

BANCA D'ITALIA

II Sole 24 Ore-Bank of Italy survey on inflation and growth expectations

March 2006

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SUMMARY OF RESULTS

THE SURVEY (Table 1): 481 companies with at least 50 employees, chosen at random from the Kompass database, were asked to complete the survey. The interviews were conducted by Questlab S.r.l. between 1 and 30 March 2006, with the questionnaire being submitted to well-informed company managers either by internet (to 93.8 per cent of respondents) or by fax. The response rate was 48.1 per cent (Table A2).

CONSUMER PRICE INFLATION IN ITALY (Table 2 and Figures 1 and 2): Inflation is expected to stand at 2.4 per cent over the next 12 months, a slight decline vis-à-vis the results from the previous quarter. The expected inflation rate for the following 12 months was 0.2 percentage points higher than the actual rate for the most recent month for which a comparison can be made (December 2005). This was lower than the difference between the two rates in September 2005.

GENERAL ECONOMIC SITUATION (Tables 3-5):

According to 60.4 per cent of companies, the general economic situation in Italy is unchanged compared with three months earlier. There was a slight increase vis-à-vis December 2005 in the proportion of companies which saw an improvement (24 per cent compared with 22.4 per cent), and a fall in the share which considered the situation to have worsened (15.6 per cent compared with 16.1 per cent). The share of positive opinions was above average in the North-West (30.1 per cent), while negative views were more widespread in the South (24.8 per cent).

Expectations for the future have also become more optimistic: only 28.4 per cent of companies put the likelihood of an improvement in the general economic situation in the next three months at zero (compared with 33.3 per cent in December). The strongest signs again come from the North-West and from large companies. There is a strong correlation between the views regarding the development of the economy in the previous three months and those regarding the likelihood of an improvement in the following three months.

BUSINESS ENVIRONMENT (Tables 6-9): Although 66.9 per cent of companies believe that their business environment will remain unchanged in the next three months, the share

of those who expect a positive development (23.7 per cent) is greater than the share of those who expect the situation to worsen (9.5 per cent). The differential between the two options has more than doubled by comparison with the last survey (14.2 percentage points compared with 6.5 in December). There is again a strong correlation between the opinions expressed and the views regarding economic developments in the previous three months. As in the past, companies expect that increases in raw materials prices and labour costs will have a slightly negative impact on their business in the next quarter. The impact of demand, both domestic and foreign, will be positive and of a similar size.

Expectations with regard to the business situation in the following three years remain positive, as in December 2005: 60.6 per cent of companies expect an improvement (compared with 59.9 per cent in December), while 16.8 per cent expect conditions to worsen (compared with 14.4 per cent). Positive responses were more common in the North-West (65.5 per cent) and for the services sector (62.2 per cent), while negative responses were relatively more common in the Centre (21.8 per cent) and the South (20 per cent).

INVESTMENT ENVIRONMENT (Table 10): 70.8 per cent of companies judge that the investment environment has remained unchanged vis-à-vis December 2005 (compared with 72.6 per cent in the last survey). Negative and positive views are more or less equal (14.6 per cent compared with 14.7 per cent), while negative responses exceeded positive responses by 4.5 percentage points in December. As in the other categories, the strongest signs of improvement come from the North-West and large companies.

EMPLOYMENT RATE (Table 11): With regard to total employment, for the first time since the subject has been included in the current survey (December 2004), three-month forecasts of an increase outweigh those of a reduction (29.8 per cent compared with 21.3 per cent). Companies in the services sector are more inclined to expect an increase in the number of employed persons (37.1 per cent foresee an increase, while 16.3 per cent expect a decrease), as are large companies (33.7 per cent

compared with 22.1 per cent). An exception to the general trend is observed in the Centre (27.3 per cent compared with 24.7 per cent). Expectations of a decline outweigh those of an increase only in the case of permanent employment (with 20.7 per cent of companies expecting a fall, compared with 17.6 per cent who expect an increase), but the differential between the two values has more than halved since the last survey (3.1 percentage points as compared with 6.8). Fixed-term employment is foreseen to increase, in particular by large companies, in the services sector and in the regions of the South and Islands.

