

Survey on Inflation and Growth Expectations

16 October 2017

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

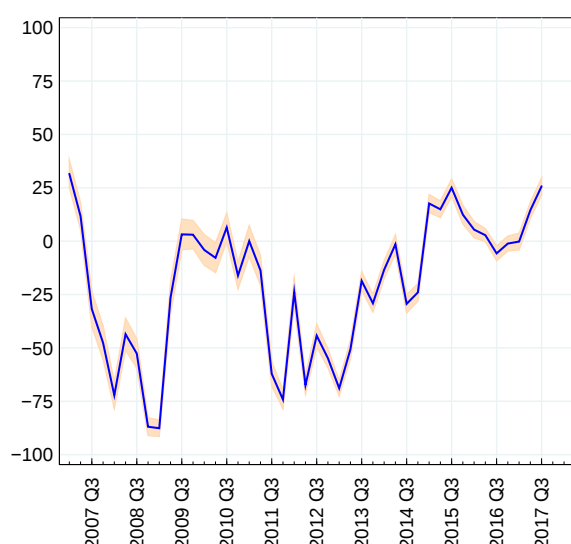
Main results

The survey conducted in September 2017 on a sample of Italian firms with 50 or more employees suggests a continuing and widespread improvement in the assessments of the current general economic situation and in expectations for the next three months, confirming the signals of firms' optimism about the outlook for demand.

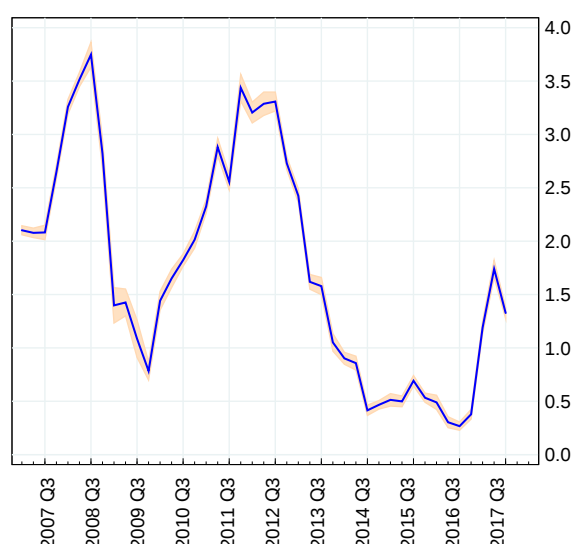
Consumer price inflation expectations remain moderate across all time horizons, as do the past and expected trends in firms' own prices. The expected growth of firms' list prices is likely to be boosted by the increase in raw material prices, and to a lesser extent by labour costs and intermediate inputs; demand-side pressure is expected to be negligible, despite a consolidated improvement in firms' assessments.

Firms' investment plans for the current year continue to grow in all the main sectors, reflecting the overall favourable opinions of firms on investment conditions. Expectations of an increase in employment are confirmed in industry excluding construction and to a lesser extent in the services sector; in construction the negative situation is mitigated.

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

Survey on Inflation and Growth Expectations¹

Assessments of the general economic situation continue to improve ...

In the third quarter of 2017, firms' assessments of the general economic situation were once again more favourable across all sectors (Table 1). In industry excluding construction and in services, the balance between expectations of an improvement and those of a deterioration rose to around 26 percentage points, reinforcing a trend under way since the last survey. In construction, reports were more positive than negative (by 17.7 percentage points) for the first time since the third quarter of last year, with the widespread recovery encompassing even residential construction.

For firms as a whole, there was an increase in the average probability assigned to an improvement in the economic outlook for the next three months (to 20.6 per cent from 15.6 per cent in June), confirming the signs of growing optimism observed since the end of last year.

Firms' expectations of the conditions in which they will be operating in the next quarter are also more favourable overall, particularly in construction where so far the cyclical recovery has been more uncertain: the balance between expectations of an improvement and a deterioration turned positive for the first time since the end of 2015 (Figure 1). The favourable performance of demand continues to be the primary factor driving activity over the next three months, while economic and political uncertainty continues to be the main restraining factor.

