

Survey on Inflation and Growth Expectations

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www.bancaditalia.it/statistiche/index.html

Main results

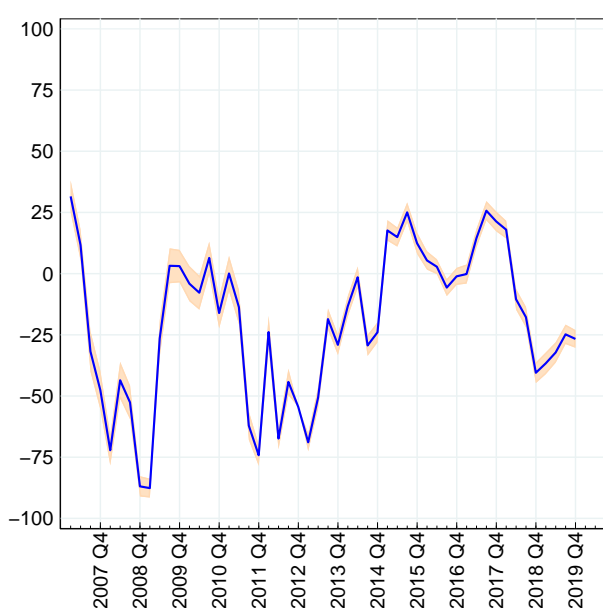
According to the survey conducted between 25 November and 16 December 2019 among Italian industrial and services firms with 50 or more employees, opinions regarding the general economic situation and firms' own operating conditions have deteriorated slightly, reflecting worsening assessments in the service sector. Demand, while still weak, has improved also thanks to the performance of the foreign component reported by manufacturing companies.

Among firms, those planning to increase their investments in 2020 continue to account for the highest share, though to a lesser extent than in the last year on average. Assessments of investment conditions remain unfavorable. Overall, firms expect virtually stable employment in the next quarter.

Consumer inflation expectations have been revised slightly downwards across all time horizons and remain at low levels. For the next 12 months, firms expect modest growth in their own prices, at a pace barely above that achieved in the 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.

Survey on Inflation and Growth Expectations¹

Assessments of the general state of the economy worsen slightly

In the fourth quarter of 2019 the balance between judgments of an improvement and of a deterioration in the overall economic situation decreased slightly compared with the previous survey (from -25 to -27 percentage points), mostly owing to the less favourable assessments of firms located in the South and Islands and, to a lesser degree, of those located in the Centre regions. The deterioration is ascribable exclusively to the service sector: the balance has held virtually stable in the construction sector while improving in manufacturing. The share of firms that do not expect any improvement in the next three months increased from 41 to 49 per cent).

Firms' assessments of their short-term operating conditions worsened slightly, their balance decreasing from -7 to -8 percentage points (Figure 1); an improvement was observed in industry, while there was a marked deterioration in services. In the short term, the uncertainty ascribable to economic and political factors and the tensions surrounding trade policies continue to have a negative impact on firms' expectations.

Assessments of demand improve, though they remain weak

Despite the improved assessments reported by firms, demand remains weak (Figures 2.1 and 2.2). The balance of judgments regarding developments in the foreign component of demand became more favourable (rising from -2 to 4 percentage points), above all in industry excluding construction (where it rose from -3 to 5 percentage points), notwithstanding the slowdown in sales on the German market. For construction firms, the balance between judgments of an increase and of a reduction in overall demand has remained positive (11 percentage points; Figure 2.3).

An improvement is expected in the next quarter

Expectations regarding developments in demand point to an expansion in sales in the next quarter, though they have slowed compared with the previous quarter because of the dynamics in the service sector. Overall, the balance between expectations of an increase and of a reduction in demand has remained positive (equal to around 7 percentage points, from 10 in the third quarter), and has improved for the firms most active in the international markets. Foreign demand

forecasts continue to be positive and are improving further, especially for the industrial sector; the improvement was also recorded for demand from the German market (1 percentage point, from -3), above all thanks to the expectations recorded in the service sector.

