

Survey on Inflation and Growth Expectations

13 January 2021

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www.bancaditalia.it/statistiche/index.html

Main results

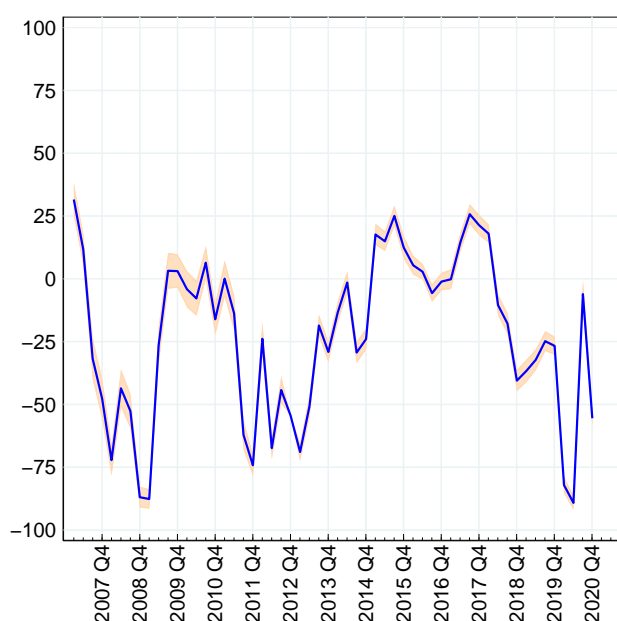
According to the survey conducted between 23 November and 15 December 2020 among Italian firms with 50 or more employees, firms' assessments of the general economic situation in the fourth quarter of 2020 are less favourable compared with those reported in the previous survey, conducted between 27 August and 17 September.

The short-term prospects for firms' own economic conditions also worsened, though they remain well above the minimum levels recorded after the outbreak of the pandemic. Expectations of total demand, on the other hand, are largely stable, with the balance of opinions pointing to an improvement and a deterioration standing close to zero.

Although the overall assessment of investment conditions has become more negative, firms' spending plans suggest a growth in investment in 2021. Companies in manufacturing and in services continue to expect a reduction in employment in the first quarter of 2021, though to a lesser extent than in the previous three quarters, whereas in the construction sector employment is expected to increase further.

Consumer price inflation expectations decreased over all time horizons, to almost zero over the six-month and one-year horizons, reaching values below the lows recorded in 2016. For the next twelve months, firms expect to moderately increase their selling prices, which have remained unchanged over the past year.

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 state of the economy become less favourable... In the fourth quarter of 2020, firms' assessments of the current general economic situation worsened compared with the previous survey (conducted between 27 August and 17 September): the balance between opinions of an improvement and of a deterioration reached -55 percentage points (from -6 points in September and -89 points in June; Figure 1), reflecting a sharp increase in negative assessments and a decline in positive assessments. The service sector reported a higher share of unfavourable opinions compared with the manufacturing sector, as services were hit hardest by the resurgence of the pandemic in the autumn. The share of firms that do not foresee any improvement in the first quarter of 2021 rose to 45 per cent, from 32 per cent, though it remained below the historical highs recorded at the beginning of 2020 (70 per cent; see Table s5 in the [Statistical Appendix](#)). At the same time, firms' expectations of their own economic situation in the next three months worsened (Figure 1), especially in services and in construction.

...and so do those of demand Firms reported that developments in demand in the fourth quarter were more unfavourable compared with those observed in the previous quarter (Figures 2.1 and 2.2). While widespread across sectors, the worsening was more marked in services. In industry excluding construction, the worsening in the assessments of total demand was mitigated by the less unfavourable opinions regarding the foreign component, for which the balance between assessments of an improvement and those of a worsening rose to -3 percentage points (from -15 points).

