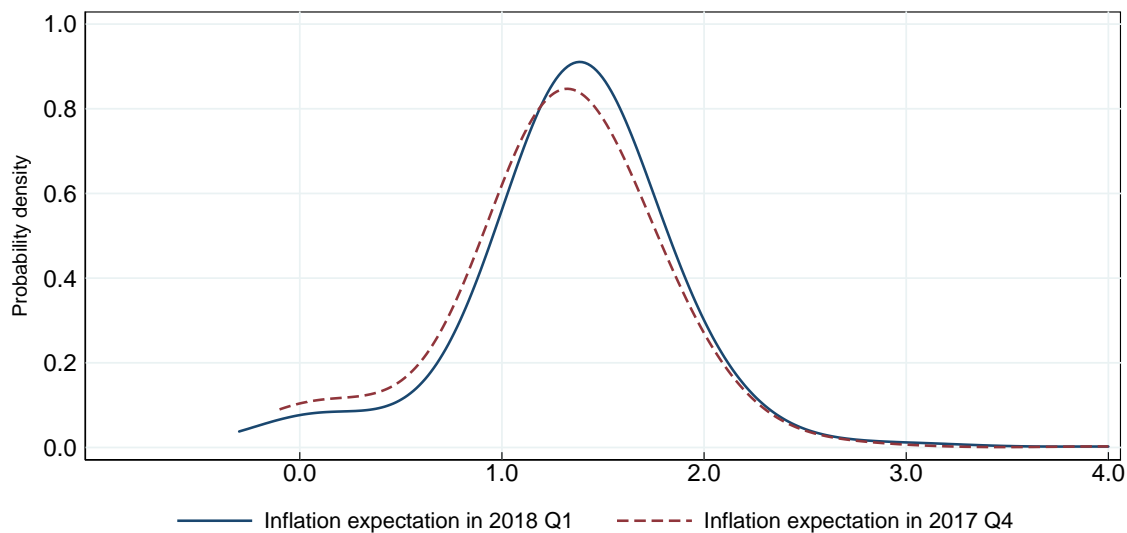
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

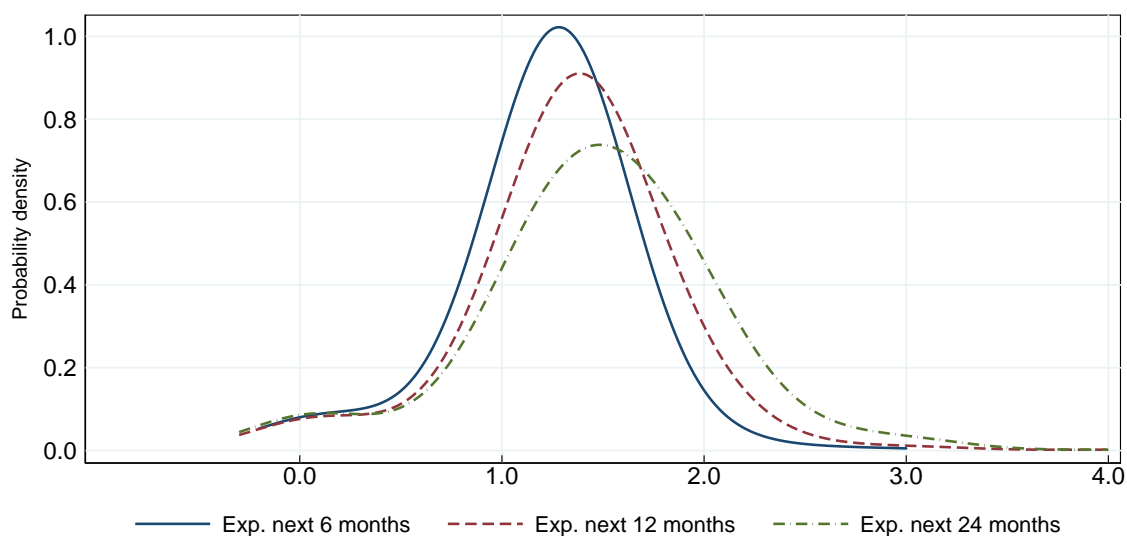
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



