BANCA D'ITALIA
EUROSISTEMA

Statistics

Survey on Inflation and Growth Expectations

14 October 2019

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www.bancaditalia.it/statistiche/index.html

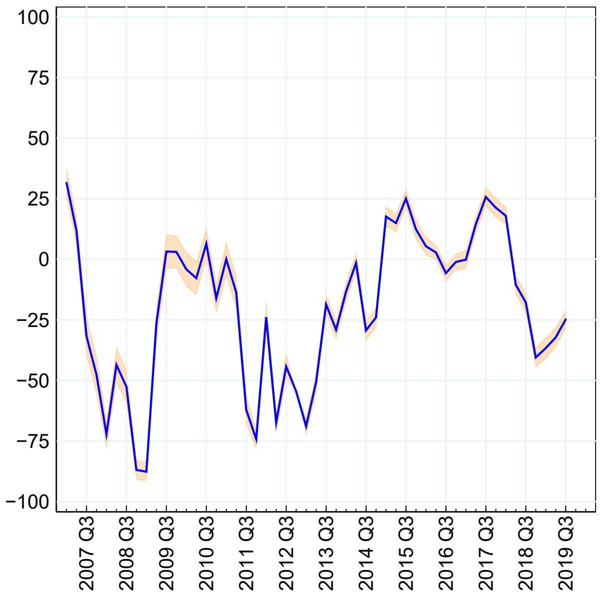
Main results

The survey conducted between 29 August and 19 September 2019 on a sample of Italian industrial and service firms with 50 or more employees, found that opinions on the overall economic situation were still pessimistic, although they have been improving for three consecutive quarters. Firms' assessments of their own operating conditions remained negative, especially in industry excluding construction, partly as a result of international trade tensions. On the other hand, short-term demand expectations are improving, despite lower export growth.

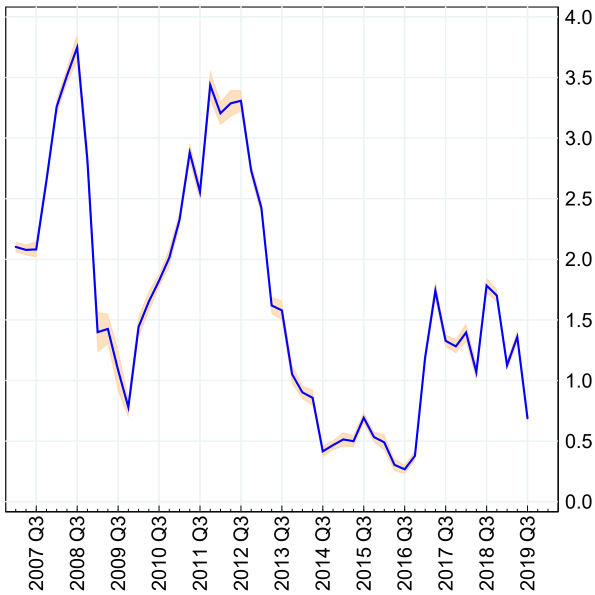
This survey reveals that this year more businesses still intend to increase investment rather than reduce it and that this share is greater than in the previous survey. Opinions on investment conditions are considerably less pessimistic. Firms expect employment to remain basically unchanged in the next quarter in industry excluding construction and in the service sector, while they expect it to increase in the construction sector.

Expectations for consumer price inflation have been revised downwards significantly across all time horizons, probably influenced by the fall in current inflation observed in the latest data. For the next 12 months, businesses expect their own prices to continue to record moderate growth, expanding at a barely faster pace than last 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.

Reference period: Q3 2019

Survey on Inflation and Growth Expectations[1]

Assessments of the economic situation are less pessimistic than in the previous quarter

In the third quarter of 2019 the balance between judgments of an improvement and of a deterioration in the overall economic situation was slightly less negative (rising from 32 to -25 percentage points), mostly thanks to the less pessimistic assessments of firms with at least 200 employees. There are positive signs from the service and construction sectors, while the judgments of firms in industry excluding construction remain largely negative. At 41 per cent, the share of firms that do not foresee any improvement in the next three months is still substantial, but the proportion of those that believe there is at least a 50 per cent chance of an improvement has nevertheless risen slightly (from 3 to 6 per cent).