... although inflation expectations have slipped to the levels recorded at the start of the year

Firms' expectations of consumer price inflation (Figures 2, 3 and 4) have returned to the low levels reported at the start of the year (at 1.2, 1.3 and 1.5 per cent for 6, 12 and 24 months ahead, respectively, and at 1.6 per cent for between 3 and 5 years), all but eliminating the increase registered in the June survey, ascribable to temporary factors that had supported the official Istat data on the change in consumer prices in April (the most recent data available at the time of the survey). Firms' expectations on changes in prices over the next twelve months are still far off the averages reported in the last ten years.

Growth in list prices remains moderate

As a whole, firms report a small increase in their selling prices compared with a year ago (of 1.0 per cent, as in June), though it varies by sector: 1.7 per cent in industry excluding construction, 0.5 per cent in services and -0.4 per cent in construction.

Over the next twelve months, firms expect to increase their list prices by 0.9 per cent, below the expected rate of consumer price inflation over the same horizon; the pace of growth of both indicators is faster only for firms in industry excluding construction (see Table 1). Demand, although seen as improving for almost four years (Figures 5.1, 5.2 and 5.3), is not deemed sufficiently intense to be a significant factor in determining higher prices for their products, which they see as instead continuing to be influenced by rising expectations of higher prices for raw materials, the cost of labour and intermediate inputs.

¹ The survey report was prepared by Tatiana Cesaroni and Concetta Rondinelli.

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 full compliance with the rules of privacy. We would like to thank the 1018 firms with 50 or more employees (of which 385 in industry excluding construction, 436 in services and 197 in construction) that participated in the September 2017 survey. The survey questionnaire, the statistical appendix and the methodological note are available on the Bank's website:

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/09/en_quest_III_trim_2017.pdf?language_id=1
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/09/dati_2017_09_eng.zip?language_id=1
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/methods_and_sources.pdf?language_id=1

Current and projected demand assessments continue to be positive

In the third quarter of 2017, positive assessments of the change in demand for their products compared with the previous period prevail over negative ones in all sectors, confirming the observations recorded in June: the balance, however, was reduced by about one fifth in industry excluding construction (from one fourth) and to 7 percentage points in services (from 13.7 points), while in construction it continued to expand (to 16.3 percentage points from 5.3 points). In this latter sector, the more favourable assessments submitted by firms that operate in non-residential construction was accompanied by a recovery of those most active in the residential construction sector.

Overall, even the balance between expectations of an improvement and a deterioration in demand in the next quarter, while slightly narrower, is still amply positive (19.8 percentage points), reflecting above all the expectations of the largest firms, while for around 61 per cent of firms it remains stable. Firms operating mainly on foreign markets (that is, when more than two thirds of their turnover is generated outside of Italy) expressed judgments and expectations of improvement in demand for their products that were more favourable than those of firms concentrating on the domestic market.

Assessments of investment conditions improve further

Between September and June, the balance between positive and negative expectations of investment conditions increased further for all firms (to 14.4 percentage points), owing to the reduction in the percentage of firms reporting investment expectations analogous to those of the previous quarter. The improvement, while widespread across all sectors, was strongest in construction (Figure 6). In the same quarter the assessments of credit access conditions remained virtually unchanged in services and deteriorated marginally for industry excluding construction; by contrast,

assessments improved in construction, the only sector in which the balance of judgments remains negative.

Planned investment for 2017 continues to expand

The share of firms expecting to increase their nominal investment expenditure in 2017 continues to exceed those planning a reduction (22.3 percentage points for all firms, from 21.0 points in the June survey). The differential, which was particularly marked in industry excluding construction (28.1 percentage points), increased significantly in construction (to 13.2 percentage points, from 6.4 points); for the largest firms it exceeds 50 percentage points.

Employment expectations remain favourable overall

The balance between the share of firms planning to increase staff numbers and those expecting to reduce them, while down compared with the previous survey, remains positive, equal to 6.2 percentage points in industry excluding construction and 4.8 percentage points in services. For construction firms, the balance is still negative, albeit improving (-3.7 percentage points from -7.0 points); the recovery under way since the start of the year has been confirmed.