Investment expenditure is expected to increase in 2020

The balance between expectations of an increase and those of a decline in nominal investment expenditure in 2020 compared with 2019 is positive (6 percentage points) and continues to point to an increase in investment. However, for industry excluding construction and services taken as a whole, the balance is now at the lowest levels recorded since early 2015. It is higher for service firms (10 points) and for those located in Central Italy (19 points). Firms forecast higher investment expenditure in the first half of 2020 compared with the second half of 2019.

Assessments of investment conditions remain unfavourable

Assessments of investment conditions continue to be unfavourable across all sectors (Figure 3) and have worsened compared with the previous quarter, especially in construction and services. The overall balance between assessments of an improvement and those of a deterioration fell to -15 points (from -9). Assessments of credit access conditions remained unchanged (their

¹ The survey report was prepared by Alessandro Mistretta 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 1,261 firms with 50 or more employees (of which 529 in industry excluding construction, 538 in services and 194 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:

https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/12/en_quest_IV_trim_2019.pdf?language_id=1

https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/12/dati_2019_12_eng.zip?language_id=1

http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/metodi_e_fonti_20190114.pdf

balance standing at -2 points), though with uneven trends: a worsening in services was countered by an improvement in industry excluding construction.

Employment is expected to hold stable

After growing over the last four years, quarterly employments expectations are now of virtual stability. Compared with 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 improved slightly in services but has worsened in industry excluding construction and, above all, in construction.

Inflation expectations remain at low levels

Compared with last September, firms' consumer inflation expectations were revised slightly downwards: the annual inflation rate is expected to be 0.4 per cent six months from now, 0.6 per cent in one year, 0.7 per cent in two years and 0.8 over the three- to five-year horizon (Figure 4, 5 e 6). Expectations continue to be affected by the significant slowdown in the consumer price index recorded in the summer.

Expected changes in firms' own sales prices remain moderate

Sales prices in the last 12 months have grown at a moderate pace overall (0.6 per cent, as in in September). The slight slowdown in industry excluding construction (from 0.8 to 0.7 per cent; Figure 2.1) was offset by the increase in construction (1.0 per cent; Figures 2.3). For the next 12 months, firms expect their own sales prices to continue to record very moderate growth (1.0 per cent in industry excluding construction, 0.5 per cent in services and 1.3 per cent in construction), only a little stronger than that just recorded. As in the previous survey, the trend in sales prices in the subsequent 12 months will be supported above all by developments in commodity prices and funding costs, in addition to labour costs. The greatest downward pressure continues to be exerted by the pricing policies of competitors.