Demand expectations are stationary The balance between expectations of an increase and of a reduction in demand in the next quarter fell to almost zero for the economy as a whole (from 14 per cent); it remained positive in industry (8 percentage points excluding construction and 13 in construction) while it became negative in services (-6 percentage points). Foreign demand is still expected to grow, though at a slower pace than in the previous survey. One in seven firms in industry excluding construction, one in five in construction and one in four in services expect the level of turnover achieved in the fourth quarter to be at least 25 per cent lower than that recorded in the third quarter. Some 74 per cent of firms reported that they had not returned to normal activity levels. This will likely occur in 15 months on average, about two months later than was expected in the latest survey (see Tables c19.1 and c19.3 in the [Statistical Appendix](#)).

Assessments of investment conditions worsen... The negative balance between the opinions indicating an improvement in investment conditions and those indicating a deterioration widened compared with the previous quarter, to -16 percentage points (from -8 points; Figure 3), and was most unfavourable in services and in construction. Assessments of credit access conditions became barely negative (with the balance now at -1 percentage point, from 2 points), owing above all to the decrease in judgments of improvement reported by firms with more than 1,000 employees or that operate in the South and Islands (see Table c16 in the [Statistical Appendix](#)).

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

The survey data were collected exclusively for the purpose of economic analysis and have been processed in aggregate form, in compliance with privacy regulations. We would like to thank the 1,550 firms with 50 or more employees (of which 668 in industry excluding construction, 698 in services and 184 in construction) that participated in the December 2020 survey. The survey questionnaire, the statistical appendix and the methodological note are available on the Bank's website:

https://www.bancaditalia.it/statistiche/basi-dati/bird/inflazione-e-crescita/questionario-inflazione/documenti/en_quest_IV_trim_2020.pdf?language_id=1

https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2020-indagine-inflazione/12/dati_2020_12_eng.zip?language_id=1

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

...but firms expect investment to expand in 2021

Investment expenditure forecasts for the first half of 2021 compared with the second half of 2020 are more optimistic, though with differences between sectors. The balance between judgments of an increase and of a decrease in investment is considerably higher in industry excluding construction (18 percentage points) compared with services and construction (2 and 7 points respectively). For 2021 as a whole, the balance between the share of firms expecting an increase in investment compared with 2020 and those expecting a reduction is positive and equal to about 11 percentage points for the total economy.

Employment is likely to contract further, but at a slower pace

Employment is expected to decline further in the first quarter of 2021, with the balance between the share of firms that intend to increase the number of workers and those that expect to reduce it becoming less negative compared with the previous survey (to -4 percentage points, from -6 points). The balance is more negative for service firms than for those in industry excluding construction (-8 and -1 percentage points respectively). Construction firms, instead, expect a further increase in the number of people in employment (7 percentage points, from 4 points in the previous quarter; Table 1).

Inflation expectations decline...

Firms' inflation expectations declined across all time horizons, especially the shorter ones. Firms expect the annual inflation rate to be -0.1 per cent six months from now, 0.1 per cent in one year, 0.4 per cent in two years and 0.8 over the three- to five-year horizon (Figures 4, 5 and 6). Service firms have slightly lower expectations compared with those in industry excluding construction, except over the long-term horizon, where the expectations become identical.

...but firms' selling prices are expected to grow moderately

Firms report selling prices that are stable on average compared with one year earlier, but uneven between sectors: a decrease among firms in industry excluding construction (to -0.5 per cent) was offset by a slight increase among service and construction firms (Figures 2.1, 2.2 and 2.3). Selling prices are expected to post moderate growth across all sectors over the next twelve months. In services, they will likely slow compared with the September survey (0.3 per cent, from 0.5 per cent), while firms in industry excluding construction and in construction revised their expectations upwards, to 1.1 and 0.8 per cent respectively, from 0.8 and 0.7 per cent. The trend in selling prices over the next twelve months will be supported above all by developments in labour costs and commodity prices, in addition to funding costs; the only downward pressure continues to be that exerted by the pricing policies of competitors.

