

Survey on Inflation and Growth Expectations

9 July 2018

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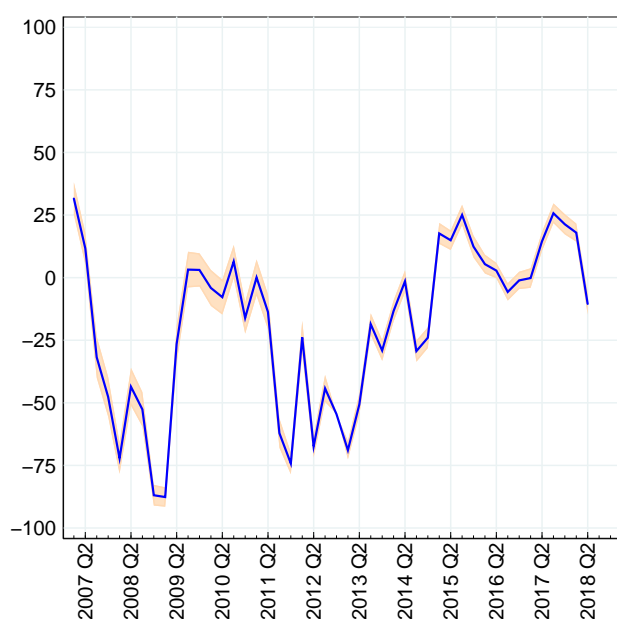
Main results

According to the survey conducted between 28 May and 15 June 2018 among Italian firms with 50 or more employees, opinions regarding the general state of the economy have worsened across all sectors partly on account of the deteriorating financial market conditions observed in the early days of the survey. Overall assessments of current demand have stabilized, while domestic and foreign demand expectations have instead become less favorable.

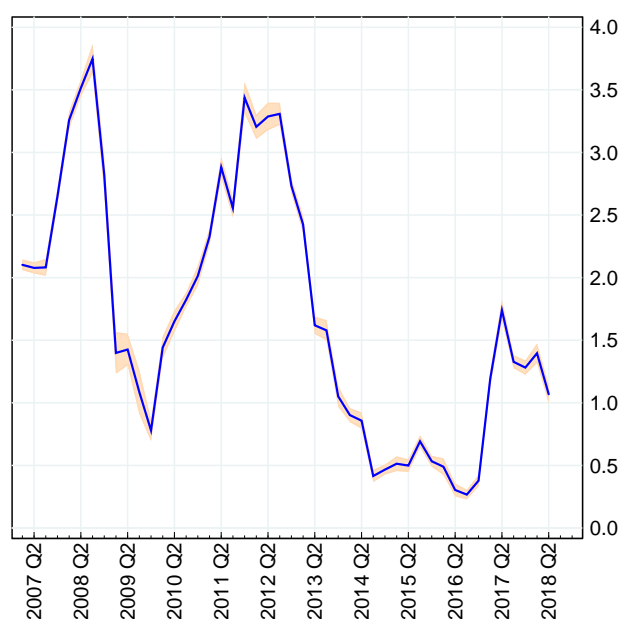
Investment plans for the current year were slightly less positive compared with the previous quarter. Employment expectations are worsening, particularly among construction companies.

Consumer price inflation expectations fell across all time horizons. Firms in the service sector expect a slight deceleration in their sales prices compared with the last survey, while firms in industry did not change their estimates. The cost of production inputs continues to represent the main driver of price dynamics.

General state of the economy (1)
 (balance between positive and negative assessments with respect to the 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 Tables s1 and s4 of the statistical appendix.

Survey on Inflation and Growth Expectations¹

Opinions on the general economic situation worsen

In the second quarter of 2018, the balance between reports of an improvement or of a deterioration in the general economic situation turned negative, as it had done to a lesser extent in the preceding two quarters. The balance worsened across all sectors (falling from 19.0 to -7.6 percentage points in industry excluding construction, from 18.1 to -13.7 in services, and from 7.6 to -6.9 in construction; Table 1), especially for firms in the North. In all sectors the decline in the share of positive opinions corresponded to an increase in the share of negative ones. The deterioration is at least partly attributable to the heightening of financial tensions around the time of the start of the survey. This theory is confirmed by the much smaller decline in firms' opinions regarding the probability that the general economic situation would improve in the next three months (which fell by almost 1 percentage point to 14.6 per cent).

