

Survey on Inflation and Growth Expectations

15 April 2019

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www.bancaditalia.it/statistiche/index.html

Main results

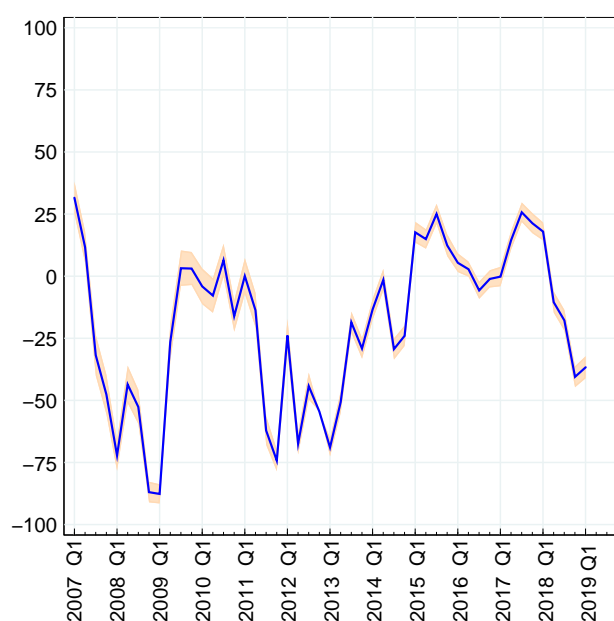
According to the survey conducted between 27 February and 20 March 2019 among Italian industrial and service firms with 50 or more employees, opinions regarding the current general economic situation remained negative overall, although less markedly than in the survey conducted in December. Firms' expectations of their own operating conditions in the short term, while unfavourable, improved somewhat, in part thanks to improved assessments of credit access conditions and the reduced uncertainty stemming from economic and political factors, although this uncertainty continues to be the main obstacle to their activity. Assessments of current demand worsened again for both the domestic and foreign components; short-term demand expectations instead began to improve again, mostly in foreign markets.

The balance between expectations of higher and lower nominal investment in 2019 compared with 2018 is positive, but lower than in the previous survey. Employment expectations are favourable in all sectors; in the construction sector the balance turned positive, reaching the highest value since surveys of the sector began in early 2013.

Consumer price inflation expectations were revised downwards over all time horizons in all the sectors, likely being affected by the reduction observed in the most recent official data. For the next 12 months, firms in industry excluding construction and in services expect slower growth of their own prices compared with that reported for the preceding 12 months, while firms in the construction sector predict a steady increase in their own prices.

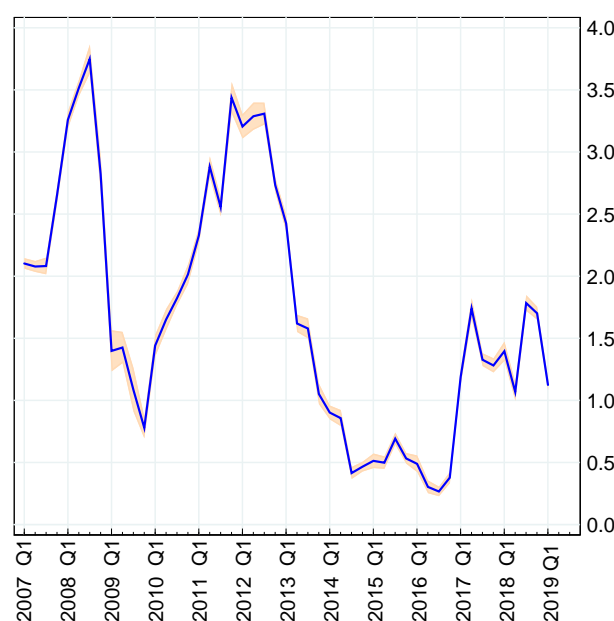
General state of the economy (1)

(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 remain negative

In the first quarter of 2019 the deterioration in the assessments of the general economic situation, under way since the end of 2017, came to a halt. However, the balance between judgments of an improvement and a deterioration remained negative and very wide (-36.6 percentage points, from -40.5 points). The increase in the positive judgments of firms in industry excluding construction and in services was associated with a decrease in neutral judgements for the former and negative judgements for the latter.