Table 1

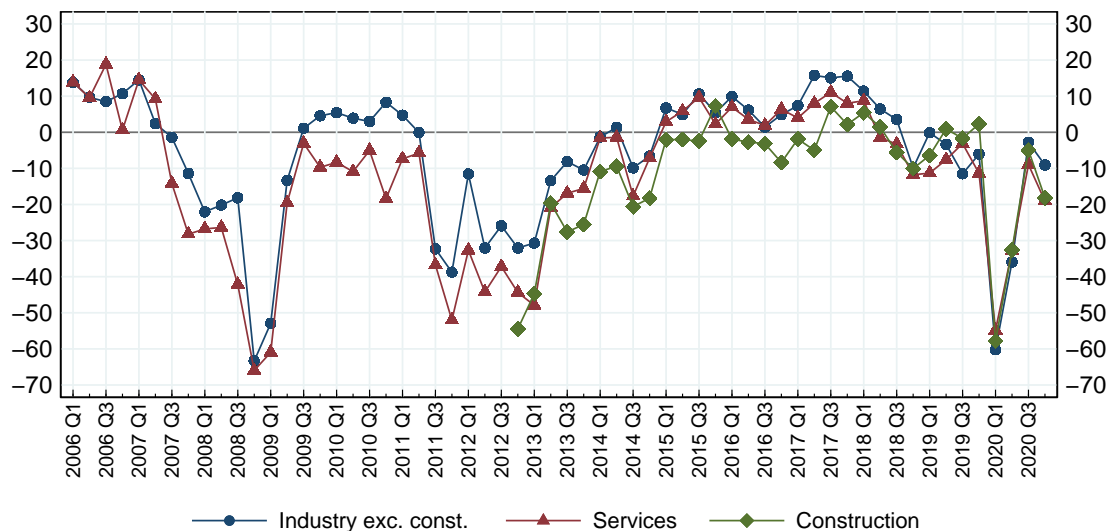
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2020 Q3	2020 Q4	2020 Q3	2020 Q4	2020 Q3	2020 Q4	2020 Q3	2020 Q4
	per cent							
Inflation expectation 6 months ahead	0.6	-0.0	0.7	-0.1	0.6	0.1	0.7	-0.1
Inflation expectation 12 months ahead	0.7	0.1	0.9	0.0	0.8	0.3	0.8	0.1
Change in own prices 12 months ahead	0.8	1.1	0.5	0.3	0.7	0.8	0.6	0.6
	Balance between reports of improvement and deterioration (percentage points)							
	Judgments on the previous quarter							
General economic situation	1.3	-47.5	-12.2	-63.3	-11.7	-50.9	-6.1	-55.5
Total demand	-12.0	-7.6	-7.0	-22.2	-2.4	-3.8	-9.1	-14.7
Foreing demand	-14.6	-2.8	-7.3	-10.7	—	—	-12.2	-5.2
Investment conditions	-8.0	-9.4	-8.2	-20.8	-13.4	-22.9	-8.4	-15.7
	Forecast 3 months ahead							
Total demand	17.2	8.5	11.2	-5.9	13.0	13.5	14.0	1.6
Foreing demand	15.8	12.8	9.0	4.2	—	—	13.6	10.2
Firms' economic conditions	-2.8	-9.1	-8.9	-19.0	-4.9	-18.2	-5.9	-14.5
Employment	-7.3	-0.7	-5.6	-7.8	3.8	7.5	-5.9	-3.8
	Forecast of investment expenditure							
H1 2021 on H2 2020	—	18.4	—	1.7	—	6.9	—	9.5
2021 on 2020	—	17.2	—	5.2	—	6.9	—	10.7

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2020-indagine-inflazione/12/dati_2020.12.eng.zip?language_id=1