Table 1

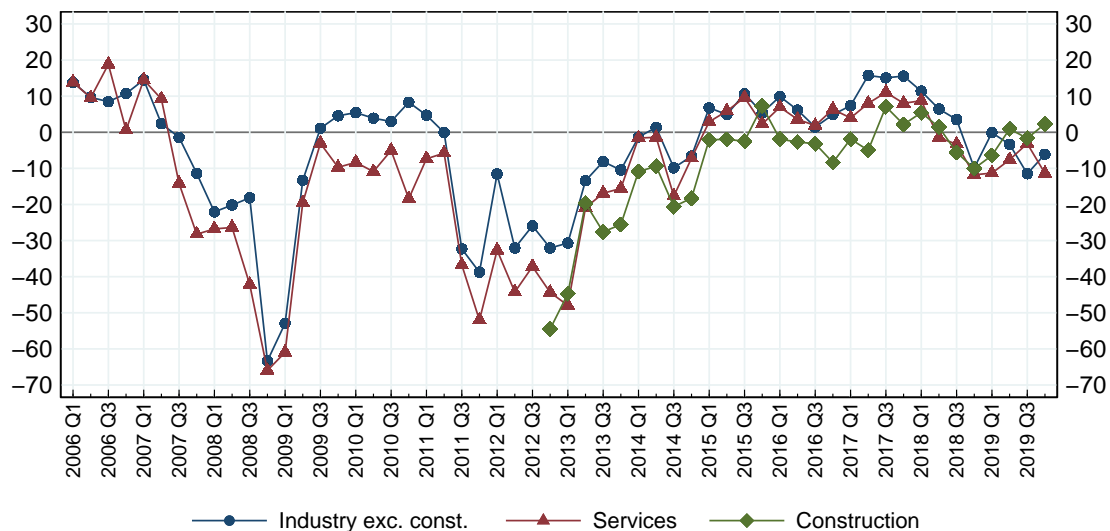
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2019 Q3	2019 Q4	2019 Q3	2019 Q4	2019 Q3	2019 Q4	2019 Q3	2019 Q4
	per cent							
Inflation expectation 6 months ahead	0.6	0.5	0.6	0.4	0.6	0.5	0.6	0.4
Inflation expectation 12 months ahead	0.7	0.6	0.7	0.5	0.7	0.6	0.7	0.6
Change in own prices 12 months ahead	1.0	1.0	0.7	0.5	0.8	1.3	0.8	0.7
	Balance between reports of improvement and deterioration (percentage points)							
	Judgments on the previous quarter							
General economic situation	-29.3	-27.0	-21.2	-27.2	-18.4	-18.8	-24.8	-26.7
Total demand	-7.2	-5.1	-3.4	-2.6	12.8	11.2	-4.4	-3.1
Foreing demand	-2.9	4.7	0.8	1.7	—	—	-1.8	3.8
Investment conditions	-14.7	-17.6	-3.8	-12.2	-5.3	-10.0	-8.9	-14.5
	Forecast 3 months ahead							
Total demand	6.8	6.9	11.7	5.7	16.0	18.9	9.6	6.9
Foreing demand	10.6	16.0	8.8	9.1	—	—	10.1	13.9
Firms' economic conditions	-11.5	-6.1	-3.1	-11.4	-1.7	2.3	-6.9	-8.3
Employment	0.1	-3.2	-0.4	3.7	8.9	1.4	0.3	0.4
	Forecast of investment expenditure							
H1 2020 on H2 2019	—	4.5	—	10.7	—	2.2	—	7.4
2020 on 2019	4.1	1.1	13.7	10.4	6.6	4.9	8.9	5.9

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/12/dati_2019.12.eng.zip?language_id=1

Figure 1

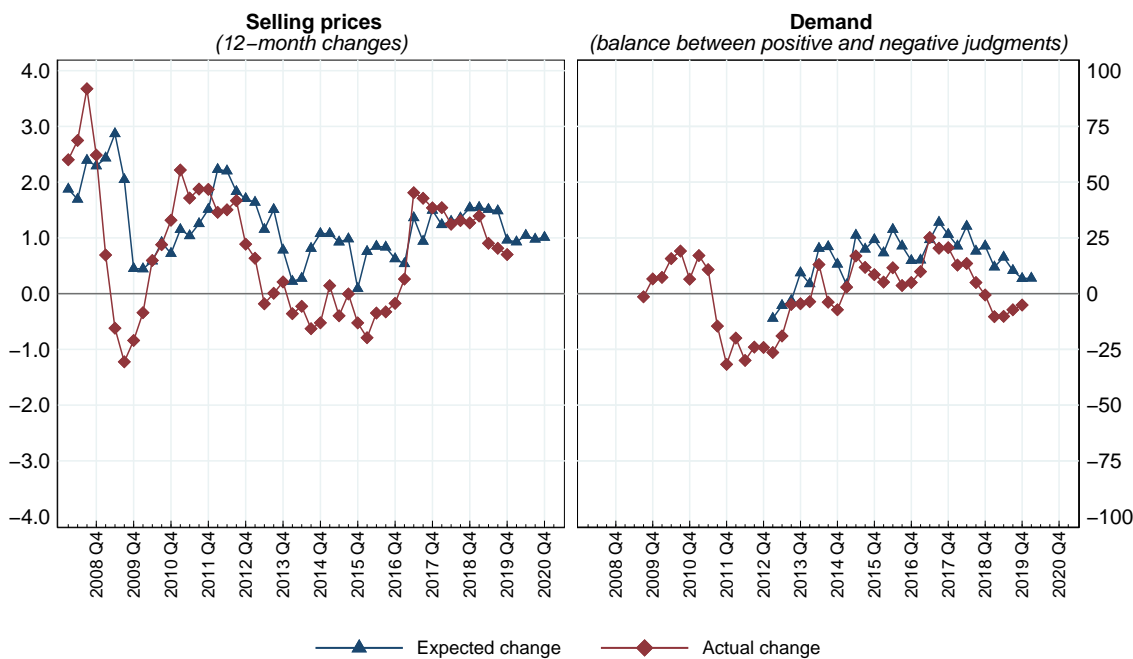
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