The balance remained stable overall for construction firms. Firms' expectations for the next three months also became less unfavourable than in the past: the probability of an improvement in the general economic situation increased on average, following four quarters of sharp reduction.

While still negative, the balance between expectations of an improvement and those of a deterioration in operating conditions in the short term improved, driven especially by the improvement in the judgments of firms in industry excluding construction (Figure 1). The more favourable assessments of credit access conditions and the reduction in the uncertainty ascribable to economic and political factors appears to have contributed to the formation of these expectations. The second element, however, continues to be seen as the main brake on economic activity in the short term, followed by trade tensions. The effect of the tariffs recently levied by the US government on sales in the US market was deemed less negative compared with the responses given six months ago.

Assessments of current demand worsen, but expectations for the next quarter improve

Assessments of the performance of demand in the last quarter compared with the previous one worsened further in all sectors except construction (Figure 2.1, 2.2 and 2.3). For firms in industry excluding construction and services, the balance between expectations of an increase and of a reduction in total demand reached its lowest level since 2014 (-10.3 percentage points for industry excluding construction and -9.2 points for services). In industry excluding construction the worsening in the assessments of total demand was accompanied by more favourable assessments of foreign demand.

For firms in these two sectors, the overall balance of assessments of foreign demand remained positive (at 2.3 percentage points) but at the lowest level since 2012; the slowdown in the last quarter appears in part attributable to sluggish sales in the German and Chinese markets.

Demand expectations for the next quarter, on the contrary, turned positive, following the sharp drop recorded in the previous survey. Firms expect an overall increase in sales, driven especially by foreign demand. For the latter, the balance between expectations of an increase and of a reduction grew significantly (to 24.8 percentage points, from 15.7 points). A contribution seems to come from the predicted recovery in sales to Germany, while exports to China are expected to decrease.

Investment in 2019 is expected to be less intense than predicted in December

The balance between expectations of an increase and of a decrease in nominal investment expenditure in 2019 compared with 2018 continues to point to an increase in investment, though smaller than expected at the end of last year (the balance declined from 10.8 to 6.4 percentage points). The revision of investment plans was ascribable mainly to firms in industry excluding construction, where it dropped from 7.9 to 0.8 percentage points, and in construction, where the balance turned negative after almost two years in positive territory.

In the first half of the year the balance regarding investment plans was practically zero. According to the assessments of firms, investment expenditure is expected to grow further in the second half of 2019.

¹ The survey report was prepared by Lucia Modugno, Marco Bottone and Stefania Villa.

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 1,028 firms with 50 or more employees (of which 404 operate in industry excluding construction, 438 in services and 186 in construction) that participated in the March 2019 survey. The survey questionnaire, statistical appendix and methodological note are available here:

https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/03/en_quest_I_trim_2019.pdf?language_id=1
https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/03/dati_2019_03_eng.zip?language_id=1
https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/methods_and_sources.pdf?language_id=1

Assessments of investment conditions remain negative overall

The share of judgments pointing to a worsening in investment conditions continues to be far higher than the share of those indicating an improvement (Figure 3). However, the balance improved by about 6 percentage points in all sectors (coming to an overall -22 points), interrupting the negative trend under way since mid-2017.

Employment expectations remain favourable and are improving further

Employment expectations for the next quarter remain favourable in all sectors, driven mainly by medium-sized firms. Compared with the previous survey, the balance between the share of firms planning to increase employment and those expecting to decrease it displayed widespread growth (from 4.5 to 7.2 percentage points). For construction firms the balance became moderately positive for the first time since early 2013, the year in which the sector was included in the survey, mainly owing to the improvement ascribable to firms with low levels of activity in the residential sector.

Inflation expectations decrease markedly

Compared with December's survey, firms' consumer inflation expectations declined significantly by about 0.6 percentage points over the short-term time horizons (to 1 per cent at six months and 1.1 at one year; Figures 4, 5 and 6) and by 0.5 percentage points over the longer ones (1.3 per cent at two years and 1.4 per cent at between three and five years). The expectations were likely affected by the deceleration in the consumer price index recorded in January induced by the slowdown in the prices of energy products.