Table 1

Main findings (1)

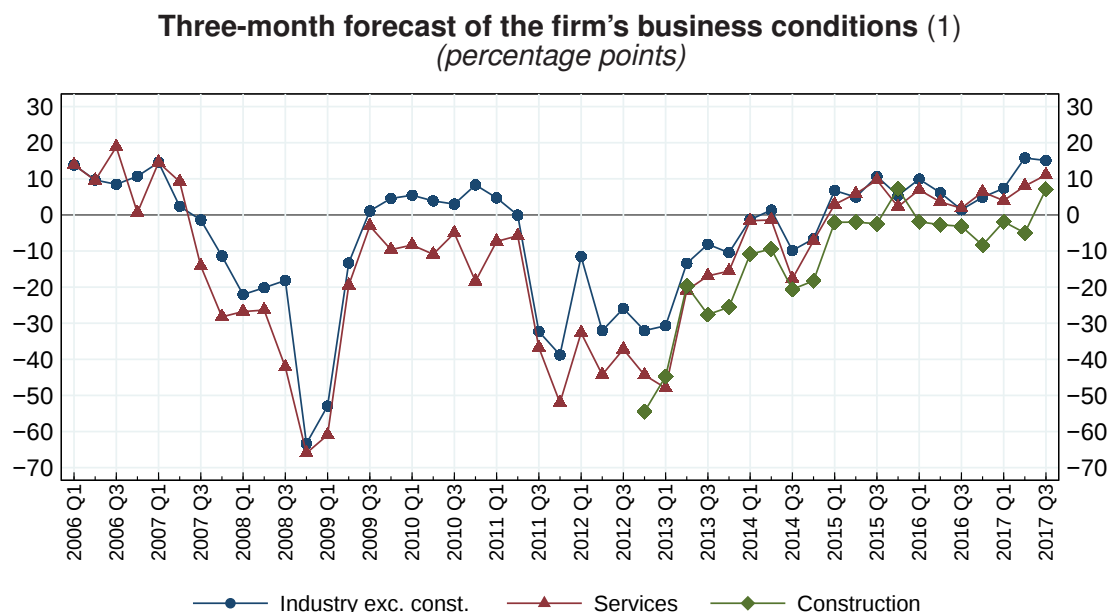
(per cent)

	Industry exc. const.		Services		Construction		Total	
	2017 Q2	2017 Q3	2017 Q2	2017 Q3	2017 Q2	2017 Q3	2017 Q2	2017 Q3
Rate of change								
Inflation expectation 6 months ahead	1.7	1.3	1.5	1.2	1.6	1.2	1.6	1.2
Inflation expectation 12 months ahead	1.8	1.4	1.7	1.3	1.7	1.3	1.7	1.3
Change in own prices 12 months ahead	1.3	1.4	0.6	0.6	0.5	0.6	0.9	0.9
Balance between reports of improvement and deterioration								
Judgments on the previous quarter								
General economic situation	14.7	28.3	15.9	24.0	-0.2	17.7	14.5	25.7
Total demand	25.2	20.4	13.7	7.2	5.3	16.3	18.8	13.9
Foreing demand	28.3	22.3	12.4	17.8	—	—	23.9	21.0
Investment conditions	8.7	14.6	9.1	14.7	2.2	10.6	8.6	14.4
Forecast 3 months ahead								
Total demand	32.0	26.6	19.2	13.6	16.9	15.4	25.2	19.8
Foreing demand	32.4	30.0	23.0	25.4	—	—	29.8	28.7
Firms' economic conditions	15.8	15.1	8.0	11.1	-5.0	7.1	11.0	12.8
Employment	10.0	6.2	10.6	4.8	-7.0	-3.7	9.4	5.0
Forecast of investment expenditure								
H2 2017 on H1 2017	—	17.7	—	14.0	—	17.0	—	15.9
2017 on 2016	25.4	28.1	18.2	17.6	6.4	13.2	21.0	22.3