CHANGES IN COMPANIES' SALES PRICES (Tables 12 and 13, Figure 3): On average, companies reported an increase in their sales prices of 0.7 per cent in the past 12 months, which was less than they had expected in March 2005 (1.5 per cent). For the next year, they expect a rise of 1.7 percentage points, in line with the responses in December. Companies in the Centre seem to be experiencing a more

sustained rise, but witnessed smaller increases over the past year. According to the respondents, the increases are due principally to tensions in the market for raw materials and changes in the exchange rate of the euro. Changes in demand and in labour costs are seen to have little or no impact.

There is a general expectation among companies that their prices will increase by less than the general index in the course of the next 12 months. Looking back, companies usually report lower price increases than the general index. The differential with regard to the forecasts for March 2007 is 0.7 percentage points, a slight fall vis-à-vis the previous quarter (0.8 percentage points). In the last month for which data are available (December 2005), the difference between the actual inflation rate in the previous 12 months and the price increases reported over the same time period was 1.0 percentage point (down from 1.1 percentage points in September 2005).

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Table 1

Composition of sample and universe
(units; percentages)

	Sample size (a)	Company universe (*) (b)	Sample coverage rate (a/b)*100
Number of employees			
50-199	194	16,311	1.2
200-999	180	3,270	5.5
Over 999	107	470	22.8
Sector			
Industry	267	12,095	2.2
Services	214	7,956	2.7
Geographical area			
North-West	195	8,306	2.3
North-East	156	5,651	2.8
Centre.....	79	3,406	2.3
South and Islands.....	51	2,688	1.9
Total	481	20,051	2.4

(*) ISTAT (2002)

Table 2

Expectations of consumer price inflation in Italy for the next 12 months
(percentages)

	Consumer price inflation rate
Number of employees	
50-199	2.4
200-999	2.4
Over 999	2.3
Sector	
Industry	2.4
Services	2.3
Geographical area	
North-West	2.3
North-East	2.4
Centre.....	2.3
South and Islands.....	2.4
Total	2.4
<i>Standard error</i>	<i>0.02</i>