Compared with the previous survey, the year-on-year changes in firms' own prices held practically stable in all sectors (1.4 per cent in industry excluding construction, 0.8 in services and 0.6 in construction; Figures 2.1, 2.2 and 2.3). For the next 12 months firms in industry excluding construction expect their prices to grow at a slower pace than that just recorded (0.9 and 0.6 per cent respectively), while construction firms expect largely stable growth in their prices (0.7 per cent). The expected dynamics of selling prices would appear to be affected by the smaller stimulus arising from labour costs and inflation expectations, as well as from the greater downward pressure exerted by the pricing policies of competitors.

Table 1

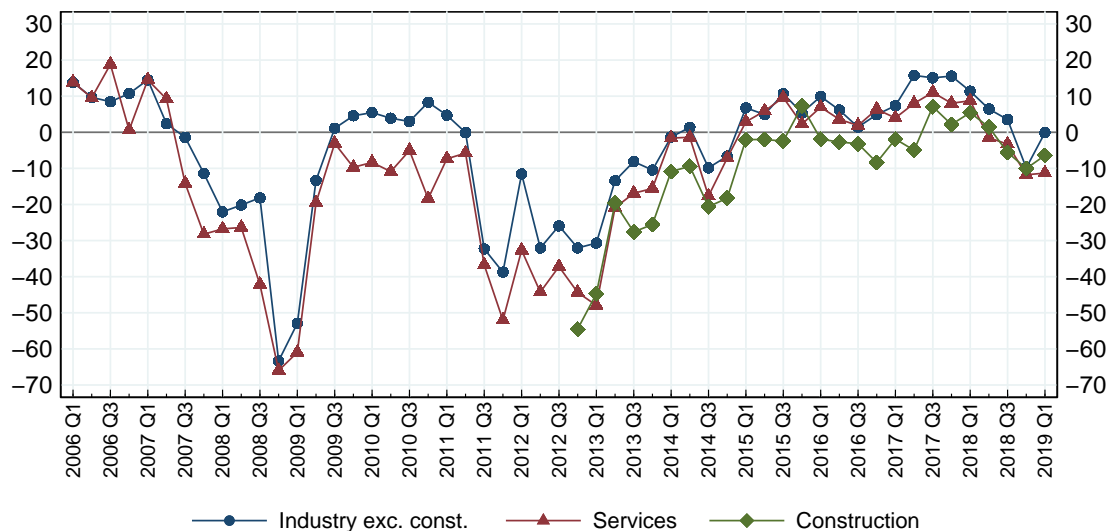
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2018 Q4	2019 Q1	2018 Q4	2019 Q1	2018 Q4	2019 Q1	2018 Q4	2019 Q1
	per cent							
Inflation expectation 6 months ahead	1.6	1.0	1.6	1.0	1.5	1.0	1.6	1.0
Inflation expectation 12 months ahead	1.7	1.1	1.7	1.1	1.6	1.1	1.7	1.1
Change in own prices 12 months ahead	1.0	0.9	0.9	0.6	0.5	0.7	0.9	0.8
	Balance between reports of improvement and deterioration (percentage points)							
	Judgments on the previous quarter							
General economic situation	-44.5	-41.7	-38.4	-33.1	-23.7	-24.6	-40.5	-36.7
Total demand	-0.6	-10.3	-4.9	-9.2	2.5	6.1	-2.5	-8.9
Foreing demand	2.8	3.5	10.0	-0.6	—	—	5.0	2.3
Investment conditions	-30.5	-24.0	-26.7	-21.1	-21.4	-15.5	-28.2	-22.2
	Forecast 3 months ahead							
Total demand	11.9	16.4	3.3	4.5	1.1	14.0	7.2	10.5
Foreing demand	20.7	32.1	4.7	6.5	—	—	15.7	24.8
Firms' economic conditions	-9.9	-0.1	-11.8	-11.3	-10.0	-6.4	-10.8	-5.9
Employment	6.9	7.1	3.3	7.4	-5.7	5.5	4.5	7.2
	Forecast of investment expenditure							
H1 2019 on H2 2018	—	-10.5	—	11.9	—	-2.2	—	0.8
2019 on 2018	7.9	0.8	14.5	13.0	0.7	-5.1	10.8	6.4