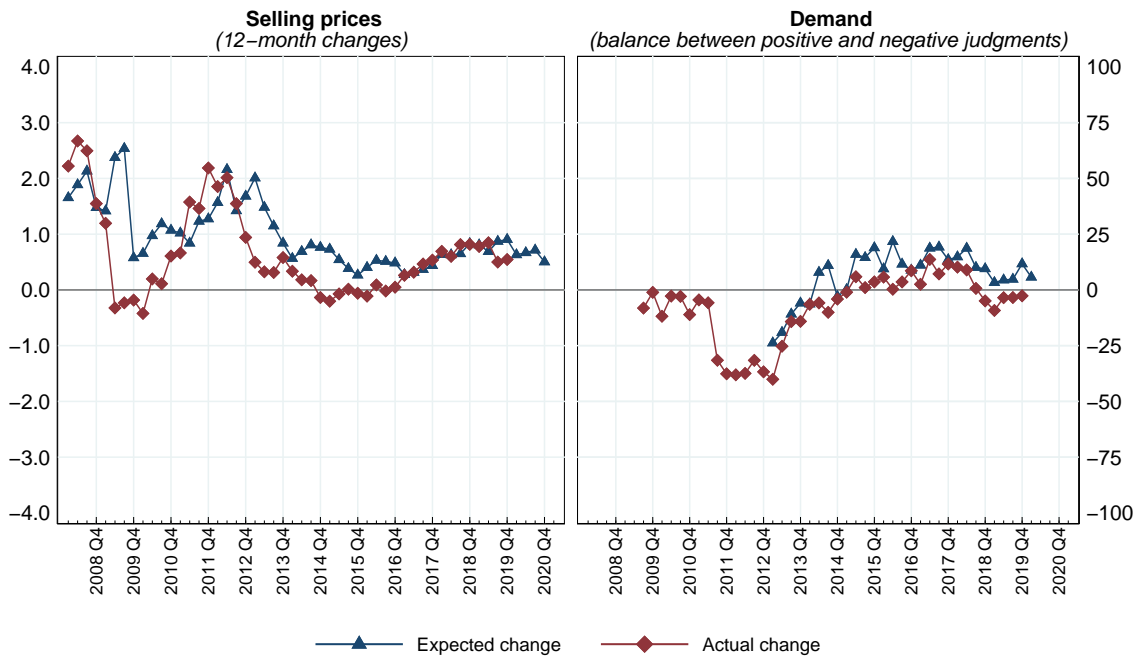
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