Figure 1

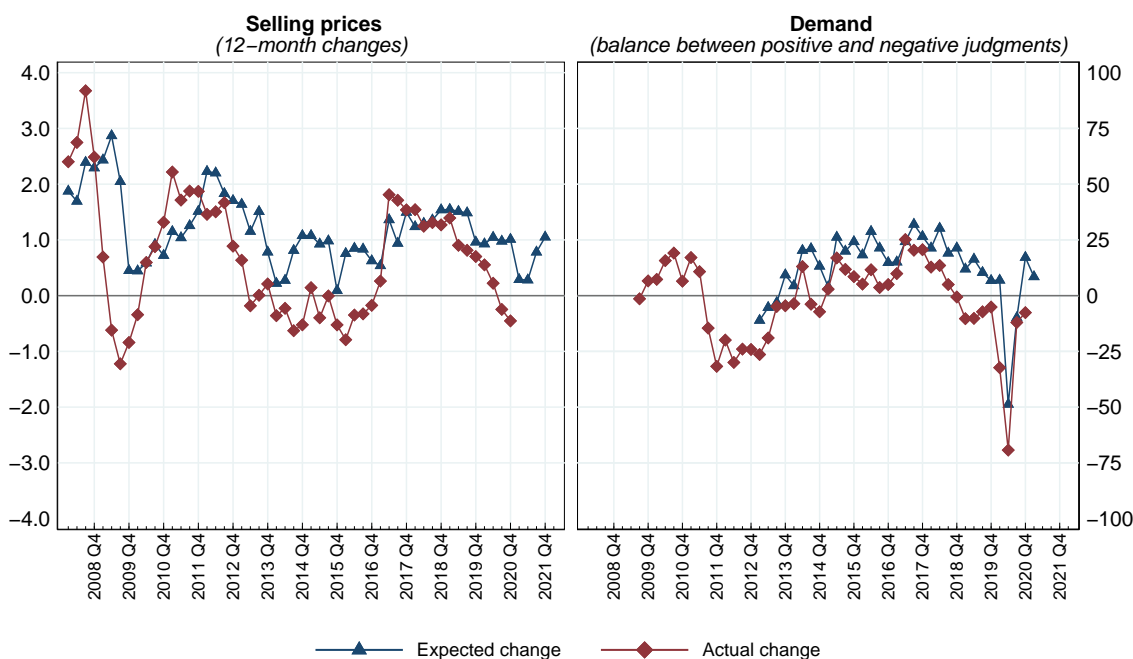
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

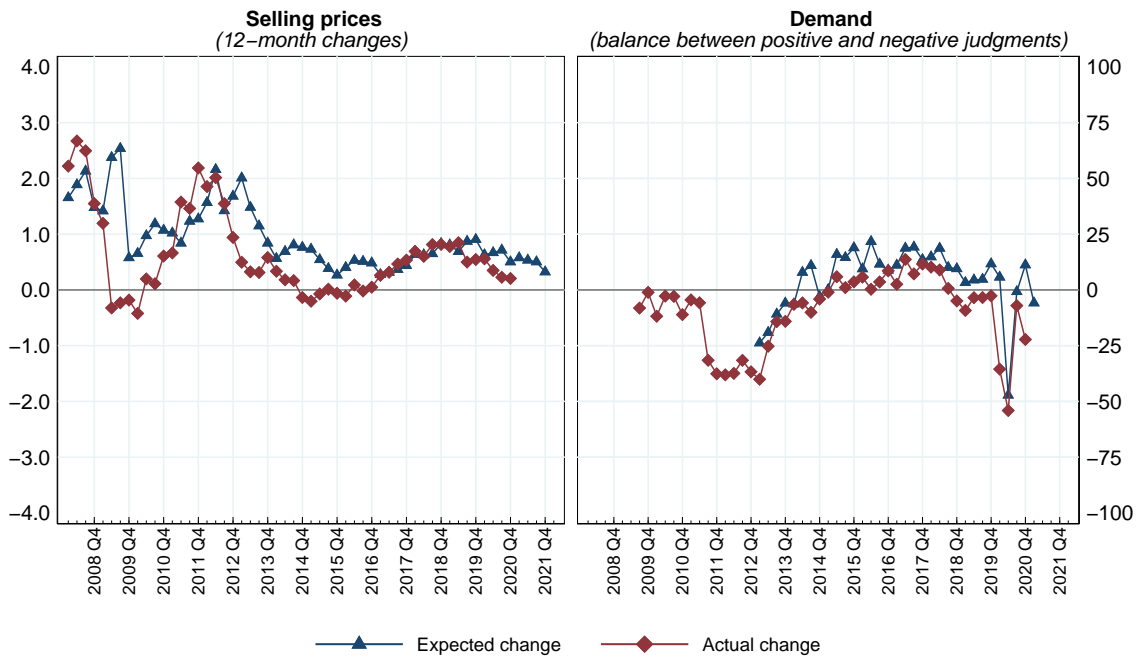
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