(1) The statistical appendix is available at https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/03/dati_2019_03_eng.zip?language_id=1

Figure 1

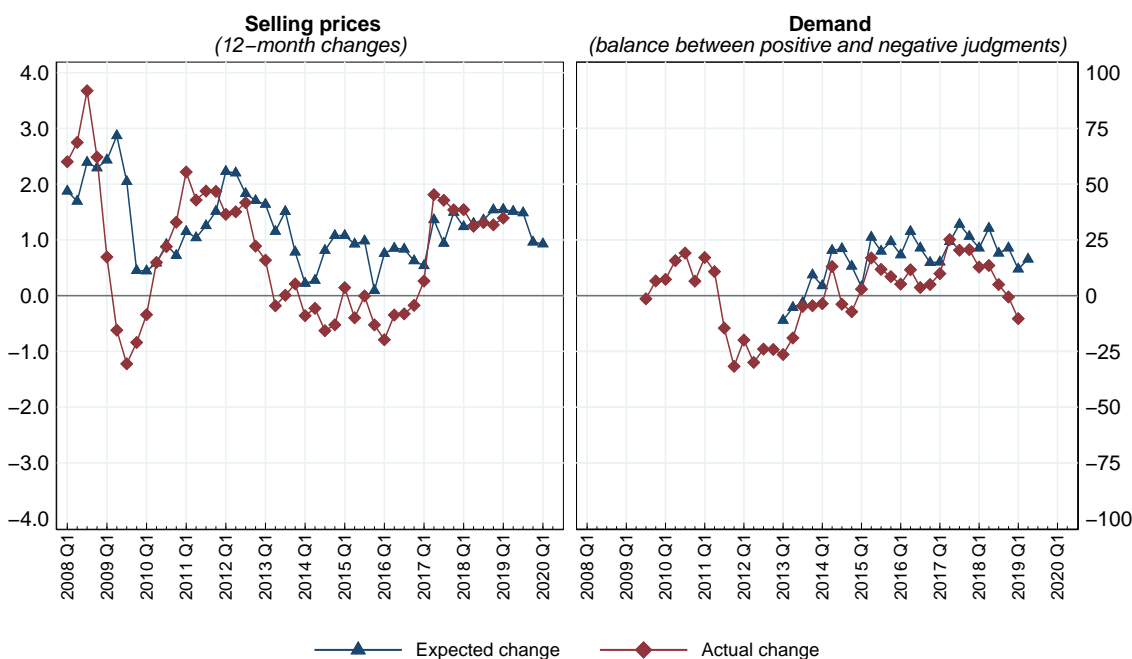
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