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

Figure 4

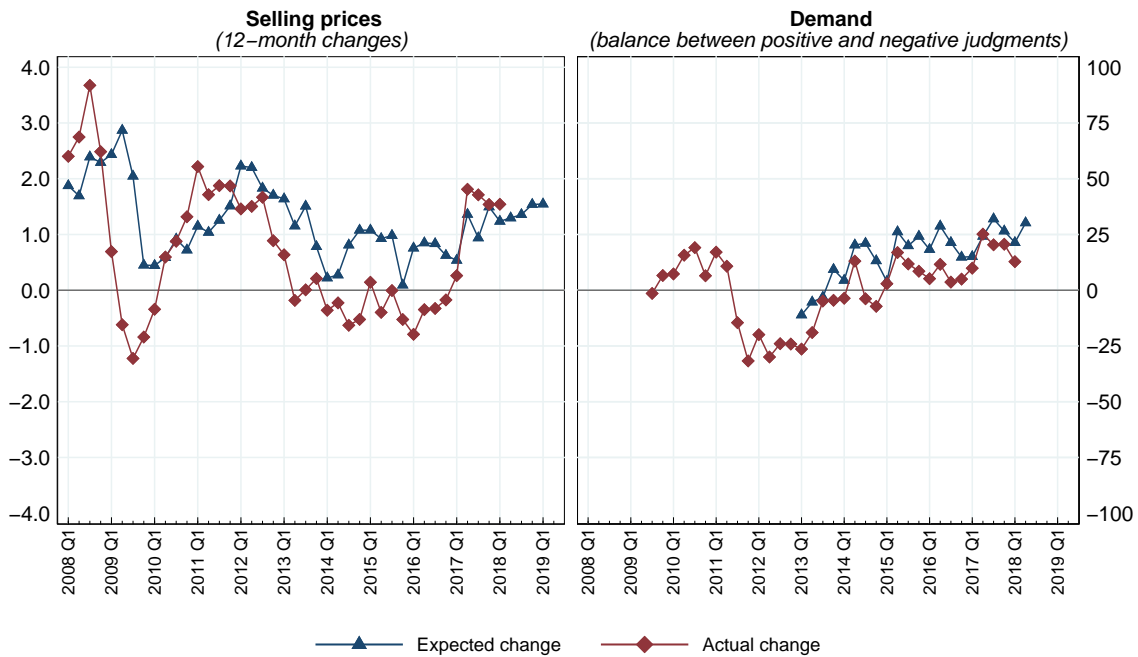
Expectations of the inflation rate over the next 6, 12 and 24 months (1)
(non parametric estimates)



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

Figure 5.1

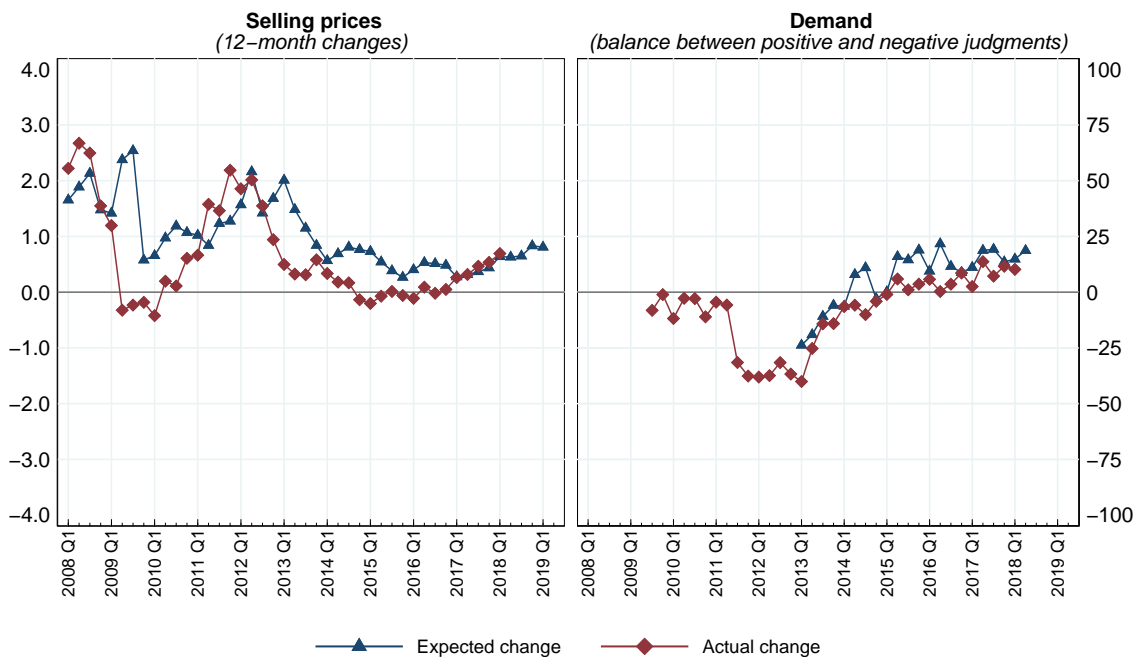
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