Figure 1

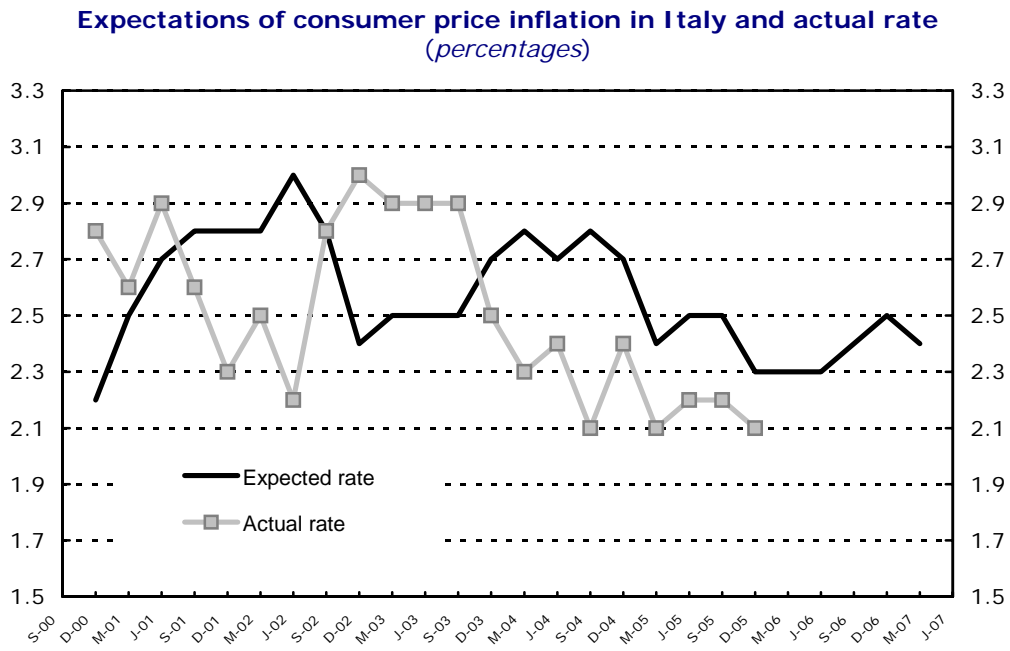


Figure 2

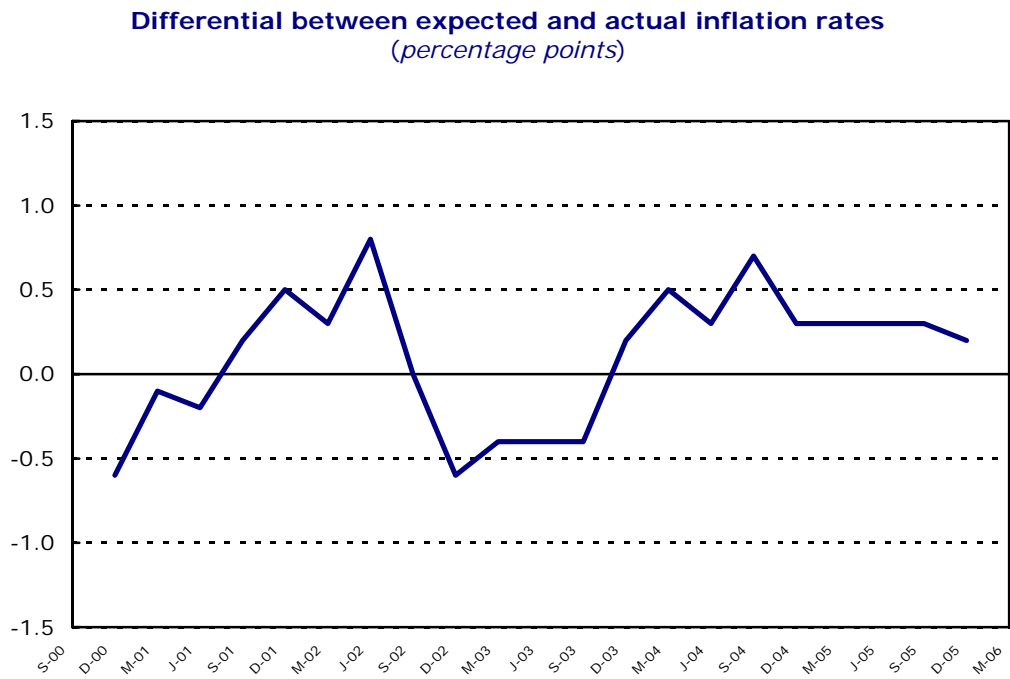


Table 3

View of the general economic situation
(percentages)

	Better than previous quarter	Unchanged from previous quarter	Worse than previous quarter	Total
Number of employees				
50-199	26.9	57.5	15.6	100.0
200-999.....	21.0	62.0	17.0	100.0
Over 999.....	23.2	63.0	13.8	100.0
Sector				
Industry.....	22.3	65.8	11.9	100.0
Services.....	25.1	56.9	18.1	100.0
Geographical area				
North-West.....	30.1	59.6	10.3	100.0
North-East.....	22.8	58.6	18.6	100.0
Centre	14.0	69.5	16.5	100.0
South and Islands	20.0	55.2	24.8	100.0
Total	24.0	60.4	15.6	100.0
<i>Memo:</i>				
December 2005	22.5	61.4	16.1	100.0
September 2005	11.5	56.1	32.4	100.0
June 2005	2.7	44.8	52.5	100.0

Table 4

Likelihood of an improvement in the general economic situation in the next three months
(percentages)