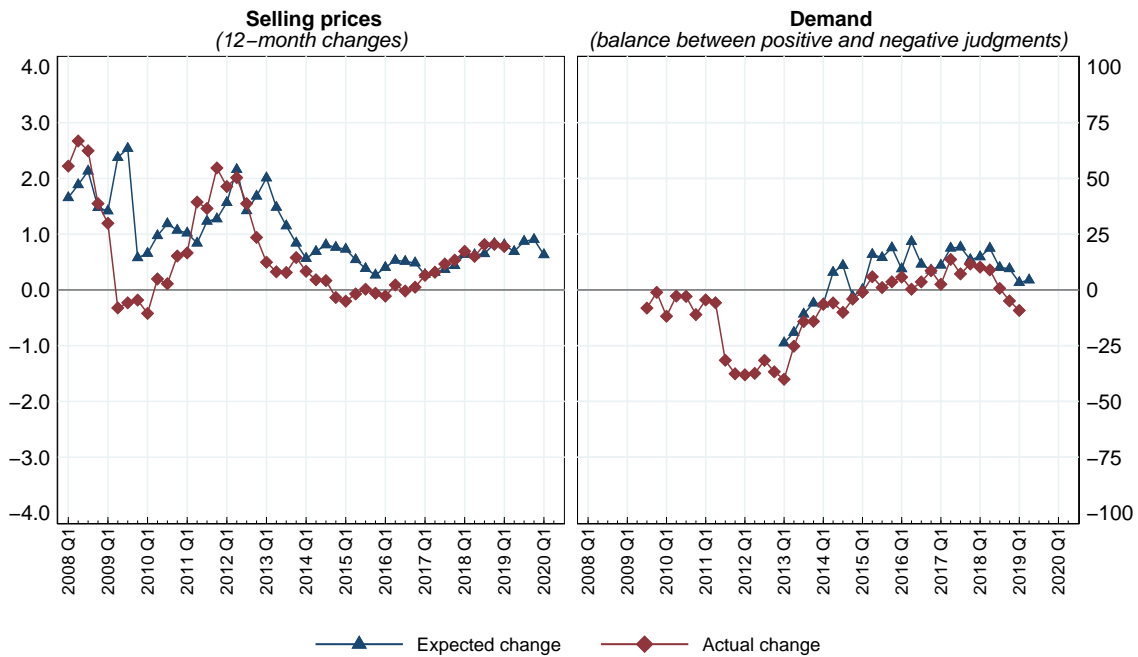
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

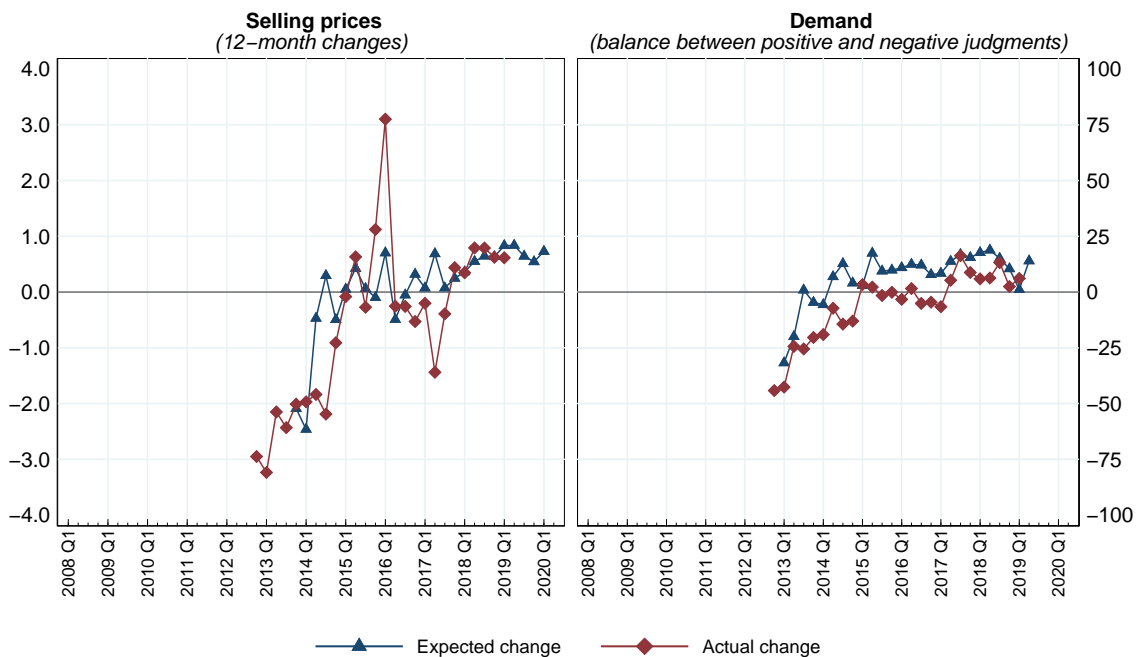
Expected and actual changes in selling prices and demand (1)
(services)