The assessments of firms in industry excluding construction are still unfavourable, including as regards their short-term operating conditions. This has led to a decline in the overall balance between assessments of an improvement and those of a deterioration (falling from -5 to -7 percentage points; Figure 1). The uncertainty stemming from economic and political factors and the tensions surrounding trade policies still represent the main stumbling blocks to firms' activity in the next three months; following the unexpected increases in crude oil prices in mid-September, firms indicated that the price of oil was one of the obstacles to business in the short term.

Demand remains weak

Firms reported continued low demand in the third quarter (Figures 2.1 and 2.2), dampened by the more unfavourable judgments on the foreign component, which are at their lowest level since 2011 (the balance between positive and negative assessments is -2 percentage points). This primarily reflects the opinions expressed in industry excluding construction (-3 percentage points from 4; down to 1 percentage point from 3 in services), which have been adversely influenced by the weak performance of sales in the Chinese and especially German markets. For construction firms, the balance between expectations of an increase or of a reduction in overall demand is again positive and in line with the previous quarter (13 percentage points; Figure 2.3).

An improvement is expected in the third quarter

Expectations regarding developments in demand point to an expansion in sales in the next quarter, notwithstanding the weaker stimulus from exports. Overall, the balance between expectations of an increase or of a reduction in demand is positive (equal to around 10 percentage points, up from 8 in the second quarter), especially for firms in the service and construction sectors. The expectations of firms in industry excluding construction, especially those that are export-oriented, have declined slightly compared with the previous survey. Foreign demand expectations are less optimistic, but still positive, as regards both EU and external markets. Nevertheless, expectations of demand from Germany are unfavourable overall (the balance between expectations of an increase or a reduction is equal to -3 points; according to the last available data, it was 12 points in the firs quarter of 2019.

Investment expenditure is expected to increase in 2019

Compared with 2018, the balance between expectations of an increase and those of a decline in nominal investment expenditure (9 percentage points) continues to point to an increase in investment, most markedly for service firms (13.7 points). Construction firms have revised upwards their planned investment for the current year and now expect to increase it. As in the last survey, firms expect to raise investment expenditure in the second half of this year compared with the first six months.

Assessments of investment conditions have improved

Assessments of investment conditions continue to be unfavourable across all sectors (Figure 3): they have, however, improved considerably in services and construction but remain unchanged in industry excluding construction. The overall balance between assessments of an improvement and those of a deterioration rose from -17 to -9

[1] The survey report was prepared by Elena Mattevi, Giordano Zevi 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 1,061 firms with 50 or more employees (of which 411 in industry excluding construction, 455 in services and 195 in construction) that participated in the September 2019 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/2019-indagine-inflazione/09/en_quest_III_trim_2019.pdf?language_id=1
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/09/dati_2019_03eng.zip?language_id=1
http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/methods_and_sources.pdf?language_id=1

points, the highest level recorded in the last six quarters. Negative assessments of credit access conditions have moderated a little (with the balance now at -2 points, up from -4), thanks to the judgments of bigger firms, which have mostly turned positive (from -5 to 6 points).

Employment should remain basically stable

Employment expectations for the next quarter are for stability, ending the growth recorded for the past four years. Compared to the previous survey, the balance between the share of firms that intend to increase the number of workers and those that expect to reduce it has basically been reduced to zero for firms in industry excluding construction and services (down from 6 and 7 points, respectively), while it is positive and in line with the previous quarter for construction firms (9 points).

Inflation expectations have fallen considerably

Compared with last June, firms' consumer inflation expectations have declined markedly, by an average of 0.6 percentage points, over both short- and longer-term horizons (to 0.6 per cent over six months, 0.7 per cent over 1 year, 0.9 per cent over 2 years, and 1.0 per cent between three and five years; Figures 4, 5 and 6). Expectations have likely been affected by the sharp deceleration in the consumer price index recorded in the summer.

