

Survey on Inflation and Growth Expectations

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 For further information: statistiche@bancaditalia.it
www.bancaditalia.it/statistiche/index.html

Main results

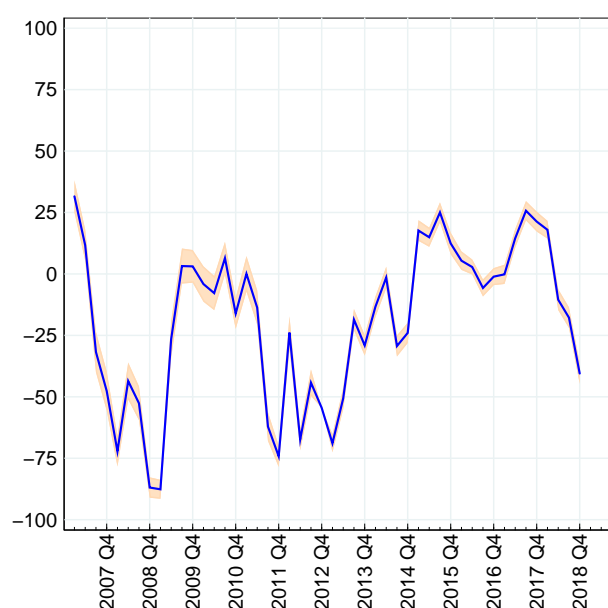
According to the survey conducted between 26 November and 17 December 2018 among Italian firms with 50 or more employees, opinions regarding the current general economic situation worsened markedly in all sectors of economic activity, in part owing to the increase in uncertainty due to economic and political factors occurring during the survey field period. Overall assessments of current demand also worsened, but to a lesser extent; domestic and foreign demand short-term expectations became less favourable but remained positive overall.

The balance between expectations of higher and lower nominal investment expenditure in 2019 compared with 2018 is positive, but narrower than that observed for investment plans in the recent past. Employment expectations remain moderately favourable among firms in industry excluding construction and, to a lesser extent, for those in services. For firms in the construction sector they continue to be negative overall.

Consumer price inflation expectations decreased slightly over all time horizons. For the next 12 months, firms in industry excluding construction expect their own prices to grow at a slower pace compared with the previous survey. The costs of production inputs together with changes in financing conditions represent the main factor spurring the increase in own prices, while demand pressures are virtually nil.

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

Assessments of the general economic situation worsen, also with respect to the future

In the fourth quarter of 2018 the balance between judgments of an improvement and a deterioration in the general economic situation again declined sharply (from -18 to -40 percentage points), underscoring the negative trend under way throughout last year. Assessments deteriorated in all sectors (Table 1) and for each one the decline in the share of favourable and neutral judgments was associated with an increase in the share of unfavourable ones.

The negative outlook extended to expectations for the start of 2019. On the one hand, the average probability assigned by firms to there being no change in the general economic situation in the next three years rose to 49 per cent (from 37 per cent in the previous survey). On the other hand, for the first time in four years, the balance between expectations of an improvement and those of a deterioration in firms' own operating conditions in the short term turned negative again in all sectors (-11 per cent overall; -10 per cent in industry, from 3 per cent in September; Figure 1). Heightened uncertainty linked to economic and political factors contributed to the decline in expectations; these factors had also weighed negatively on firms' assessments of general economic conditions in the past. Other, though less significant, contributory factors were the rise in oil prices and tensions surrounding policies to liberalize international trade while the stimulus provided by expectations for sales was also weaker.

The judgments and outlook for demand worsen; expectations nonetheless remain favourable, especially for foreign demand

Assessments of demand in the last quarter compared with the previous one have worsened overall and the balance was negative for total demand (from 3 to -2 percentage points), though it remained positive for assessments of the foreign component (from 12 to 5 percentage points). Relative to total sales, the balance of assessments turned negative in industry excluding construction and in services (Figures 2.1 and 2.2), while it was still slightly positive in construction (Figure 2.3); firms' judgments remained positive for larger firms only (almost 6 percentage points) and, though less so, for firms located in the south and export-led businesses.