(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

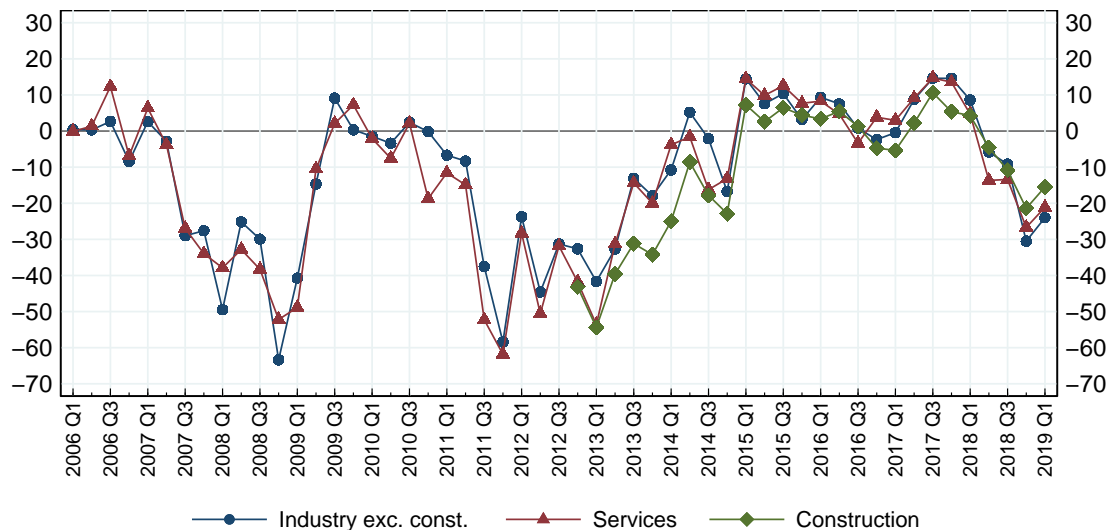
Expected and actual changes in selling prices and demand (1)
(Construction)



(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

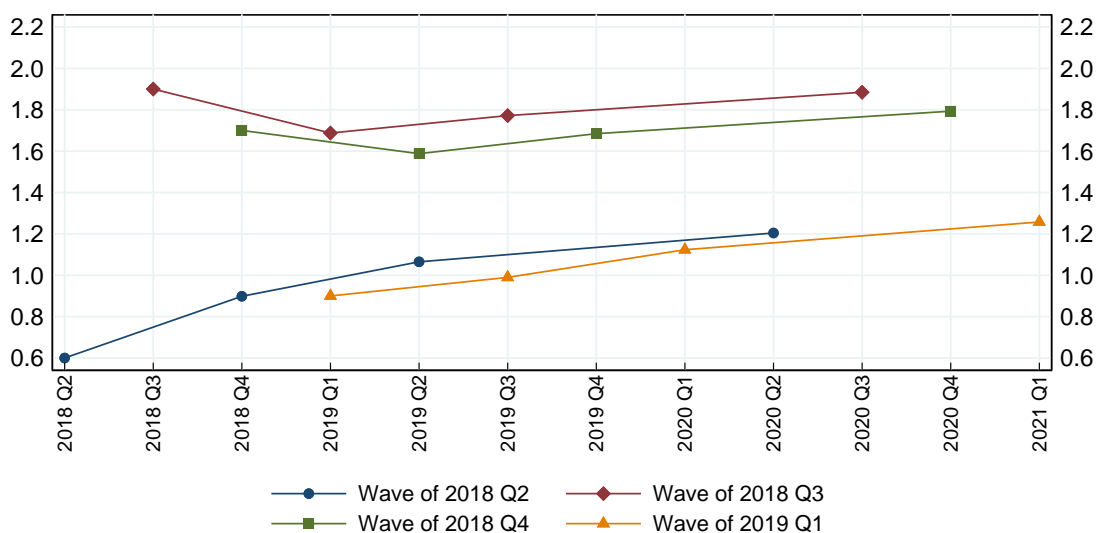
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