	Zero	1-25%	26-50%	51-75%	76-100%	Total
Number of employees						
50-199	29.5	54.3	11.2	5.0	0.0	100.0
200-999	29.6	44.7	12.8	9.5	3.5	100.0
Over 999	24.9	42.7	12.8	19.6	0.0	100.0
Sector						
Industry	31.8	50.9	10.8	6.0	0.4	100.0
Services.....	26.2	46.3	13.0	12.8	1.7	100.0
Geographical area						
North-West	20.1	49.5	14.3	13.6	2.4	100.0
North-East	31.6	43.4	14.7	9.7	0.8	100.0
Centre	34.1	52.0	7.6	6.3	0.0	100.0
South and Islands.....	40.3	49.0	5.8	4.8	0.0	100.0
Total	28.4	48.2	12.1	10.1	1.2	100.0
<i>Memorandum items:</i>						
December 2005	33.3	44.8	9.2	11.4	1.2	100.0
September 2005.....	41.6	44.9	7.6	5.0	0.9	100.0
June 2005.....	48.6	39.4	8.2	2.1	1.7	100.0

Table 5

**Likelihood of an improvement in the general economic situation
in the next three months, conditional on view of the current situation**
(percentages)

	Zero	1-25%	26-50%	51-75%	76-100%	Total
View of the current general economic situation						
Better than in 12/2005	4.1	52.1	14.7	24.6	4.6	100.0
Unchanged from 12/2005	29.0	51.7	12.5	6.7	0.2	100.0
Worse than in 12/2005	63.2	28.7	6.7	1.4	0.0	100.0
Total	28.4	48.2	12.1	10.1	1.2	100.0

Table 6

Three-month forecast of the business environment
(percentages)

	Improvement	No change	Worsening	Total
Number of employees				
50-199	24.3	65.4	10.4	100.0
200-999	23.5	67.5	9.1	100.0
Over 999	23.0	68.5	8.5	100.0
Sector				
Industry	23.8	66.5	9.6	100.0
Services	23.6	67.1	9.3	100.0
Geographical area				
North-West	27.0	66.1	6.8	100.0
North-East	19.3	66.5	14.1	100.0
Centre	17.9	73.1	9.0	100.0
South and Islands	30.0	61.6	8.4	100.0
Total	23.7	66.9	9.5	100.0
<i>Memorandum items:</i>				
December 2005	18.5	69.5	12.0	100.0
September 2005	15.5	68.4	16.1	100.0
June 2005	11.8	65.1	23.1	100.0

Table 7

**Three-month forecast of the business environment,
conditional on view of the general economic situation**
(percentages)

	Improvement	No change	Worsening	Total
View of the current general economic situation				
Better than in 12/2005	58.8	39.7	1.5	100.0
Unchanged compared with 12/2005	14.1	78.4	7.5	100.0
Worse than in 12/2005	8.0	62.7	29.2	100.0
Total	23.7	66.8	9.5	100.0

Table 8

Factors which will affect the business environment
(average scores)^(*)

	Change in domestic demand	Change in foreign demand	Change in own prices	Change in raw materials prices	Change in labour costs
Number of employees					
50-199	0.8	0.7	0.3	-0.9	-0.7
200-999	0.6	0.7	0.2	-0.7	-0.7
Over 999	0.4	0.4	0.5	-0.7	-0.5
Sector					
Industry	0.6	1.0	0.1	-1.0	-0.6
Services	0.7	0.4	0.4	-0.6	-0.6
Geographical area					
North-West	0.8	0.7	0.3	-0.7	-0.6
North-East	0.5	0.6	0.1	-1.0	-0.8
Centre	0.5	0.5	0.3	-0.6	-0.5
South and Islands	0.8	0.7	0.4	-0.7	-0.6
Total	0.6	0.6	0.3	-0.8	-0.6
<i>Standard error</i>	<i>0.07</i>	<i>0.05</i>	<i>0.06</i>	<i>0.06</i>	<i>0.05</i>

(*) Companies' views with regard to the direction and degree of the expected impact of each factor on their business conditions in the next three months (high/average/low increase or decrease) were measured on a scale of -3 to 3. A neutral position is indicated by 0.