The outlook for demand in the next quarter remains positive, but has worsened overall. For firms as a whole, the balance between those expecting demand to increase and those expecting it to decline narrowed to 7 percentage points (from 15 points in September). The fall was more moderate for foreign demand (from 19 to 16 points).

The balance between firms that expect to increase or reduce investment in 2019 is positive, but lower than in previous years ...

Assessments of nominal investment expenditure in 2019 compared with the previous year indicate that the share of firms planning to boost purchases of capital goods is larger than that of those intending to reduce it; however, the balance for 2020 (11 percentage points) is the lowest on record since 2014. The balance was positive both in industry excluding construction and in services (8 and 14 percentage points respectively) while it was essentially nil in construction. Also as regards nominal investment expenditure for the first six months of the current year compared with the second half of 2018, the overall balance was positive at 9 percentage points (compared with 11 points in September) but negative in the construction sector (-4 percentage points).

... partly owing to the sharp drop in assessments of investment conditions

The balance between assessments of an improvement and those of a deterioration in investment conditions fell sharply (to -28 percentage points, from -11 points in the September survey; Figure 3), reaching its lowest level since mid-2013. The decline was significant across all sectors, especially in industry (from -9 to -30.5). The increase in negative assessments was associated with a reduction in positive and, above all, stable evaluations.

¹ The survey report was prepared by Alex Tagliabracci and Marco Bottone. 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. Our thanks go to the 1,007 firms with 50 or more employees (of which 389 operate in industry excluding construction, 432 in services and 186 in construction) who participated in the December 2018 survey. The survey questionnaire, statistical appendix and methodological note are available here:

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2018-indagine-inflazione/12/en_quest_IV_trim_2018.pdf?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2018-indagine-inflazione/12/dati_2018_12_eng.zip?language_id=1

http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/methods_and_sources.pdf?language_id=1

The outlook for employment is still favourable overall

The balance between the share of firms planning on increasing employment in the next quarter and those planning on reducing it remained positive (at 4 percentage points) but was uneven across sectors: services registered an improvement (from 0.5 to 3 percentage points) while industry excluding construction was substantially unchanged (from 8 to 7 percentage points) and the balance in construction declined (from -2 to -6 percentage points). The most favourable expectations were recorded among firms located in the North East and those with at least 1000 employees.

Firms' consumer price inflation expectations and those relative to their sales prices decline slightly

Compared with September's survey, firms' consumer price inflation expectations declined by around 0.1 per cent over all time horizons (to 1.6 per cent at six months, 1.7 per cent at one year, 1.8 per cent at two years and 1.9 per cent at between three and five months; Figures 4, 5 and 6), likely affected by the sharp slowdown in energy commodity prices in November and in oil prices in the first half of December.

Consumer price inflation expectations declined as did those of a slowdown in sales prices in the next 12 months (from 1.1 per cent to 0.9). This trend appeared to be led by the assessments of firms in industry excluding construction (whose price lists were expected to increase on average by 1.0 per cent, from 1.5 per cent in September;

Figure 2.1); the expected rate of growth of sales prices in services and construction was instead virtually unchanged at the levels recorded in September (Figures 2.2 and 2.3). Compared with the September survey, the average change on last year of sales prices was unchanged in industry excluding construction and in services (at 1.3 and 0.8 per cent, respectively) while it declined slightly in the construction sector (from 0.8 to 0.6 per cent). Firms indicated that the lower inflationary pressure exerted by the cost of productive factors (labour intensity, intermediate inputs and, in particular, raw materials) helped to slow sales price expectations for the next 12 months. The latter nonetheless remains the main factor supporting growth in prices, together with changes in financing conditions. The trend in demand was not expected to influence the growth in price lists in any way.

