

Survey on Inflation and Growth Expectations

13 July 2020

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

Main results

According to the survey conducted between 25 May and 17 June 2020 among Italian firms with 50 or more employees, assessments of the general economic situation in the second quarter of 2020 worsened compared with the previous survey conducted in March.

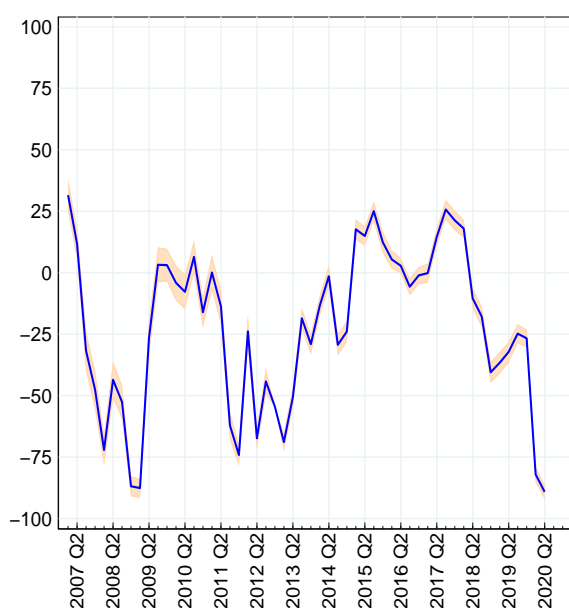
Firms reported a sharp drop in current demand. Short-term sales expectations are instead less pessimistic, as are those on their own operating conditions. The majority of firms indicated that their turnover has suffered a reduction owing to the pandemic and expect that their business will return to the levels prevailing prior to the health crisis in slightly less than one year; only 3 percent of firms think that they will not be able to return to turnover levels equal to those registered prior to the spread of Covid-19.

Firms' assessments of credit access conditions worsened slightly compared with the previous quarter. About half of the companies requested liquidity support under the measures introduced by the latest government decrees, and were able to access it in full or in part in 70 per cent of cases.

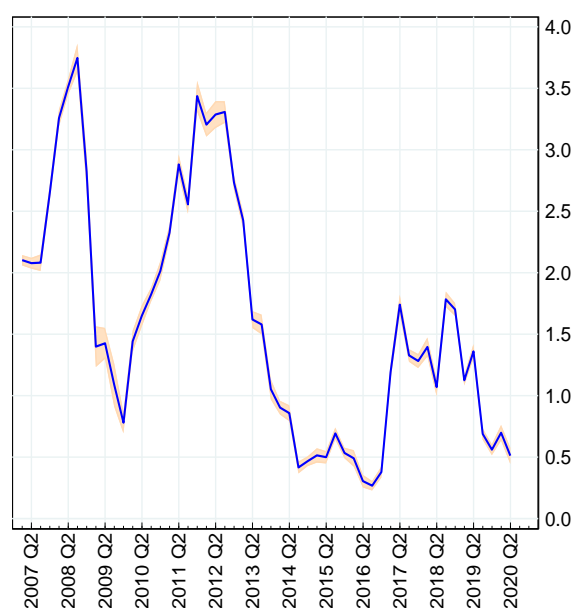
Assessments of investment conditions point to a worsening. Firms' spending plans suggest a reduction in investment in 2020, mainly due to the fall already recorded in the first half of the year. Employment expectations remain unfavourable in manufacturing and in services, while they have turned positive in the construction sector.

Consumer price inflation expectations have decreased slightly over all time horizons. Firms' selling prices slowed further compared with the previous quarter and expectations for the next twelve months suggest very modest increases.

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.

Assessments of the general state of the economy worsen

In the second quarter of 2020, the share of firms that reported a worsening in the general economic situation compared with the previous quarter rose to almost 90 per cent across all geographical areas (the national average recorded in the last survey was 82 per cent). The share of firms that assign zero probability to an improvement in the general economic situation over the next three months stands at 38 per cent, still high but lower than in the last quarter, when it stood at 70 per cent, a historically high level. The balance between expectations of an improvement and of a worsening in firms' short-term operating conditions has remained markedly negative, although it has narrowed somewhat, from -57 to -34 percentage points (Figure 1).