Table 9

Three-year forecast of the business environment
(percentages)

	Improvement	No change	Worsening	Total
Number of employees				
50-199	58.4	24.3	17.3	100.0
200-999	60.5	22.9	16.6	100.0
Over 999	64.2	19.6	16.2	100.0
Sector				
Industry	58.2	25.3	16.5	100.0
Services	62.2	20.9	17.0	100.0
Geographical area				
North-West	65.5	19.9	14.6	100.0
North-East	55.1	29.7	15.2	100.0
Centre	56.4	21.8	21.8	100.0
South and Islands	62.6	17.4	20.0	100.0
Total	60.6	22.6	16.8	100.0
<i>Memorandum items:</i>				
December 2005	59.9	25.7	14.4	100.0
September 2005	53.2	26.4	20.4	100.0
June 2005	57.5	23.2	19.3	100.0

Table 10

View of investment environment
(percentages)

	Better than previous quarter	Unchanged from previous quarter	Worse than previous quarter	Total
Number of employees				
50-199	13.6	68.1	18.3	100.0
200-999	13.6	76.0	10.4	100.0
Over 999	18.0	68.1	13.9	100.0
Sector				
Industry	11.7	76.9	11.3	100.0
Services	16.7	66.5	16.8	100.0
Geographical area				
North-West	17.5	71.7	10.8	100.0
North-East	16.3	67.1	16.6	100.0
Centre	9.1	75.5	15.5	100.0
South and Islands	10.2	69.5	20.3	100.0
Total	14.7	70.8	14.6	100.0
<i>Memorandum items:</i>				
December 2005	11.5	72.6	16.0	100.0
September 2005	11.4	70.6	18.0	100.0
June 2005	3.2	71.2	25.6	100.0

Table 11

Three-month forecast of employment
(percentages)

	Total employment			Permanent employment			Fixed-term employment		
	Declining	Unchanged	Rising	Declining	Unchanged	Rising	Declining	Unchanged	Rising
Number of employees									
50-199	17.8	54.1	28.1	15.1	71.9	13.0	14.1	61.1	24.9
200-999	24.6	46.2	29.2	24.0	57.9	18.1	17.0	55.6	27.5
Over 999	22.1	44.2	33.7	25.0	50.0	25.0	14.4	51.0	34.6
Sector									
Industry	25.2	50.8	24.0	24.8	64.0	11.2	16.7	59.7	23.6
Services	16.3	46.5	37.1	15.3	58.9	25.7	13.4	53.0	33.7
Geographical area									
North-West	22.4	46.4	31.1	23.0	58.5	18.6	14.8	56.3	29.0
North-East	19.5	50.0	30.5	20.1	61.0	18.8	14.3	57.8	27.9
Centre	27.3	48.1	24.7	20.8	62.3	16.9	20.8	58.4	20.8
South and Islands ..	13.0	56.5	30.4	13.0	76.1	10.9	10.9	52.2	37.0
Total	21.3	48.9	29.8	20.7	61.7	17.6	15.2	56.7	28.0
<i>Memorandum items:</i>									
December 2005	26.0	48.4	25.6	24.5	57.8	17.7	18.6	57.1	24.3
September 2005 ...	27.7	53.6	18.7	26.3	60.3	13.4	20.2	59.9	20.0
June 2005	26.0	56.0	18.0	24.9	64.0	11.0	18.2	61.8	20.0

Table 12

Change in companies' sales prices
(percentages) ^(*)

	Rate of change in sales prices...			
	...compared with 12 months earlier		...in the next 12 months	
	Mean	Mean (robust) (**)	Mean	Mean (robust) (**)
Number of employees				
50-199	1.3	1.5	1.7	1.8
200-999.....	1.2	1.5	1.8	1.7
Over 999.....	0.6	0.5	1.7	1.7
Sector				
Industry.....	1.1	0.7	1.3	1.5
Services.....	0.6	0.7	1.7	1.7
Geographical area				
North-West.....	1.0	0.9	1.6	1.6
North-East.....	0.5	0.5	1.2	1.2
Centre	0.4	0.4	2.2	2.2
South and Islands	2.3	2.2	1.0	1.2
Total	0.7	0.7	1.7	1.7
<i>Standard error</i>	<i>0.23</i>	<i>0.20</i>	<i>0.31</i>	<i>0.30</i>
	Rate of change in sales prices			
<i>Memorandum items:</i>				
December 2005.....	1.1	1.2	1.7	1.7
September 2005.....	1.0	1.3	1.4	1.5
June 2005	1.2	1.2	0.6	0.8

(*) Companies' responses are weighted by the number of employees in order to account for the impact of size. (**) Values outside the range between the 5th and the 95th percentile have been set at the threshold values of those percentiles.