Table 1

Main findings (1)

(per cent)

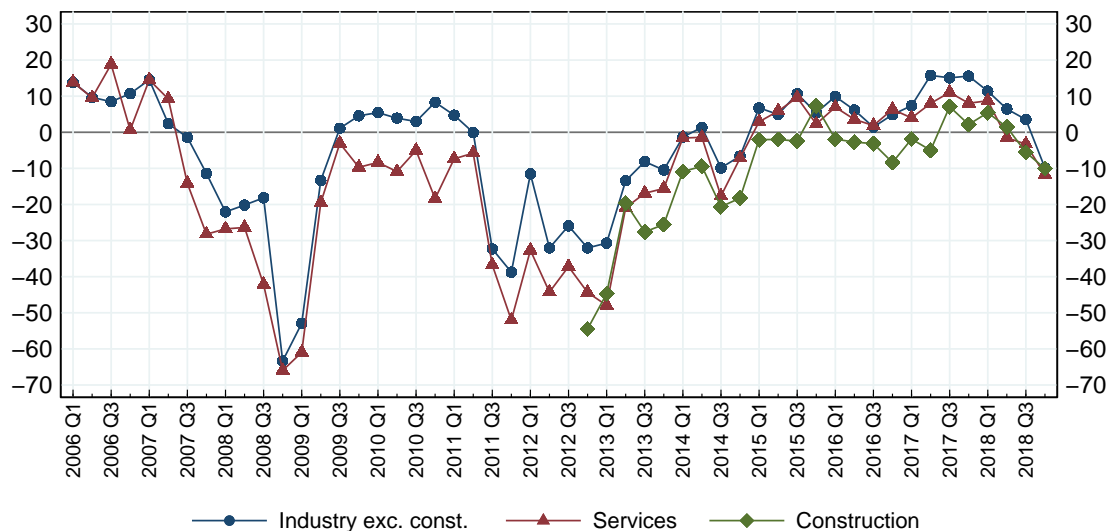
	Industry exc. const.		Services		Construction		Total	
	2018 Q3	2018 Q4	2018 Q3	2018 Q4	2018 Q3	2018 Q4	2018 Q3	2018 Q4
Rate of change								
Inflation expectation 6 months ahead	1.7	1.6	1.7	1.6	1.7	1.5	1.7	1.6
Inflation expectation 12 months ahead	1.8	1.7	1.7	1.7	1.7	1.6	1.8	1.7
Change in own prices 12 months ahead	1.5	1.0	0.9	0.9	0.6	0.5	1.1	0.9
Balance between reports of improvement and deterioration								
Judgments on the previous quarter								
General economic situation	-18.3	-44.5	-18.0	-38.4	-11.5	-23.7	-17.8	-40.5
Total demand	5.0	-0.6	0.7	-4.9	13.2	2.5	3.3	-2.5
Foreign demand	12.8	2.8	11.8	10.0	—	—	12.5	5.0
Investment conditions	-9.2	-30.5	-13.4	-26.7	-10.8	-21.4	-11.3	-28.2
Forecast 3 months ahead								
Total demand	21.4	11.9	9.5	3.3	10.4	1.1	15.1	7.2
Foreign demand	21.6	20.7	13.5	4.7	—	—	19.3	15.7
Firms' economic conditions	3.5	-9.9	-3.3	-11.8	-5.6	-10.0	-0.2	-10.8
Employment	8.1	6.9	0.5	3.3	-1.9	-5.7	3.9	4.5
Forecast of investment expenditure								
H1 2019 on H2 2018	—	5.2	—	13.7	—	-4.4	—	8.8
2019 on 2018	—	7.9	—	14.5	—	0.7	—	10.8

(1) The statistical appendix is available at

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2018-indagine-inflazione/12/dati_2018_12_eng.zip?language.id=1