The balance between expectations of an improvement or of a deterioration in firms' operating conditions in the short term turned negative in services (from 8.7 to -1.5), while the decline in industry excluding construction was smaller (from 11.4 to 6.5; Figure 1). The share of firms that expect that, in the next three months, uncertainty stemming from mainly economic and political factors will hold back output rose to 34 per cent from 27.4 per cent in the previous quarter.

Demand expectations are less favourable

Assessments of the quarter-on-quarter trend in demand were stable, notwithstanding the deterioration in those on foreign demand. With regard to foreign demand, which represents a significant share of turnover for only a third of firms, the balance between those expecting it to increase and those expecting it to decrease narrowed from 22.0 to 12.2 percentage points, affected by the less favourable assessments of the more export-oriented firms in the North. At the sectoral level, the balance between firms expecting an increase in overall demand and those expecting a decrease widened slightly in industry excluding construction while it narrowed in services.

Expectations for demand in the next quarter have, on the contrary, worsened across all sectors 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 fell from 24.2 to 14.6 percentage points (and for foreign demand it fell from 32.9 to 21.7 percentage points), with assessments that were even more unfavourable from firms in the North-West.

Investment forecasts for 2018 remain positive, despite declining slightly ...

The balance between the share of firms expecting a year-on-year increase in investment nominal expenditure in 2018 as a whole and those expecting a decrease narrowed slightly, to 24.0 from 27.5 in the March survey. Nevertheless, it still indicates a widespread growth in investment. Compared with the previous survey, expectations were less favourable in industry excluding construction and in services, where they narrowed from 32.5 to 30.0 and from 24.4 to 19.1 respectively. Instead, they improved in construction (from 10.3 to 15.4) but only partly offsetting the decline recorded in the previous survey.

... even though assessments of investment conditions worsen

The balance between opinions of an improvement and those of a deterioration in investment conditions turned negative (to -9.5 from 6.5 in the March survey), falling to the lowest level recorded since the end of 2014. While the decline was significant across all sectors, it was smaller for construction firms that operate primarily in the residential sector. The increase in the share of negative opinions was met with a reduction in the share of firms reporting an improvement and, to a greater extent, those reporting stability.

¹ The survey report was prepared by Michele Loberto 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 1,043 firms with 50 or more employees (of which 404 in industry excluding construction, 447 in services and 192 in construction) that participated in the June 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/06/en_quest_II_trim_2018.pdf?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2018-indagine-inflazione/06/dati_2018_06_eng.zip?language_id=1

http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2017/methods_and_sources.pdf?language_id=1

Employment expectations are less favourable

The balance between the share of firms that plan to increase their workforce in the next quarter and those that plan to reduce it narrowed to 10.6 percentage points for industry excluding construction (from 14.4), while it remained substantially unchanged in services at 9.3 percentage points. Among construction firms the balance also worsened, notwithstanding improved expectations on the part of firms that operate mainly in the residential sector, returning to negative values (to -6.0 from 0.3).

Inflation expectations decline ...

Compared with the March survey, firms' expectations of consumer price inflation were affected by the extremely moderate price increases in the months preceding the survey, falling by about 0.3 percentage points over all time horizons (to 0.9, 1.1 and 1.2 per cent for 6, 12 and 24 months ahead respectively, and to 1.3 per cent for between three and five years ahead; Figures 2, 3, and 4). The decline was slightly greater for firms in industry excluding construction.