(1) The statistical appendix is available at

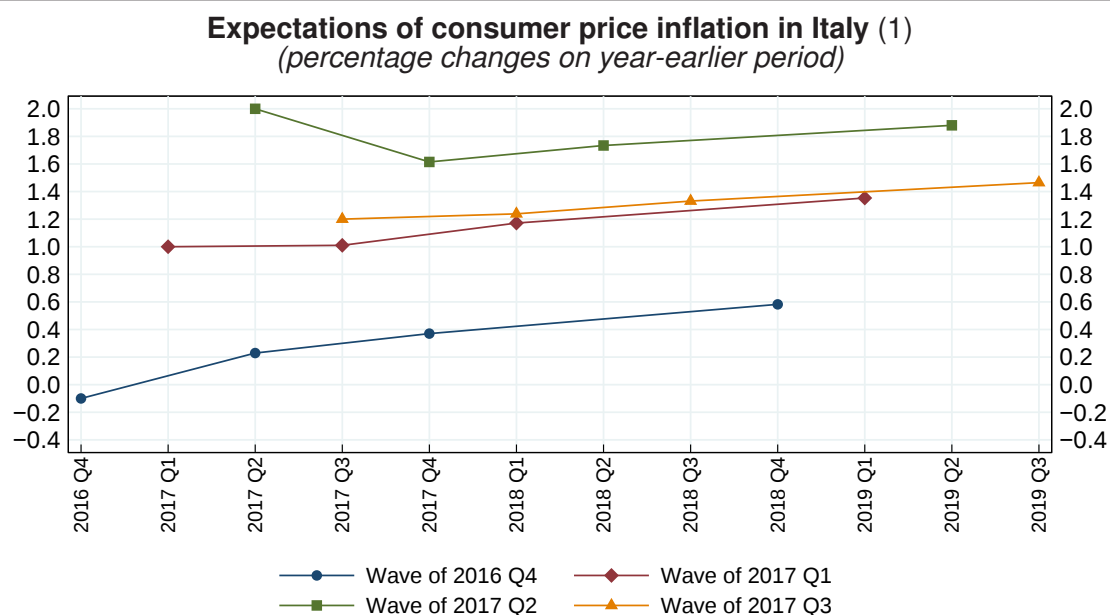
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2017-indagine-inflazione/09/dati_2017.09.eng.zip?language_id=1

Figure 1



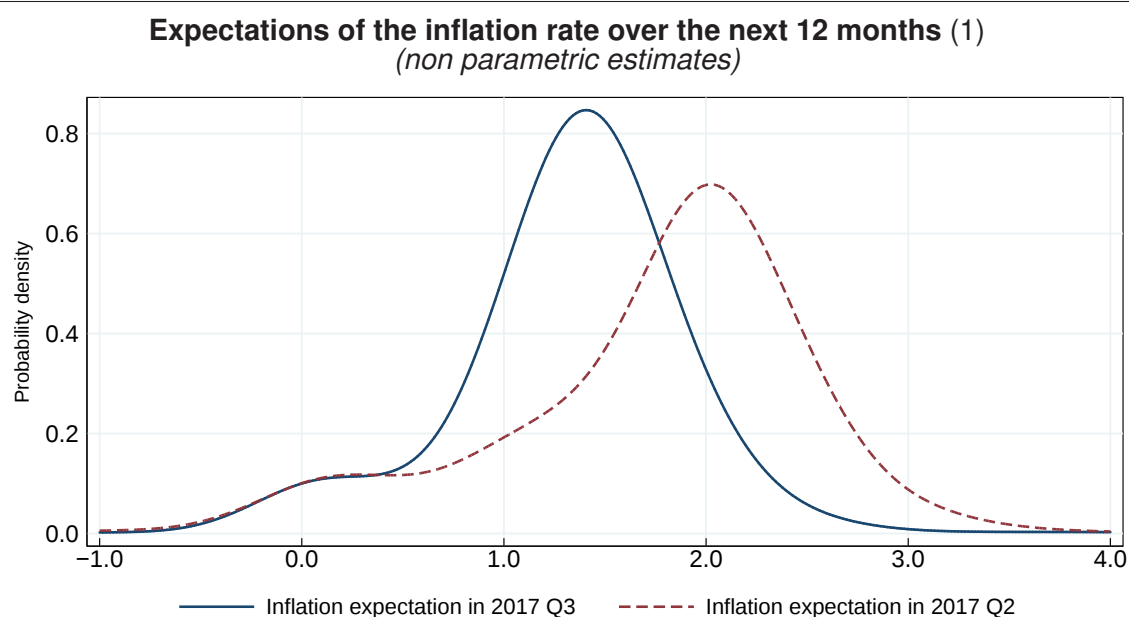
(1) Balance between expectations of an increase and expectations of a decrease.