Figure 1

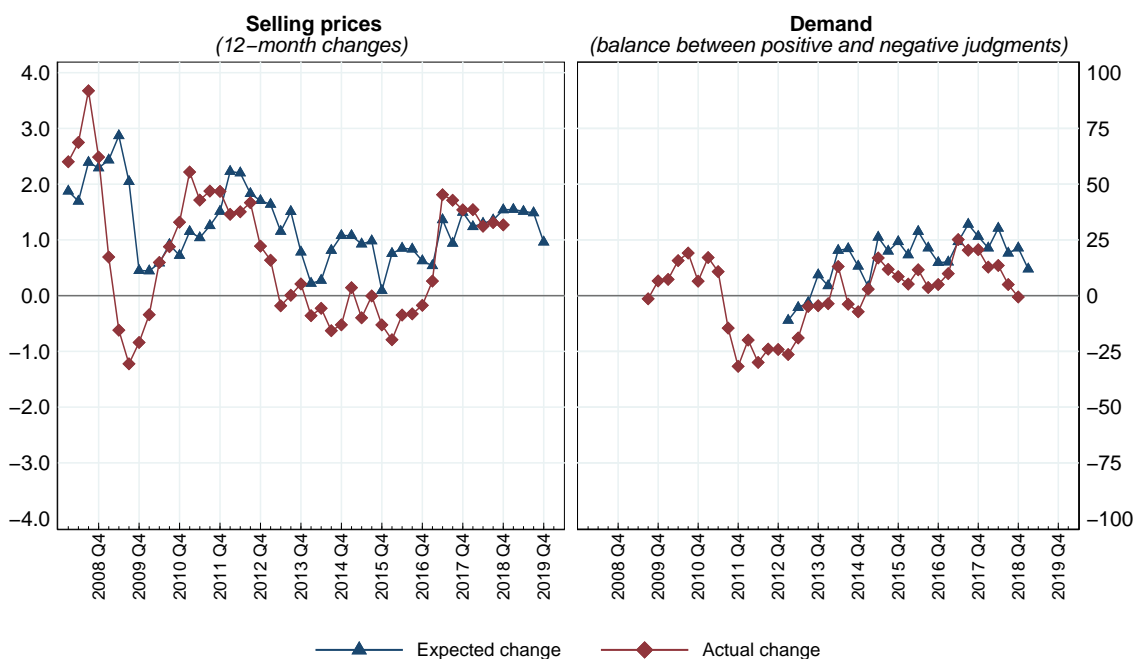
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

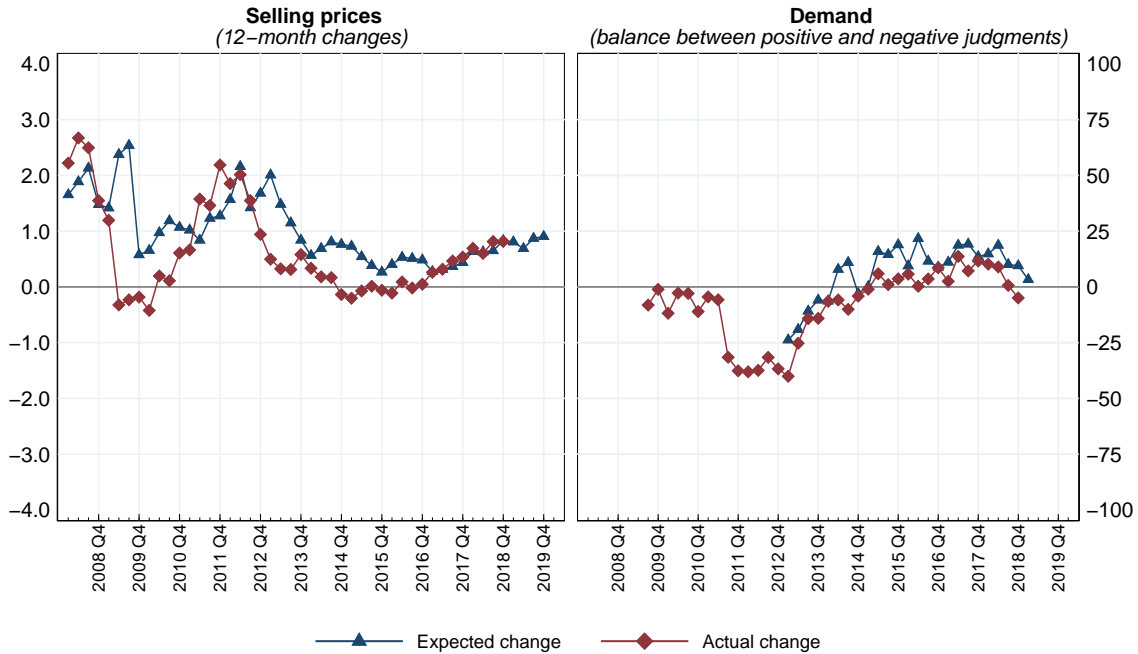
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