... compared with substantial stability in firms' expectations on own selling prices

Over the next 12 months, service firms expect a slight drop in their selling prices (from 0.8 to 0.7 per cent), while expectations remained stable for firms in industry excluding construction and for construction firms (1.5 and 0.8 per cent respectively; Figures 5.1, 5.2 and 5.3). Compared with the March survey, the change in selling prices over the previous year was smaller in industry excluding construction (from 1.5 to 1.2 per cent) and in services (to 0.6 per cent), while it increased in construction (from 0.3 to 0.8 per cent). The cost of inputs (raw materials, labour and intermediate inputs) continued to contribute the most to the increase in prices, while demand pressures only played a marginal role.

Table 1

Main findings (1)

(per cent)

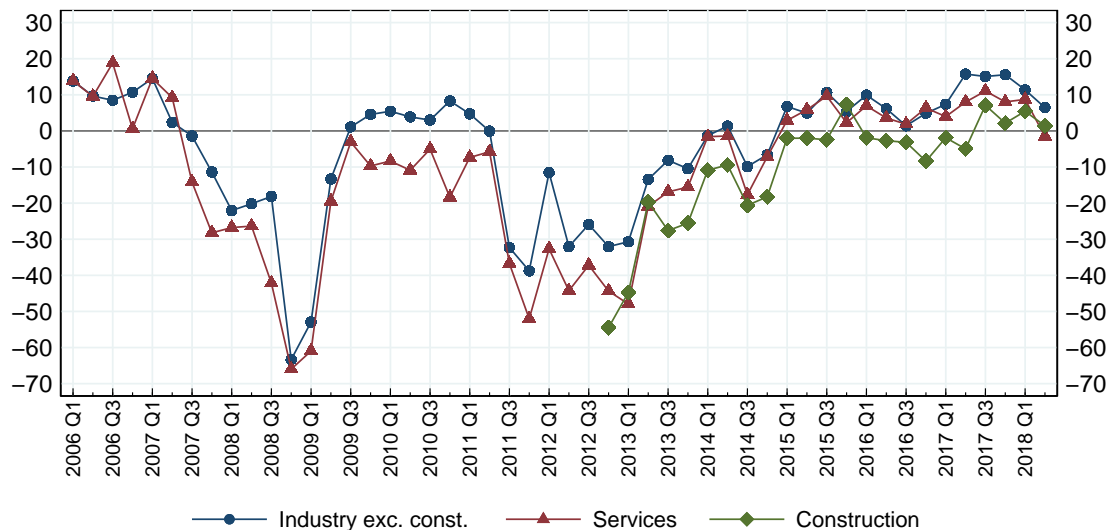
	Industry exc. const.		Services		Construction		Total	
	2018 Q1	2018 Q2	2018 Q1	2018 Q2	2018 Q1	2018 Q2	2018 Q1	2018 Q2
Rate of change								
Inflation expectation 6 months ahead	1.3	0.9	1.2	0.9	1.2	0.9	1.3	0.9
Inflation expectation 12 months ahead	1.5	1.1	1.3	1.1	1.3	1.0	1.4	1.1
Change in own prices 12 months ahead	1.5	1.5	0.8	0.7	0.8	0.8	1.1	1.0
Balance between reports of improvement and deterioration								
Judgments on the previous quarter								
General economic situation	19.0	-7.6	18.1	-13.6	7.6	-6.9	18.0	-10.5
Total demand	12.8	13.5	10.2	9.0	5.9	6.3	11.2	11.0
Foreign demand	22.7	13.8	20.5	8.7	—	—	22.0	12.2
Investment conditions	8.6	-5.8	4.7	-13.7	4.3	-4.5	6.5	-9.5
Forecast 3 months ahead								
Total demand	30.2	19.1	18.7	10.1	18.8	15.1	24.2	14.6
Foreign demand	34.5	24.4	29.3	15.7	—	—	32.9	21.7
Firms' economic conditions	11.4	6.5	8.7	-1.5	5.4	1.4	9.8	2.4
Employment	14.3	10.6	9.4	9.4	0.3	-6.0	11.3	9.2
Forecast of investment expenditure								
H2 2018 on H1 2018	—	28.3	—	18.5	—	9.5	—	22.6
2018 on 2017	32.5	29.9	24.5	19.1	10.2	15.4	27.5	24.0