Expected changes in selling prices remain very moderate

Sales prices in the last 12 months have grown at a slower pace overall (0.6 per cent, from 0.9 per cent in the June survey), reflecting the sharp slowdown in the service sector (by 0.4 percentage points, to 0.5 per cent) while the deceleration in industry excluding construction and construction has been smaller (to 0.8 and 0.7 per cent; Figures 2.1, 2.2 and 2.3). For the next 12 months, firms expect their selling prices to continue to record very moderate growth (1.0 per cent in industry excluding construction, 0.7 per cent in services and 0.8 per cent in construction), only a little stronger than that just recorded. As in the previous survey, firms have reported that the trend in sales prices in the subsequent 12 months will be supported by developments in labour costs and commodities, as well as by funding costs, although the role of this last factor has become must less important compared with July; the greater downward pressure remains that exerted by the price policies of competitors.

Table 1

Main findings (1)

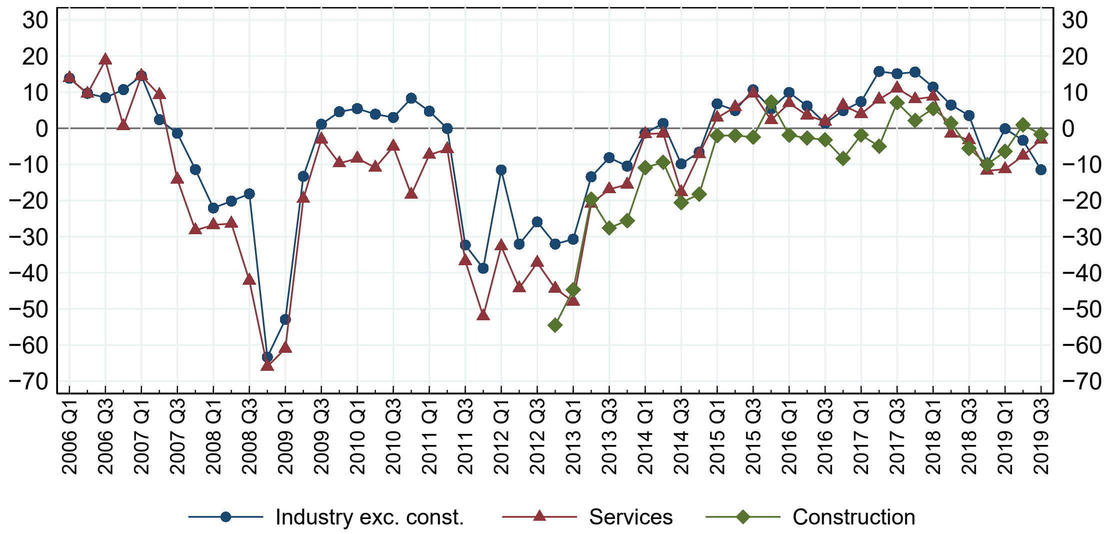
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2019 Q2	2019 Q3	*2019 Q2*	2019 Q3	*2019 Q2*	2019 Q3	*2019 Q2*	2019 Q3
	per cent							
Inflation expectation 6 months ahead	*1.2*	0.6	*1.2*	0.6	*1.2*	0.6	*1.2*	0.6
Inflation expectation 12 months ahead	*1.4*	0.7	*1.3*	0.7	*1.3*	0.7	*1.4*	0.7
Change in own prices 12 months ahead	*1.0*	1.0	*0.7*	0.7	*0.8*	0.8	*0.8*	0.8
	Balance between reports of improvement and deterioration (percentage points)							
Judgments on the previous quarter								
General economic situation	*-32.0*	-29.3	*-33.1*	-21.2	*-25.1*	-18.4	*-32.2*	-24.8
Total demand	*-10.2*	-7.2	*-3.5*	-3.4	*12.6*	12.8	*-5.8*	-4.4
Foreing demand	*4.2*	-2.9	*2.6*	0.8	—	—	*3.8*	-1.8
Investment conditions	*-14.7*	-14.7	*-18.8*	-3.8	*-13.4*	-5.3	*-16.6*	-8.9
Forecast 3 months ahead								
Total demand	*10.4*	6.8	*4.8*	11.7	*12.2*	16.0	*7.8*	9.6
Foreing demand	*16.5*	10.6	*7.6*	8.8	—	—	*14.0*	10.1
Firms' economic conditions	*-3.3*	-11.5	*-7.6*	-3.1	*0.9*	-1.7	*-5.2*	-6.9
Employment	*5.9*	0.1	*6.7*	-0.4	*9.0*	8.9	*6.4*	0.3
Forecast of investment expediture								
H2 2019 on H1 2019	—	9.8	—	11.9	—	8.2	—	10.7
2019 on 2018	*2.1*	4.1	*12.6*	13.7	*-6.3*	6.6	*6.8*	8.9