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

Figure 2.2

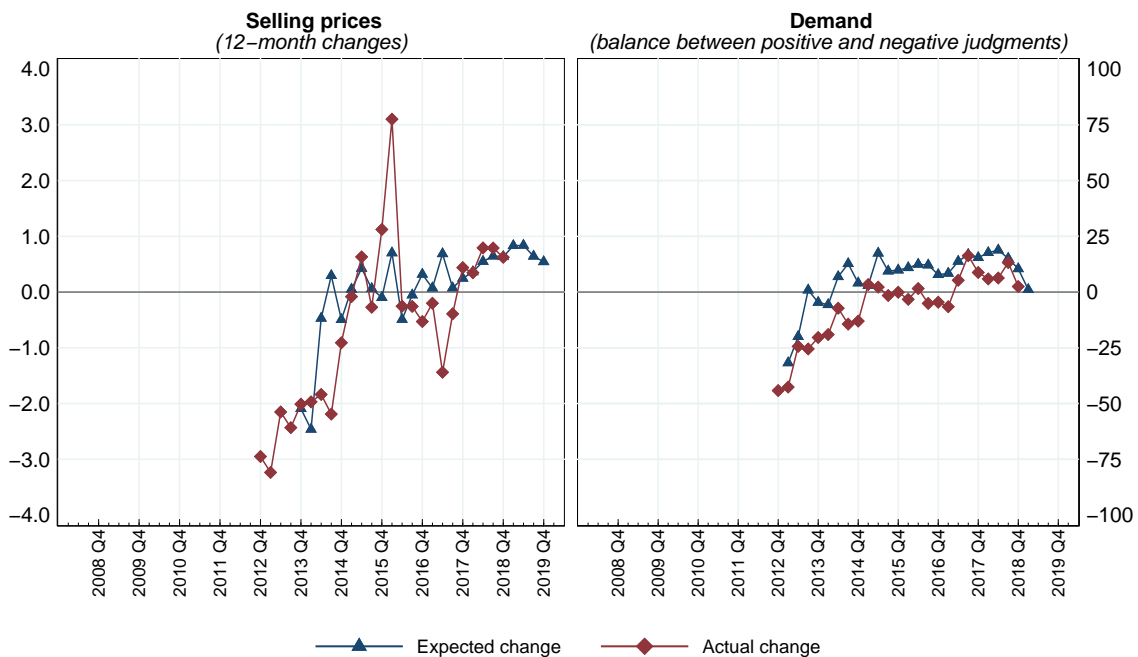
Expected and actual changes in selling prices and demand (1)
(services)