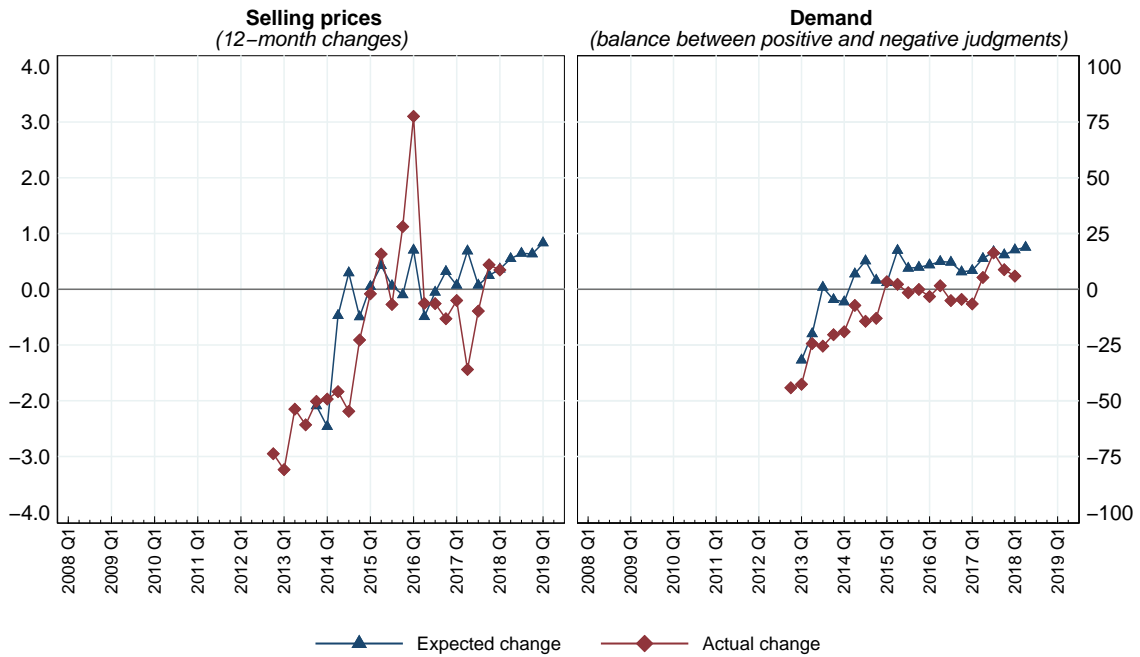
Expected and actual changes in selling prices and demand (1)
(services)



(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

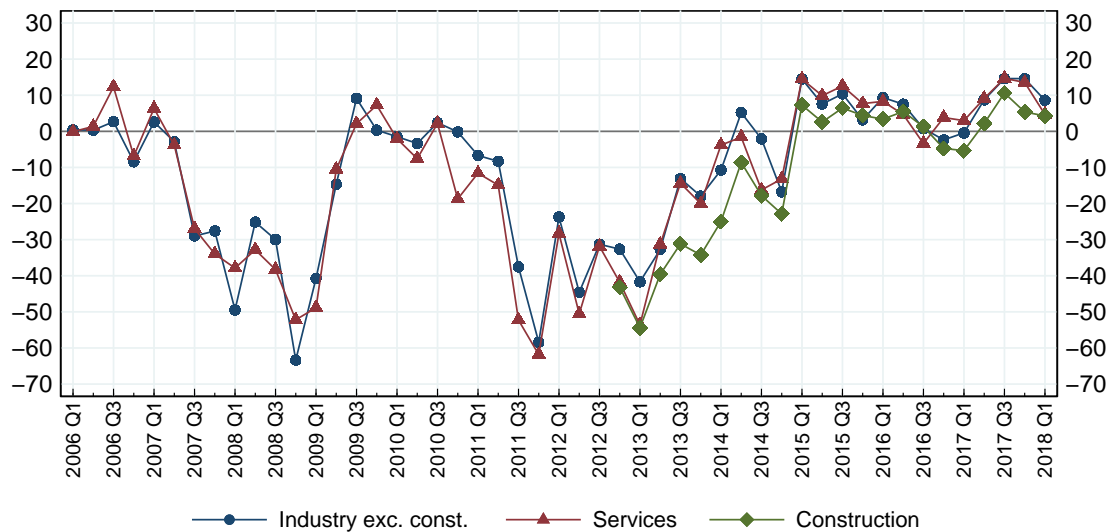
Expected and actual changes in selling prices and demand (1)
(Construction)



(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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