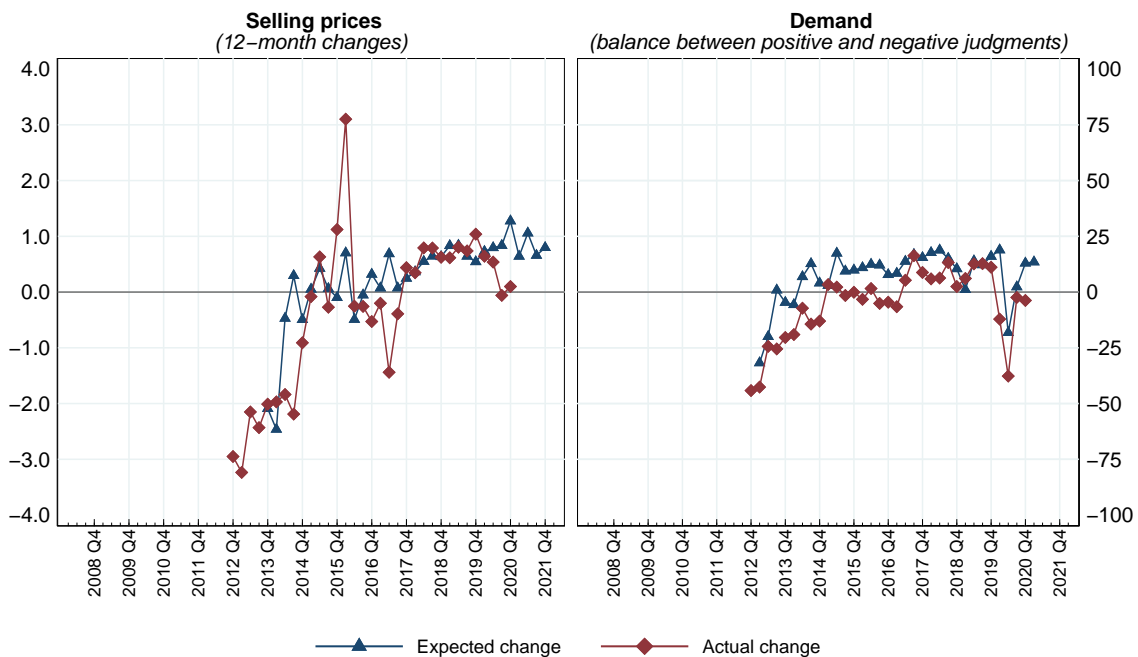
Expected and actual changes in selling prices and demand (1)
(services)