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

Figure 2.3

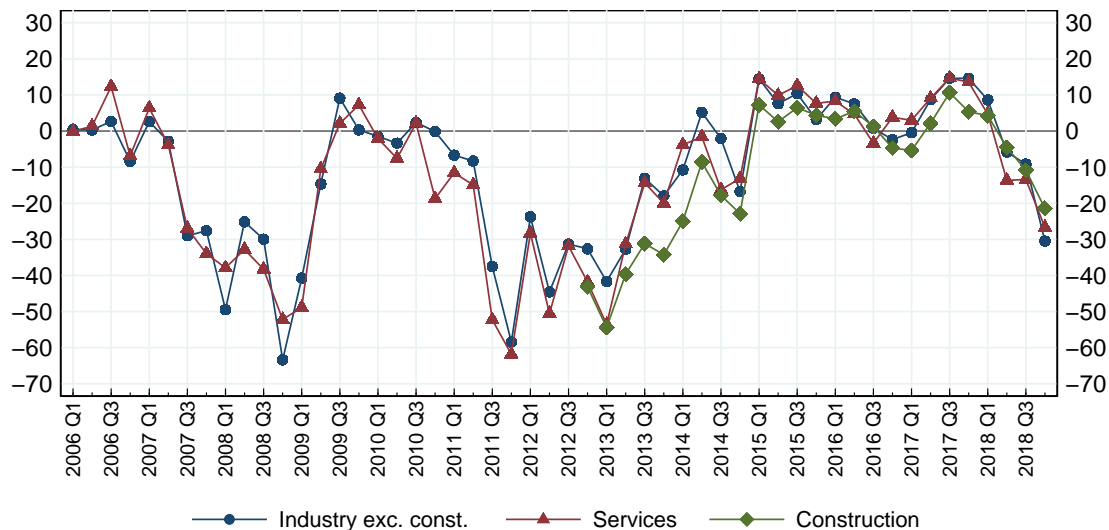
Expected and actual changes in selling prices and demand (1)
(Construction)



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

Figure 3

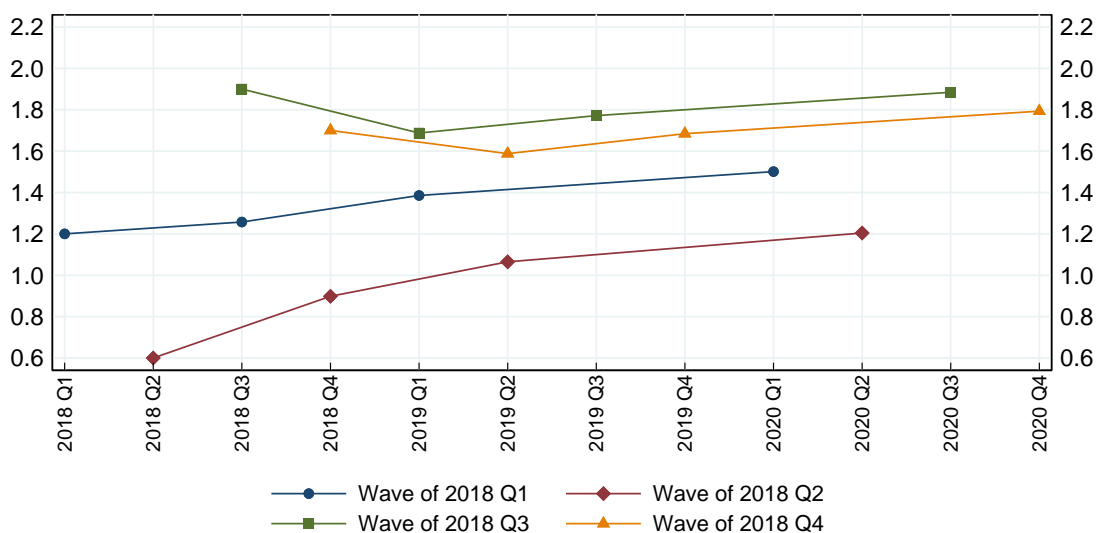
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