(1) The statistical appendix is available at

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2018-indagine-inflazione/06/dati_2018.06.eng.zip?language.id=1

Figure 1

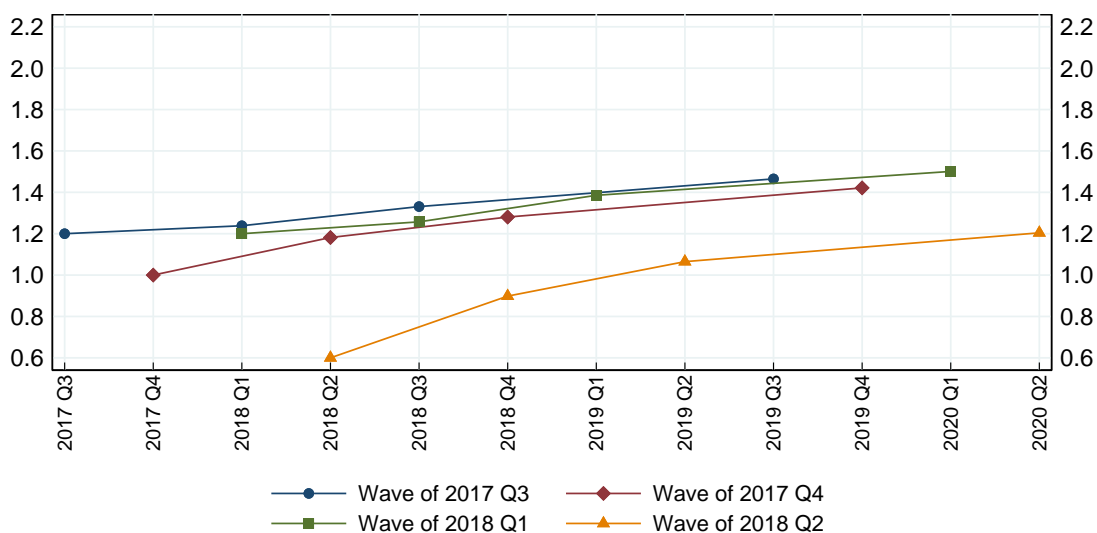
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2

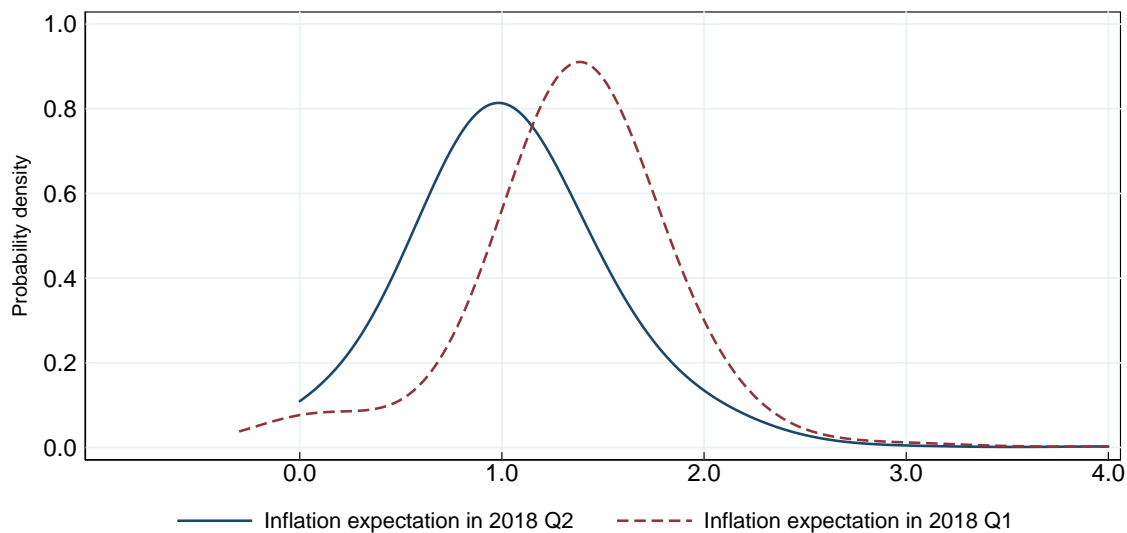
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