(1) The statistical appendix is available at
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/09/dati_2019_09_eng.zip?language_id=1

Figure 1

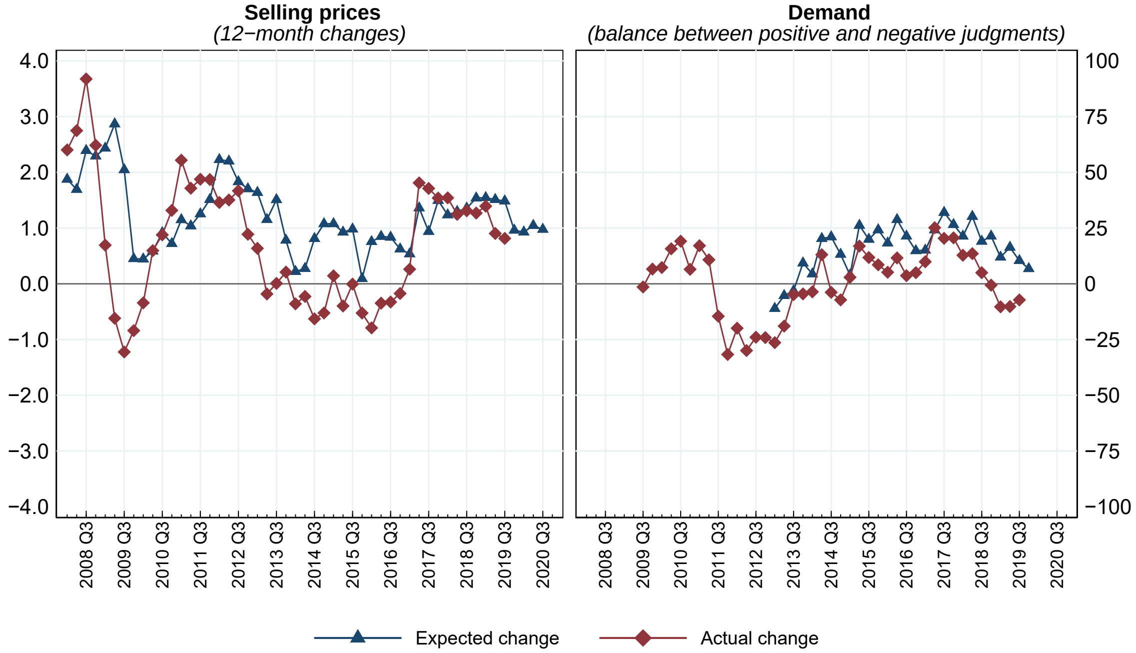
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