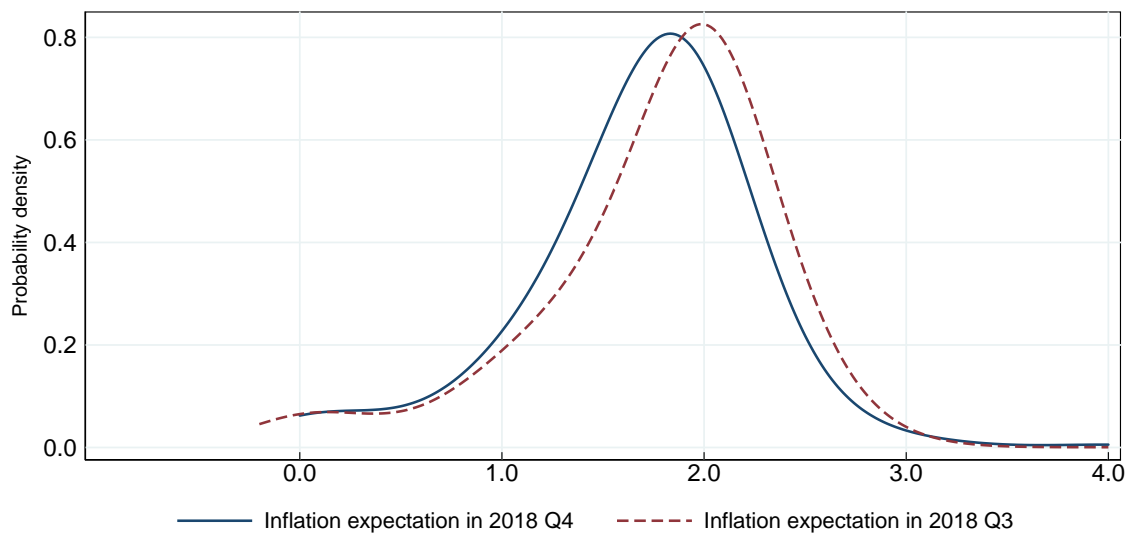
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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 5

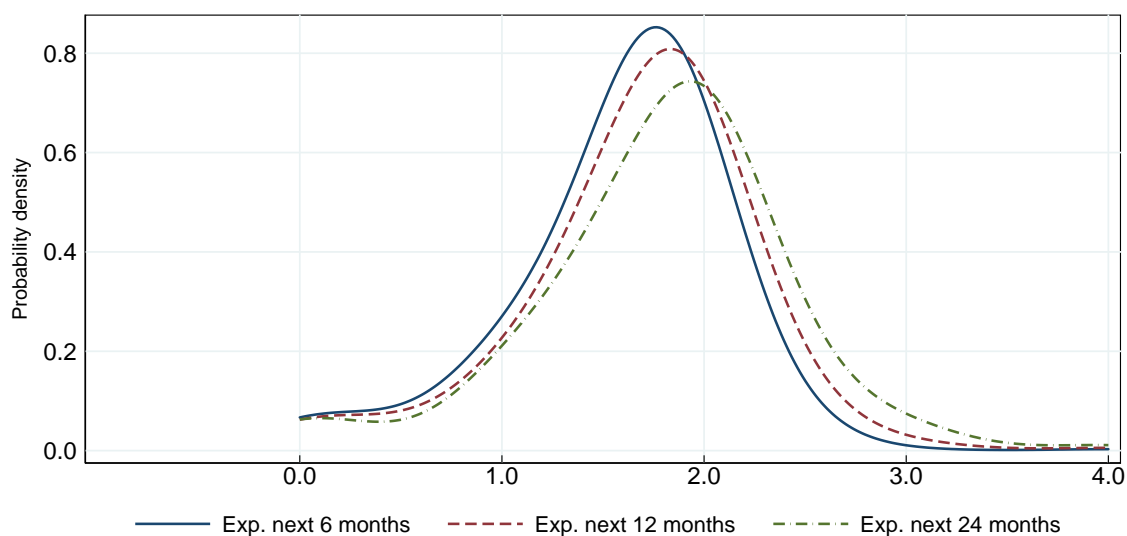
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



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

Figure 6

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.

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statistiche@bancaditalia.it