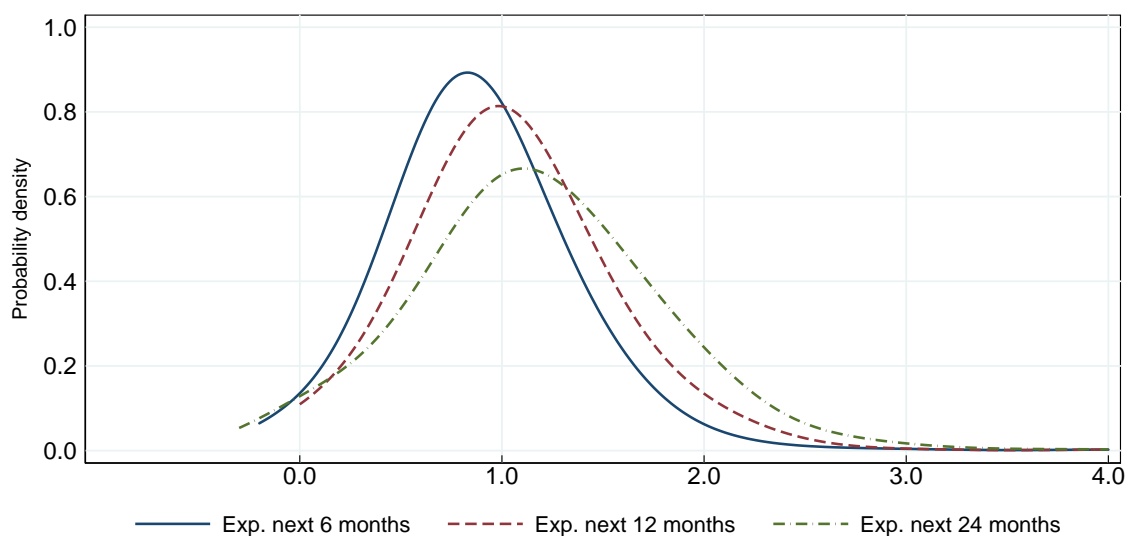
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



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

Figure 4

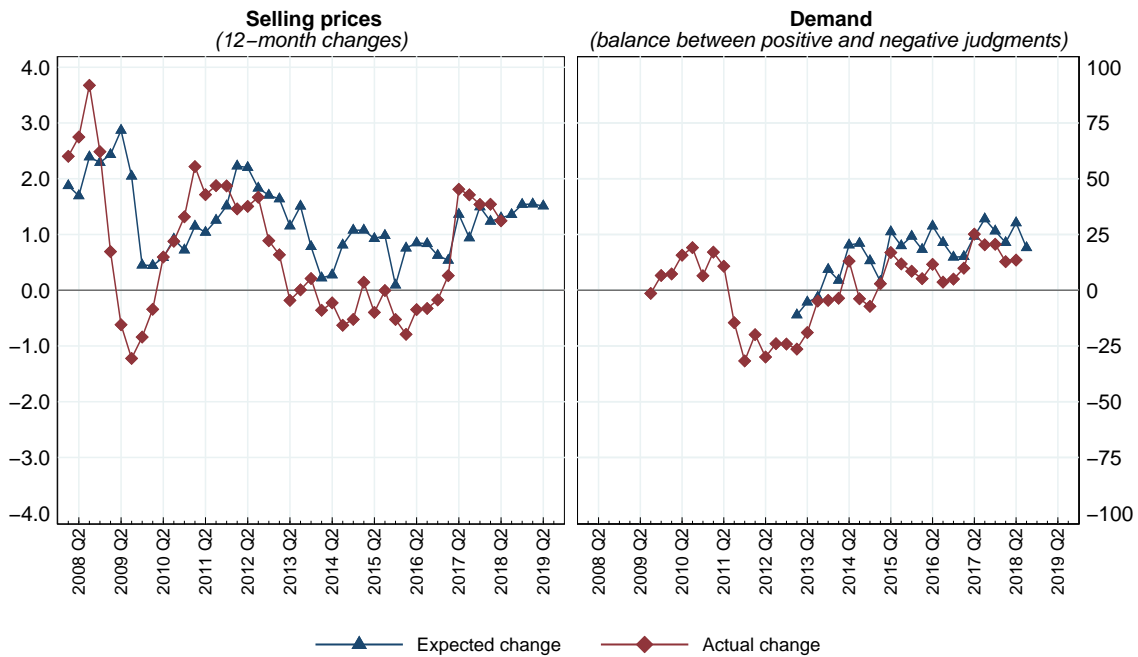
Expectations of the inflation rate over the next 6, 12 and 24 months (1)
(non parametric estimates)