Figure 3

**Differential between price changes reported by companies and the inflation rate:
forecasts and actual outcomes
(percentage points)**

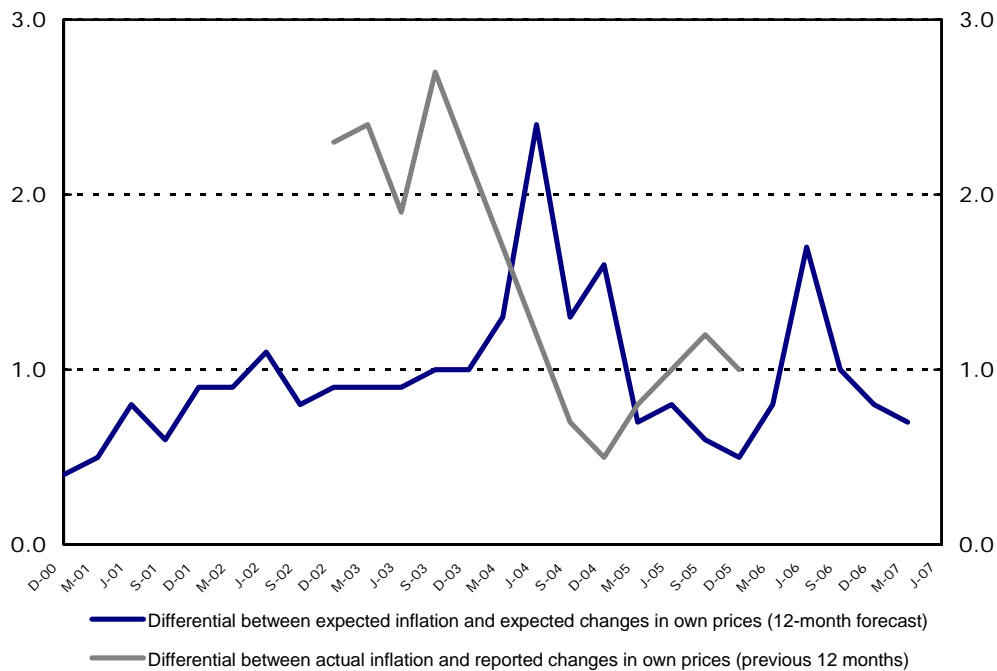


Table 13

**Factors affecting companies' sales prices
(average scores) (*)**

	Change in demand	Change in raw materials prices	Change in labour costs	Change in the exchange rate of the euro
Number of employees				
50-199.....	0.2	0.8	0.1	0.5
200-999.....	0.1	0.9	0.1	0.7
Over 999.....	0.1	0.7	0.1	0.5
Sector				
Industry.....	0.2	0.9	-0.0	0.3
Services.....	0.0	0.7	0.2	0.5
Geographical area				
North-West.....	0.1	1.1	0.1	0.9
Nord-East.....	0.0	1.0	0.0	0.4
Centre.....	0.0	0.2	0.3	0.1
South and Islands.....	-0.2	0.7	0.0	0.4
Total.....	0.1	0.7	0.1	0.5
Standard error.....	0.04	0.05	0.03	0.05

(*) Companies' views with regard to the direction and degree of the impact of each factor on future sales prices (high/average/low increase or decrease) were measured on a scale of -3 to 3. A neutral position is indicated by 0. Companies' responses are weighted by the number of employees in order to account for the impact of size.