Figure 2



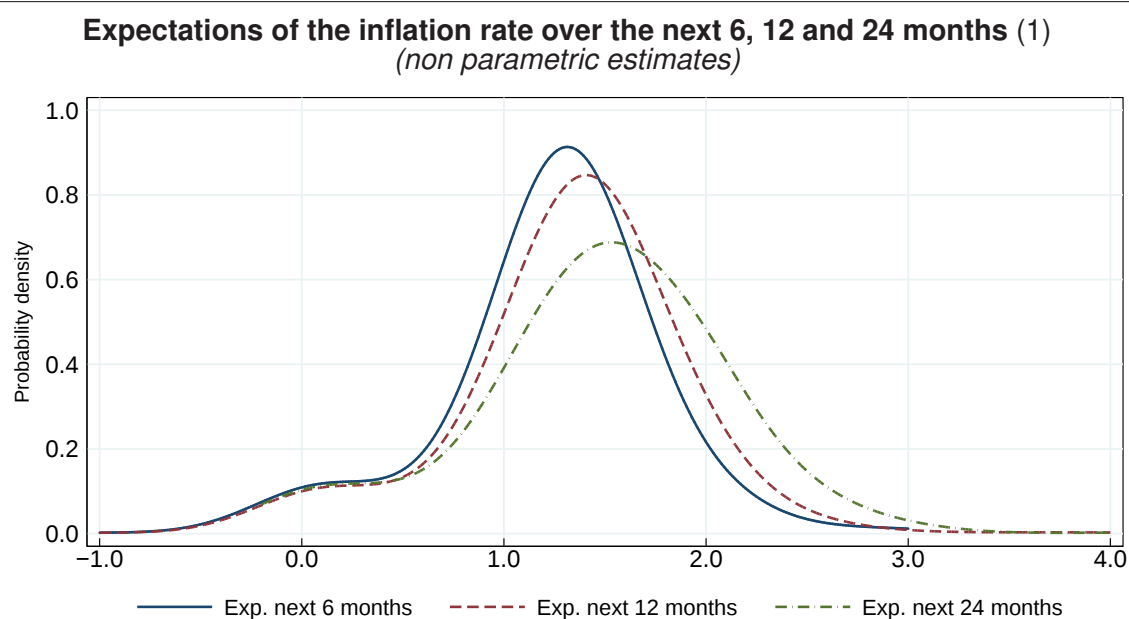
(1) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next 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