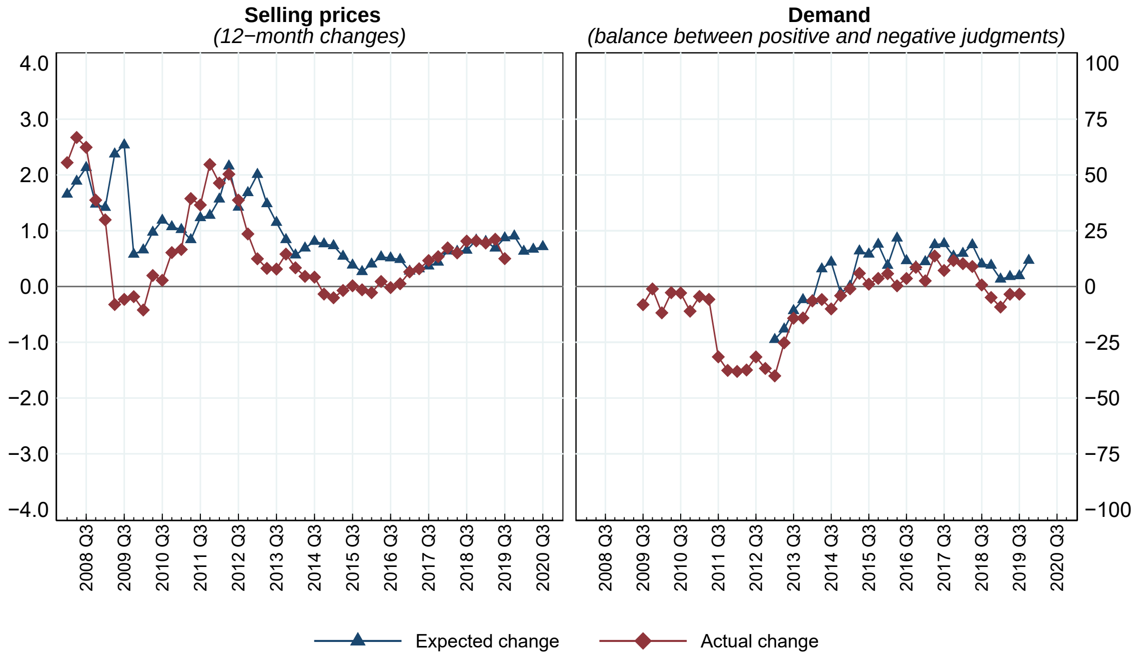
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

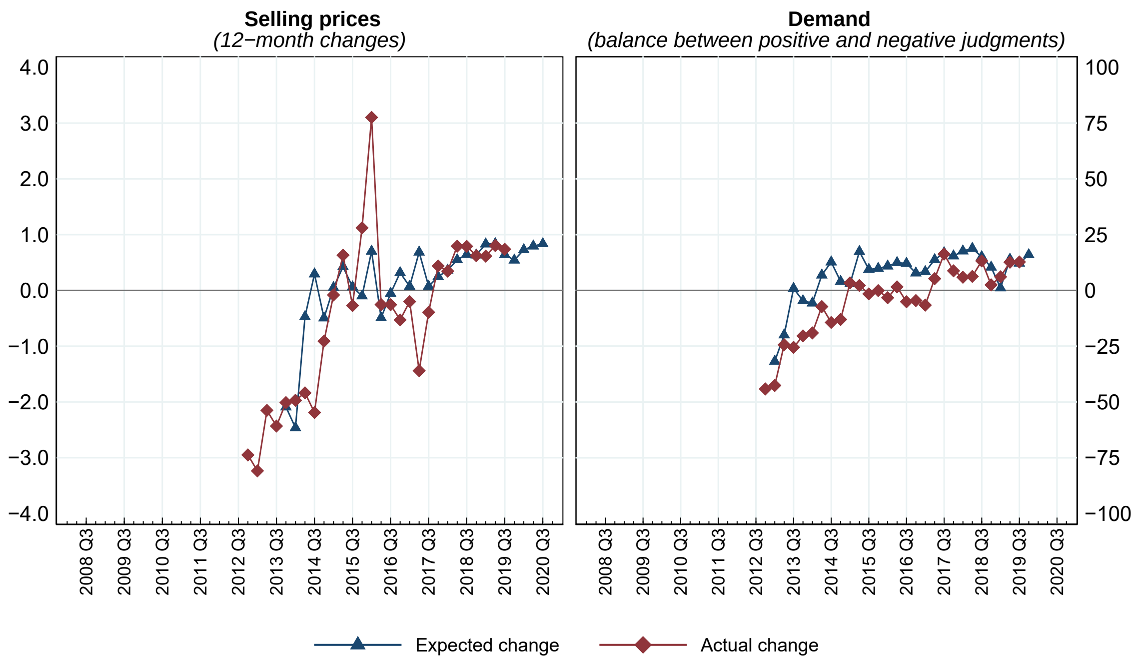
Expected and actual changes in selling prices and demand (1)
(services)