(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

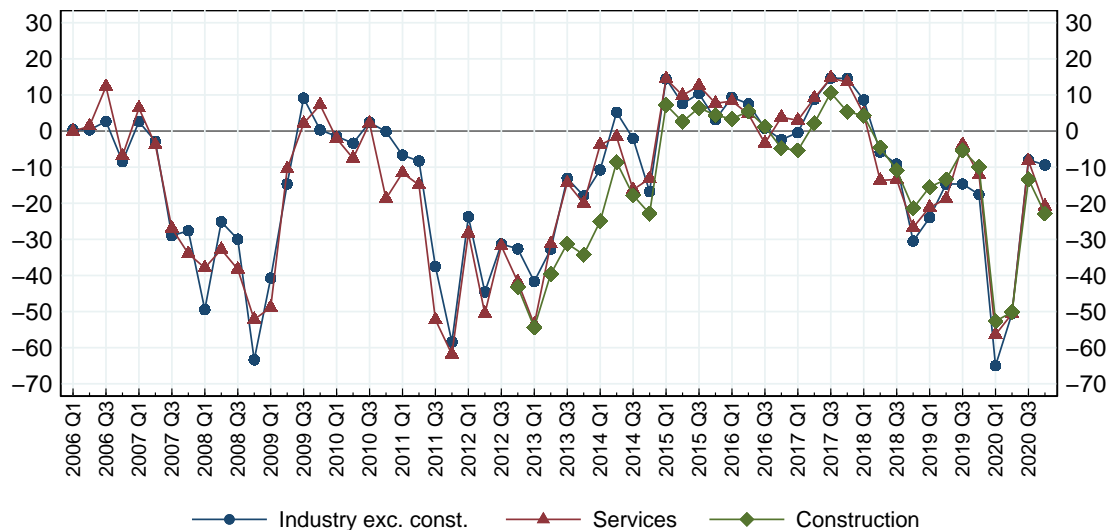
Expected and actual changes in selling prices and demand (1)
(Construction)



(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

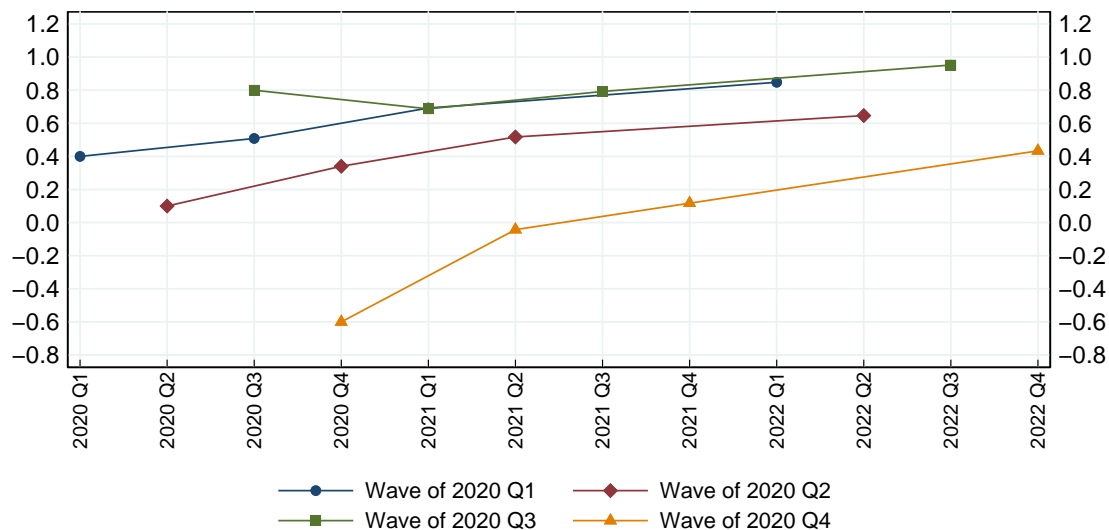
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