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

Figure 5.1

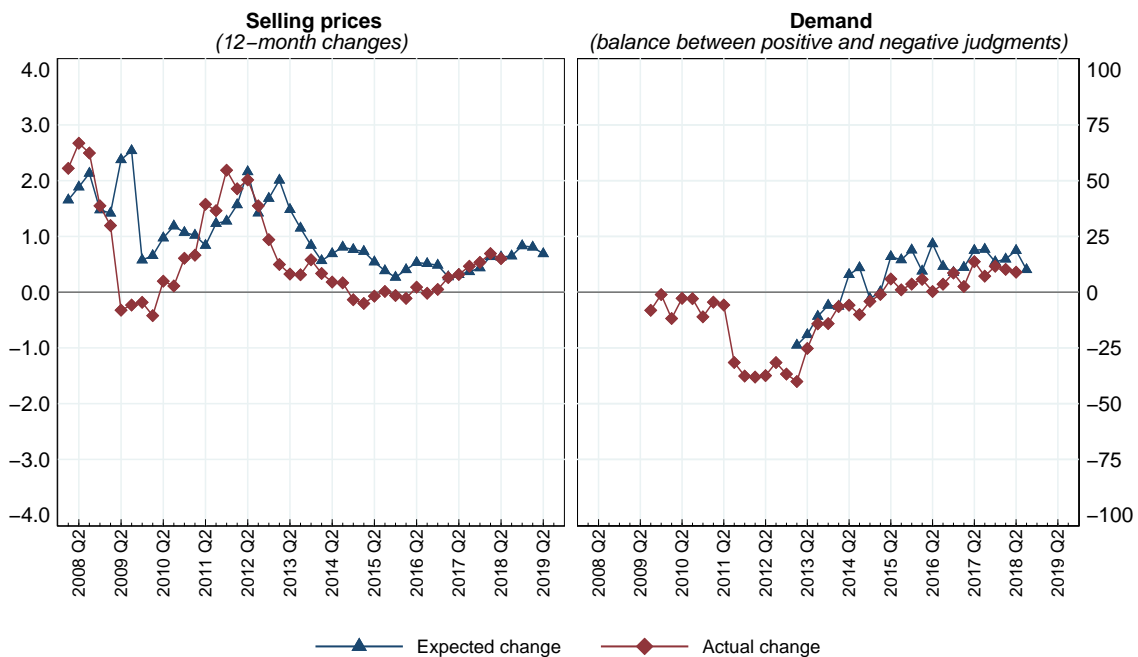
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