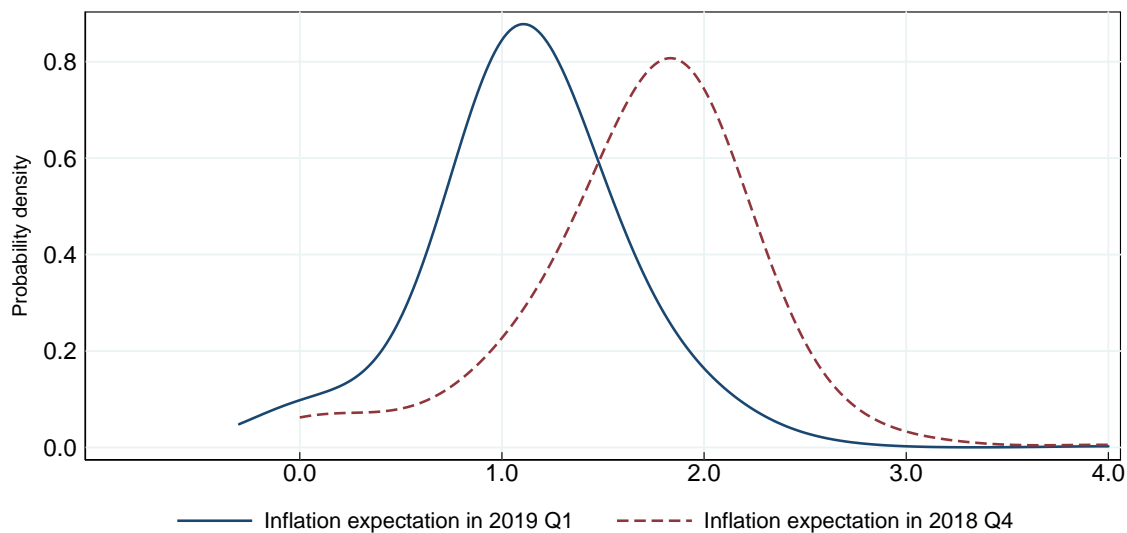
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

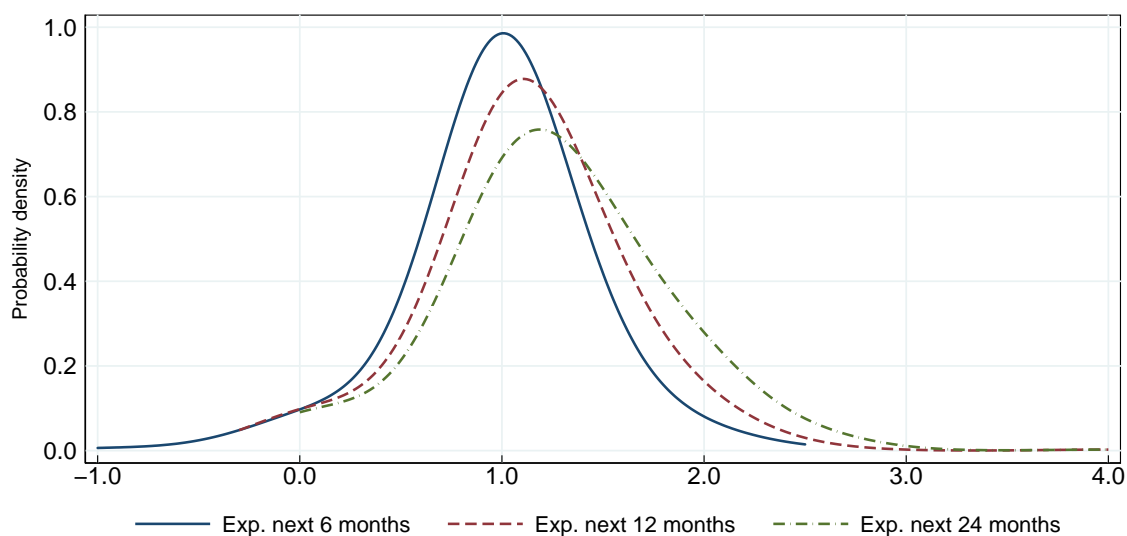
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



(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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