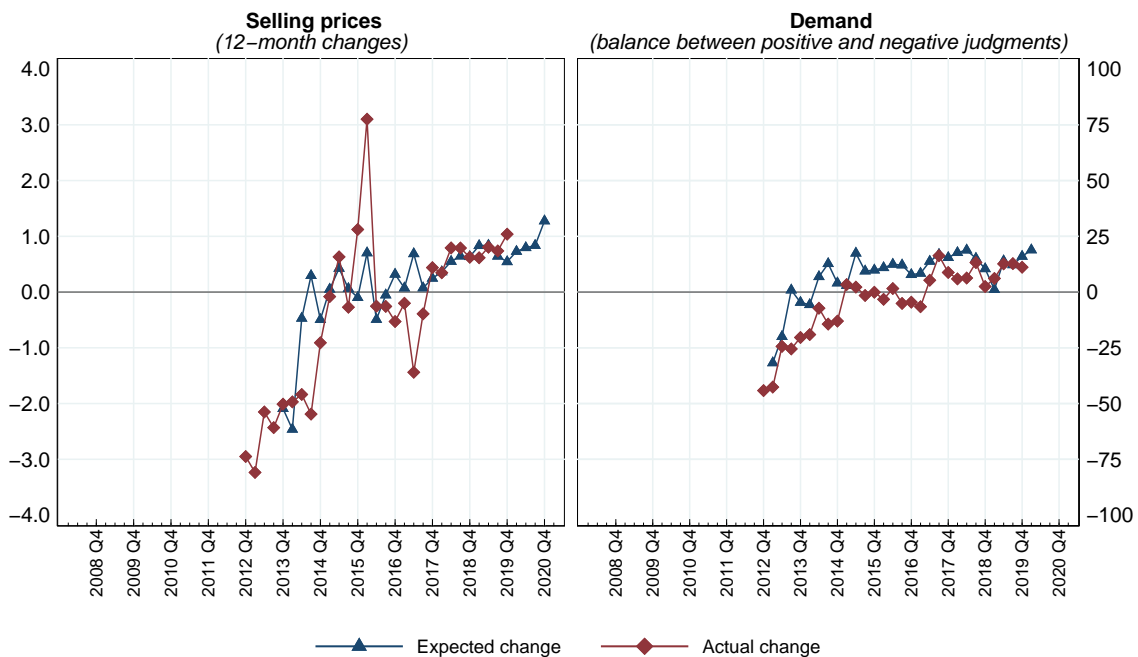
Expected and actual changes in selling prices and demand (1)
(services)



(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

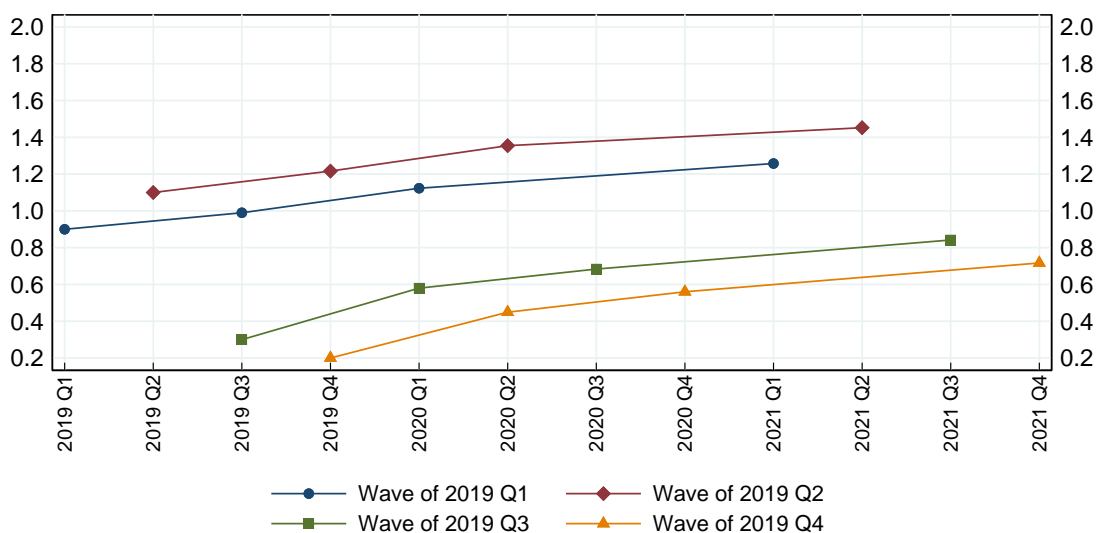
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