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

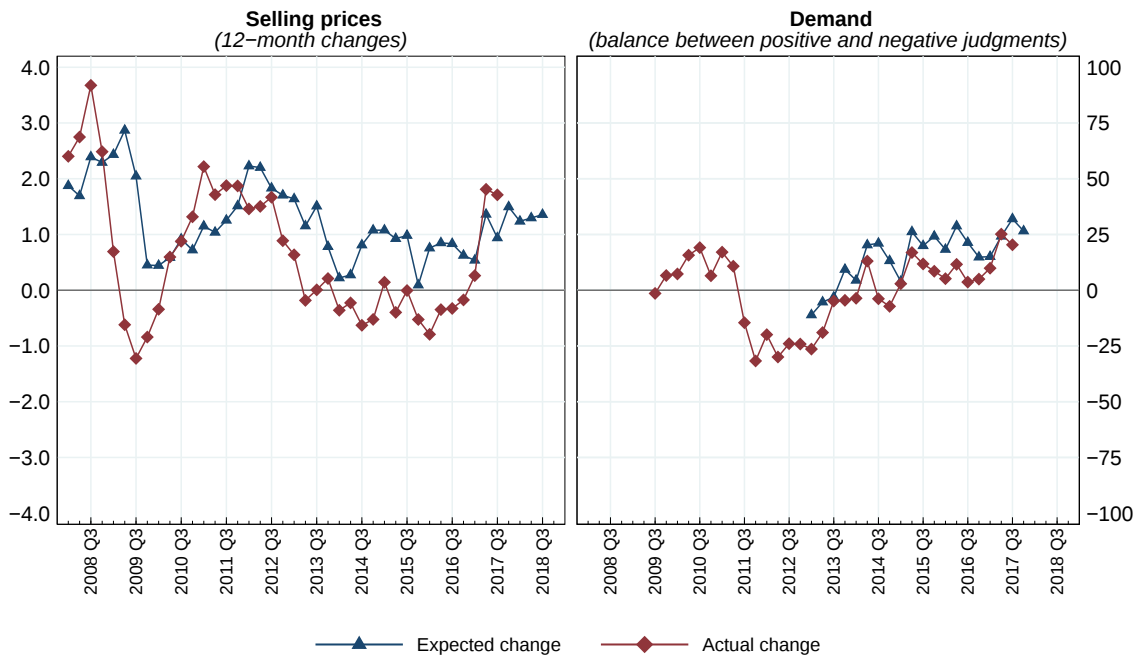
Figure 4



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

Figure 5.1

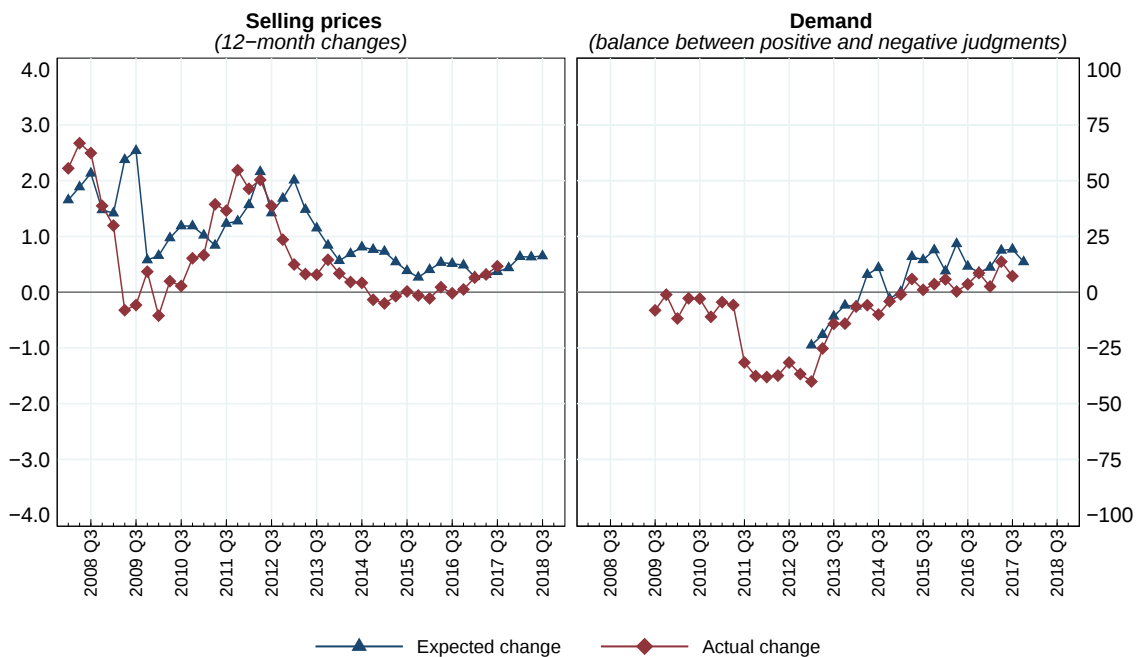
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