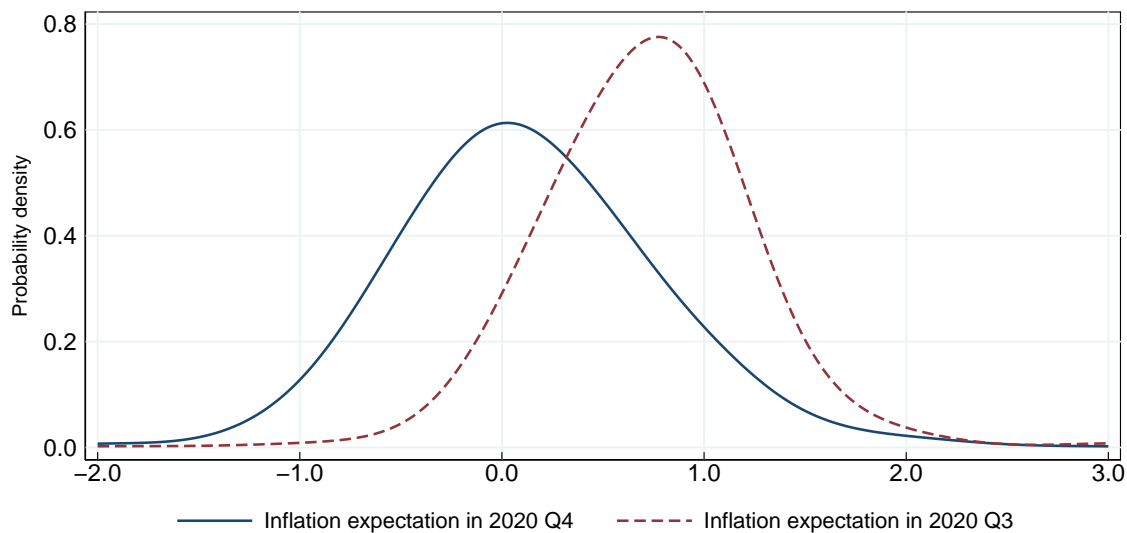
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

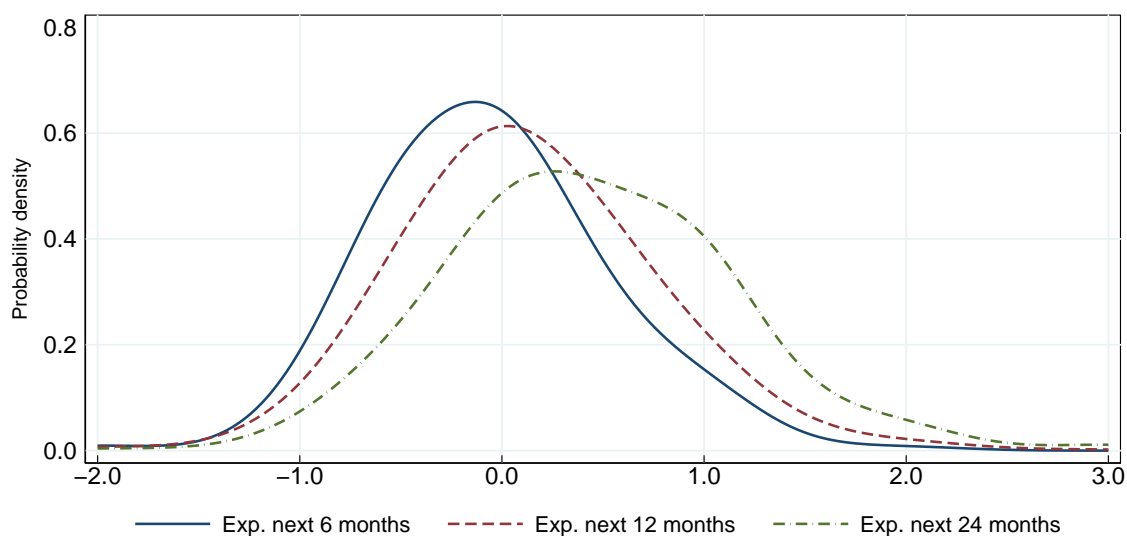
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



(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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