(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

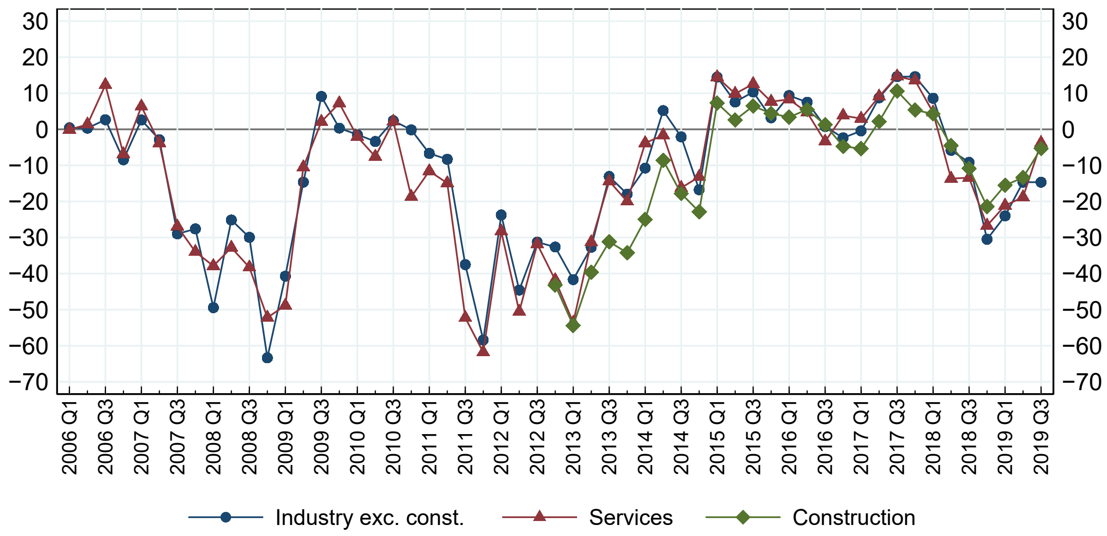
Expected and actual changes in selling prices and demand (1)
(Construction)



(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

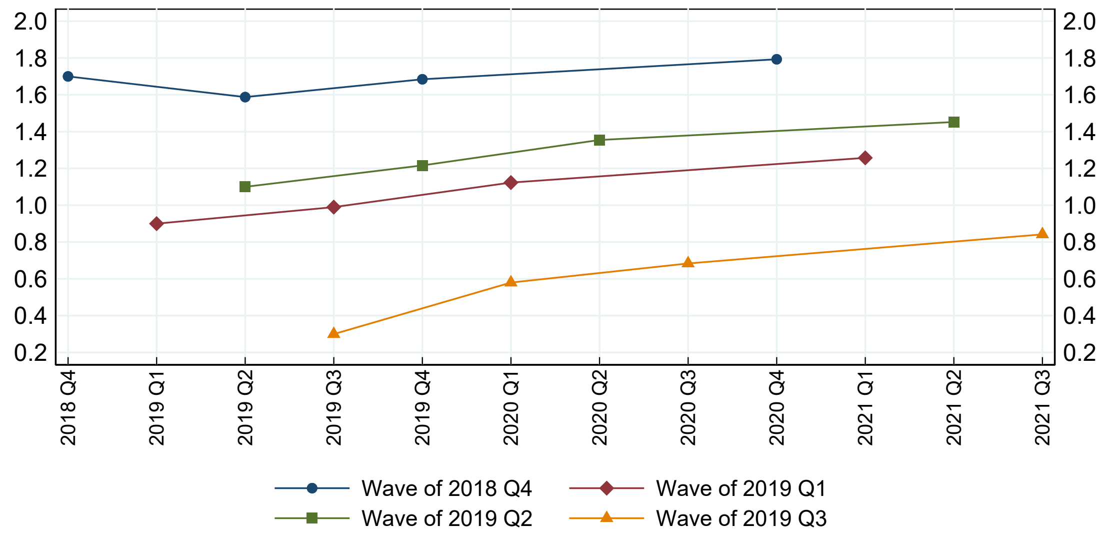
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