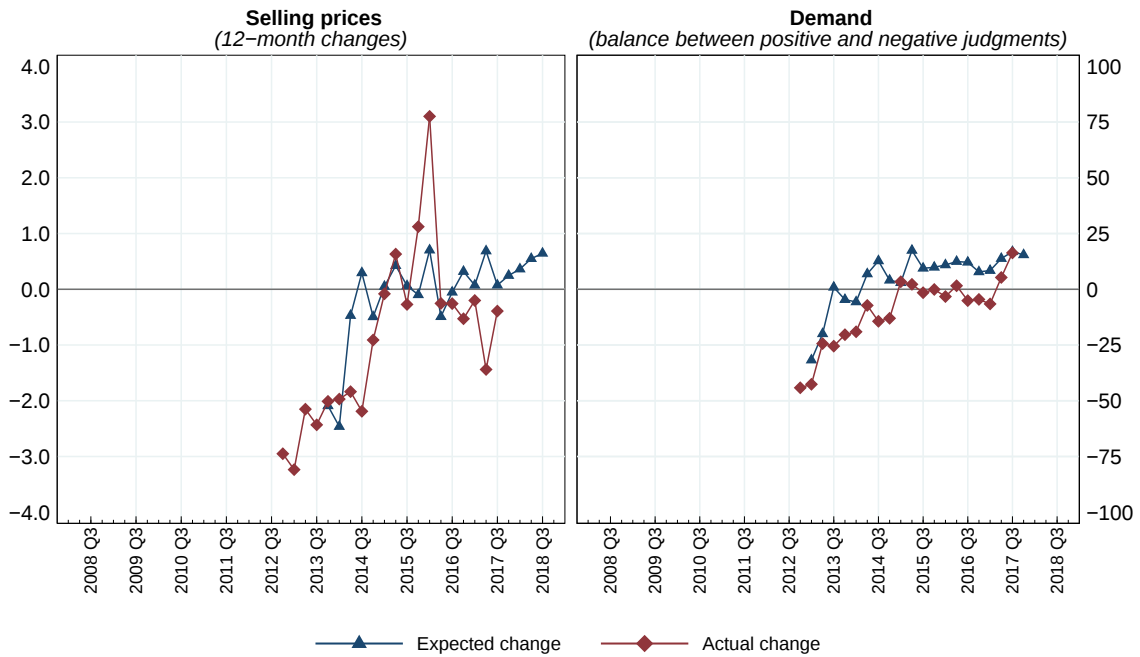
Expected and actual changes in selling prices and demand (1)
(services)



(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

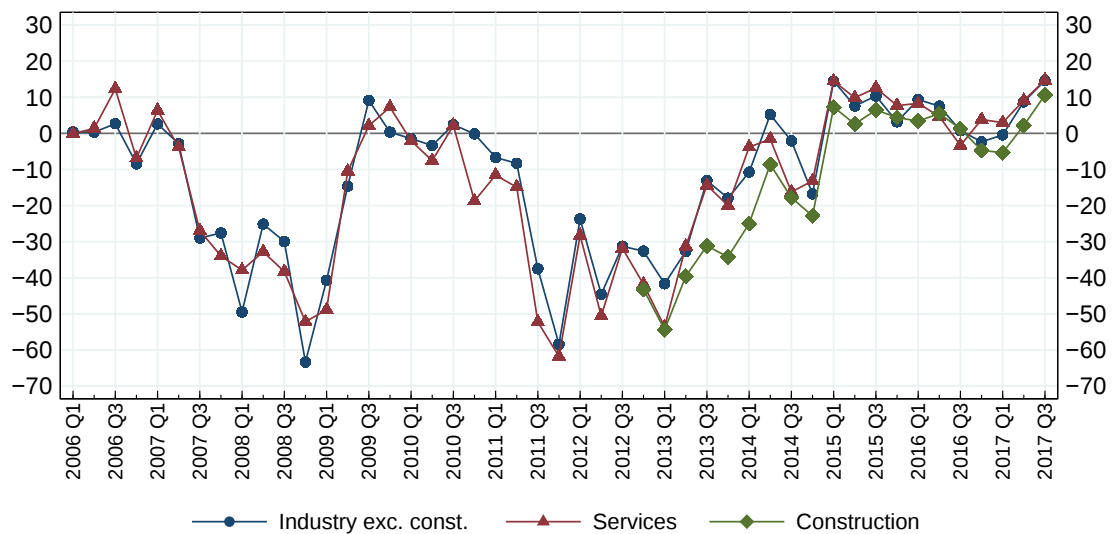
Expected and actual changes in selling prices and demand (1)
(Construction)



(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.

'Statistics' series publications are available on the Bank of Italy's site:

<http://www.bancaditalia.it/statistiche/>

Requests for clarifications concerning data contained in this publication can be sent by e-mail to

statistiche@bancaditalia.it