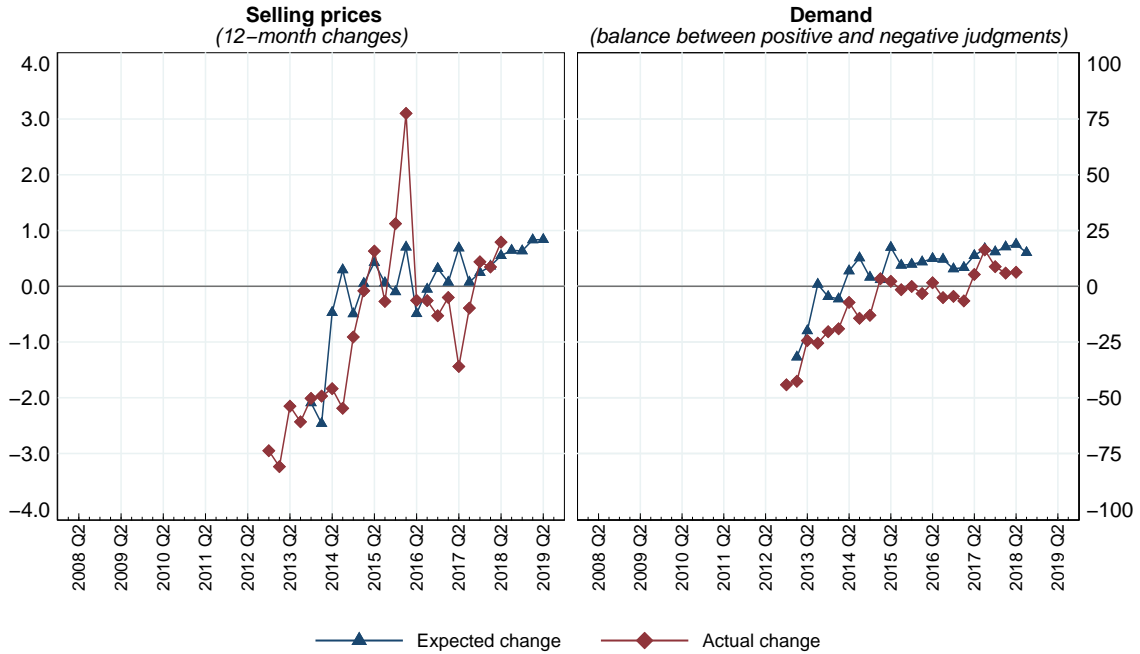
Expected and actual changes in selling prices and demand (1)
(services)



(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

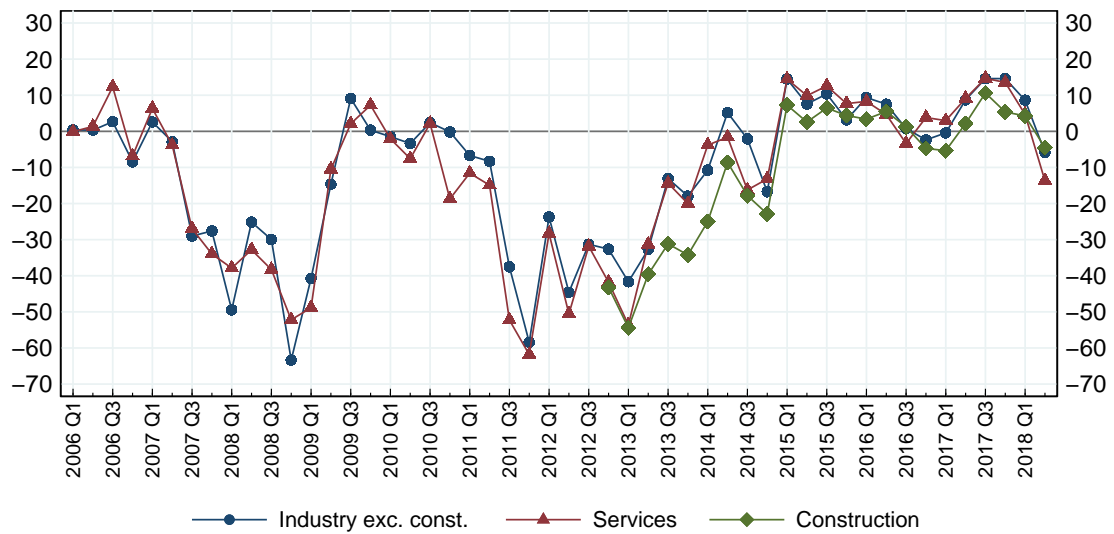
Expected and actual changes in selling prices and demand (1)
(Construction)



(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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