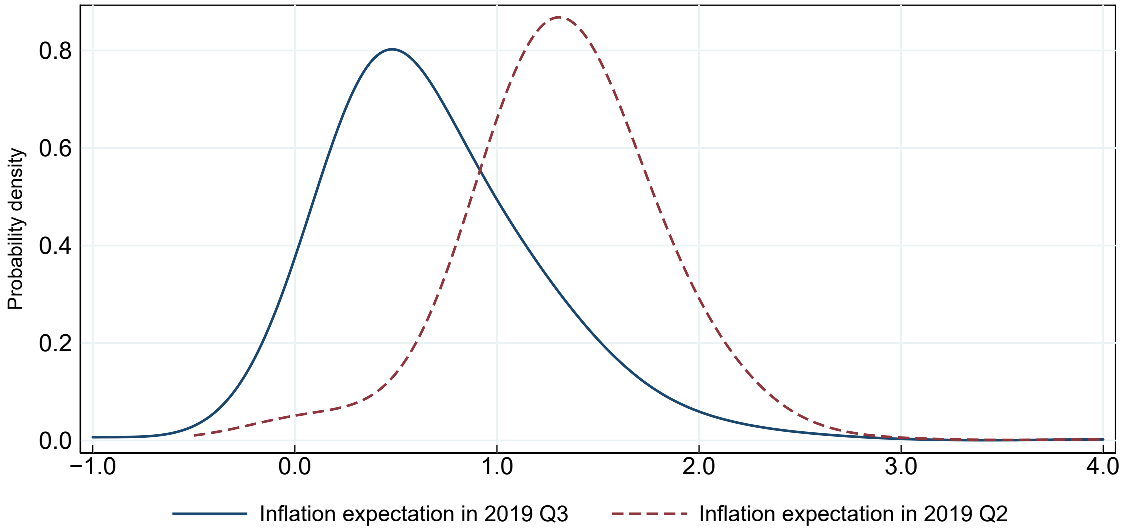
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

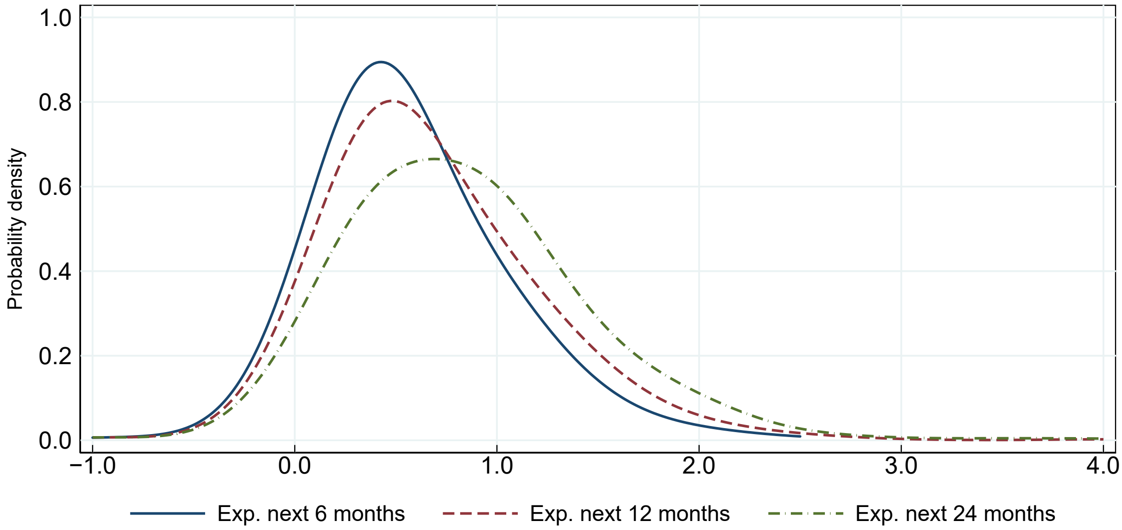
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



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

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