METHODOLOGICAL NOTE

QUESTIONNAIRE. The questionnaire (contained in the Appendix) asks for a forecast of consumer price inflation in Italy over the following 12 months. In order to make it easier to respond, the questionnaire provides the most up-to-date official inflation figures available at the time the survey is conducted. Respondents are asked to provide a forecast of the expected value¹. In order to make it easier to evaluate the respondents' inflation expectations, the questionnaire also asks for the expected rate of change in the prices of primary goods and services produced or sold by the companies participating in the survey. The survey also focuses on the views and expectations of companies regarding the general economic situation in Italy and their own specific business conditions. As well as providing assessments of the direction of changes observed and foreseen, the respondents also indicate the factors which shape these assessments.

SAMPLE DESIGN. The sample is stratified by number of employees (50-199, 200-999, 1000 and above), sector (industry, services) and geographical area (North-West, North-East, Centre, South and Islands) in order to increase the accuracy of the assessments. The need to ensure a minimum sample size for each category of company considered relevant means that, in some cases, the number of companies selected is not representative of the relative share of that category. This is in particular true of large companies. The aggregates are thus evaluated using a weighting coefficient for each sample unit which, at the level of the stratification variables, takes into account the ratio between the number of respondent companies and the number of companies in the reference universe. In the evaluation of the development of the variables attributed to the companies, the weighting also takes account of the size in terms of the number of employees of the participating companies, in order to provide more accurate indications of expected macroeconomic developments.

DATA QUALITY. The collected data are subject to an initial quality check so that any incorrect data

(resulting from typing mistakes, for example) can be intercepted and the existence of outliers and missing data (*item non-response*) can be assessed. Robust estimators of the mean have been used in order to verify the impact of outliers on the assessments; specifically, values outside the range between the 5th and the 95th percentile have been set at the threshold values of those percentiles. The results are largely in line with those obtained from the total sample (Table A1).

IMPUTING MISSING DATA. Using the correlation between the indicators obtained, the missing data are imputed by means of stochastic regression models, the parameters for which are set after neutralizing outliers, where appropriate.

SAMPLE ERRORS. It should be kept in mind that, owing to the variability of the sample, the values are to be interpreted with caution. The standard errors in the total sample, which are computed taking account of the level of sampling, are reported in last row of the tables². For smaller subgroups (for example, for categories of employees), for which the statistics are based on a smaller sample size, the values are more variable³.

RESPONSE RATE. The response rate is calculated as the ratio between the number of companies which completed the questionnaire and the number of those contacted.

¹ Information on the level of uncertainty of the assessments of expectations can be obtained by calculating the variability by means of the standard errors.

² The variability of the assessments can be calculated by constructing *confidence intervals*; the limits of these intervals – assuming a certain level of probability, usually fixed at 95 per cent – are obtained by adding to and subtracting from the value 1.96 times the standard error.

³ The standard error can be approximated for the assessments of the subgroups considered as follows: $ES_g = ES * \sqrt{n} / \sqrt{n_g}$, where ES is the standard error for the assessment of the total sample of size n and ES_g is the standard error for the assessment of the g^{th} subgroup of size n_g .

Table A1

Estimators of the variables obtained and missing responses
(percentages)

	Mean	Mean (robust)	Median	Missing responses (percentages)
Consumer price inflation in Italy	2.4	2.4	2.3	0.0
Change in own prices in the previous 12 months ...	0.7	0.7	0.5	7.1
Change in own prices in the next 12 months	1.7	1.7	1.5	7.7

Table A2

Response rates and data collection via Internet
(units; percentages)

	Companies contacted	Response rate ^(*)	Data collected via Internet ^(**)
Number of employees			
50-199	524	37.0	90.7
200-999	349	51.6	95.6
Over 999	127	84.3	96.3
Sector			
Industry	550	48.5	93.3
Services	450	47.6	94.4
Geographical area			
North-West	395	49.4	92.8
North-East	313	49.8	95.5
Centre	180	43.9	93.7
South and Islands	112	45.5	92.2
Total	1,000	48.1	93.8

(*) Percentage of companies contacted which participated in the survey. (**) Percentage of participating companies which completed the questionnaire via Internet (www.questlab.it).