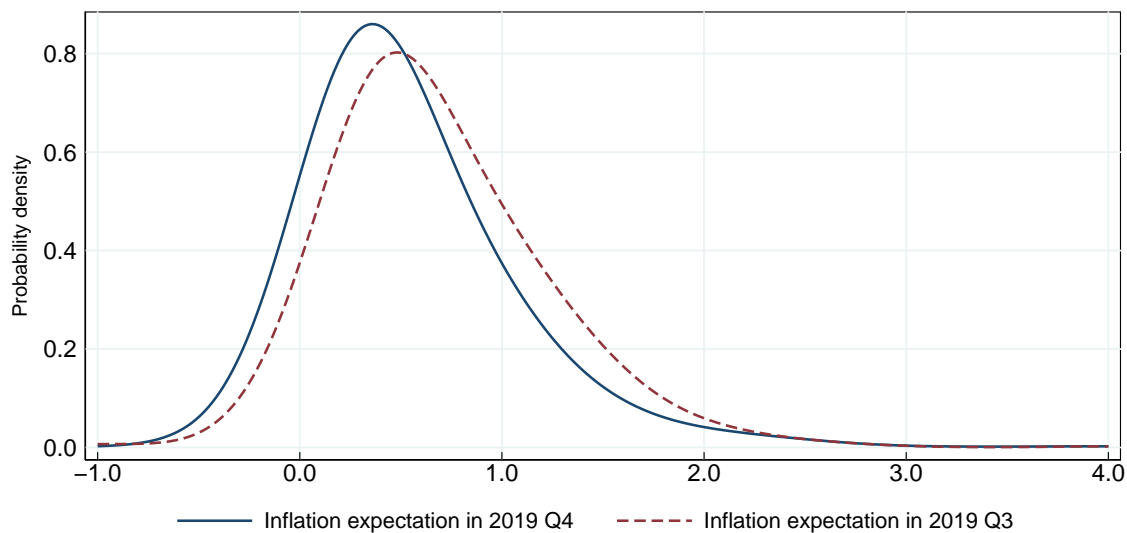
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

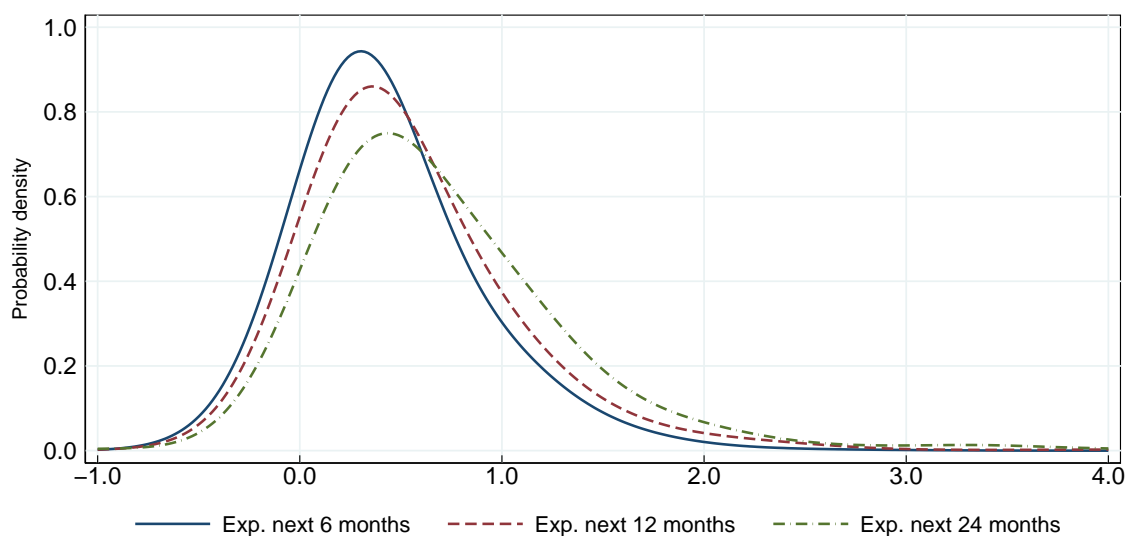
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



(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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