APPENDIX: THE QUESTIONNAIRE

IL SOLE 24 ORE – BANK OF ITALY SURVEY ON INFLATION AND GROWTH EXPECTATIONS – MARCH 2006

Company _____
 Address _____
 Name and position of respondent _____
 Telephone _____ Fax _____ E-Mail _____

⇒ **Instructions:** Where you are asked to state percentage changes, please indicate the sign in the first box on the left (+ for increases; – for decreases).

Please indicate the NUMBER OF EMPLOYEES (most recent data available) |__|__|__|__|__|__|

SECTION A – GENERAL ECONOMIC SITUATION IN ITALY

A1. In January consumer price inflation, measured by the annual change in the HARMONIZED INDEX OF CONSUMER PRICES, stood at 2.2% in Italy and at 2.4% in the euro area. What will the consumer price inflation rate in ITALY be 12 months from now? |__| |__|__|__|__|__|%

A2. Compared with 3 months ago, do you think that the general economic situation in Italy is: Better Unchanged Worse

A3. What is the likelihood of an improvement in the general economic situation in Italy in the next 3 months:

Zero Between 1% and 25% Between 26% and 50% Between 51% and 75% Between 76% and 99% 100%

SECTION B – YOUR COMPANY'S BUSINESS ENVIRONMENT

B1. In the next 3 months, do you think that your company's business environment will be:

Better Unchanged Worse

B2. And in the next 3 years:

Better Unchanged Worse

Please indicate if and to what degree the following FACTORS will affect your company's business in the next 3 months. Please indicate whether the impact will be negative, none or positive. Degree: 1=low, 2=average, 3=high.

Factors which will affect the company's business in the next 3 months	Impact on company's business			Degree (if negative/positive)		
	Negative	None	Positive	Low	Average	High
B3. The impact of developments in DOMESTIC DEMAND on your business will be...	1 __	2 __	3 __	1 __	2 __	3 __
B4. The impact of developments in FOREIGN DEMAND on your business will be...	1 __	2 __	3 __	1 __	2 __	3 __
B5. The impact of developments in YOUR PRICES on your business will be...	1 __	2 __	3 __	1 __	2 __	3 __
B6. The impact of developments in RAW MATERIALS PRICES on your business will be...	1 __	2 __	3 __	1 __	2 __	3 __
B7. The impact of developments in LABOUR COSTS on your business will be...	1 __	2 __	3 __	1 __	2 __	3 __

B8. Compared with 3 months ago, do you think that the investment environment is: Better Unchanged Worse

B9. In the last 12 months, what has been the average change in prices charged by your company? |__| |__|__|__|__|__|%

B10. Over the next 12 months, what do you expect to be the average change in prices charged by your company? |__| |__|__|__|__|__|%

Please indicate in which direction and to what degree the FACTORS below will affect your sales prices over the next 12 months. Please indicate whether the impact will be downward, neutral or upward. Degree: 1=low, 2=average, 3=high.

Factors which will affect the company's prices in the next 12 months	Impact on the prices charged by the company			Degree (if upward/downward)		
	Downward	Neutral	Upward	Low	Average	High
B11. The impact of developments in OVERALL DEMAND on your prices will be...	1 __	2 __	3 __	1 __	2 __	3 __
B12. The impact of developments in RAW MATERIALS PRICES on your prices will be...	1 __	2 __	3 __	1 __	2 __	3 __
B13. The impact of developments in LABOUR COSTS on your prices will be...	1 __	2 __	3 __	1 __	2 __	3 __
B14. The impact of developments in THE EXCHANGE RATE OF THE EURO ON your prices will be...	1 __	2 __	3 __	1 __	2 __	3 __

Please indicate the direction in which the employment situation in your company will change over the next 3 months: Lower Un-changed Higher

B15. Number of TOTAL employees	1 __	2 __	3 __
B16. Number of employees WITH PERMANENT CONTRACTS	1 __	2 __	3 __
B17. Number of employees WITH FIXED-TERM CONTRACTS	1 __	2 __	3 __