The epidemic has a negative impact on demand ...

Assessments of developments in overall demand over the last three months have worsened. The balance between expectations of an increase and those of a decrease in demand fell to -60 percentage points (from -33 points). For large firms, the drop was more moderate in absolute terms (-40 points). The deterioration was sharper for foreign demand, for which the balance fell by about -40 percentage points, from -21 points.

Firms' business was affected by the shutdowns mandated as a consequence of the epidemic. Based on the responses to the survey, about 75 per cent of firms in industry excluding construction continued to operate during the lockdown (43 per cent pursuant to the government's decrees, 19 per cent in derogation to the decrees, and 13 per cent working remotely). The percentage share decreases to 64 per cent in the construction sector (see Table c19.1 in the [Statistical Appendix](#)).

... but a slight improvement is expected in the next quarter

Demand expectations for the next quarter improved compared with the previous survey, although the balance is still negative for industry excluding construction and services combined (-5 percentage points, entirely ascribable to firms with less than 200 employees, as the balance is positive for the rest of firms). On average, the firms in services and in industry excluding construction whose turnover has diminished compared with pre-epidemic levels expect their business to return to those levels in about 10 and 9 months respectively. Just over one fifth of firms report instead levels that are already equal to or in excess of pre-epidemic levels. Only 3 per cent of firms believe they will be unable to return to turnover levels equal to those registered prior to the COVID-19 epidemic. In construction, a full recovery is forecast in 8 months, and about 30 per cent of firms have already reported business levels equal to or higher than those prevailing prior to the epidemic (see Table c19.2 of the [Statistical Appendix](#)).

The impact of the pandemic is unfolding mainly in terms of developments in demand (both foreign and domestic). The effects on the supply of commodities, on the availability of labour and on the increase in the costs of production inputs purchased in Italy or abroad appear to be of lesser concern (see Table c19.3 of the [Statistical Appendix](#)).

Employment expectations worsen, except in construction

During the months in which restrictions were imposed to contain the spread of the epidemic, a majority of firms used remote working (72 per cent) and wage supplementation (*cassa integrazione guadagni* or equivalent schemes; 71 per cent). A smaller share of firms introduced other temporary policies to reduce labour costs or working hours (see Table c19.4 of the [Statistical Appendix](#)). The balance between the share of firms that plan to increase their staff numbers in the next quarter and those that plan to decrease them, which was already negative, diminished further in industry excluding construction (to -14 percentage points, from -9 points) and in services (-10 percentage points, from -5 points), while it rose in the construction sector, returning to positive territory (to 7 percentage points, from -6 points).

¹ The survey report was prepared by Cristina Conflitti 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 1,223 firms with 50 or more employees (of which 507 in industry excluding construction, 533 in services and 183 in construction) that participated in the June 2020 survey. We would also like to thank the firms that participated in the survey after the cutoff date for the analyses presented in the current report. The data provided by these firms will be used in future publications by the Bank of Italy and will be available in the BIRD (Bank of Italy Remote Access to Micro Data) system. 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_II_trim_2020.pdf?language_id=1

https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2020-indagine-inflazione/06/dati_2020_06_eng.zip?language_id=1

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

**Investment
conditions remain
unfavourable**

As regards investment conditions, the balance between the opinions indicating an improvement and those indicating a deterioration remained markedly negative, though it rose by 10 percentage points compared with the previous survey, to -50 points (Figure 3), thanks to the less unfavourable assessments reported in industry excluding construction and in services.

Firms' plans regarding investment expenditure point to a further reduction in the second half of the year: the balance between expectations of an increase and of a decrease is negative across all sectors (-12 percentage points for the economy as a whole), but less so than in the first half (-26 points). The negative balance is wider in industry excluding construction (-19 percentage points) and narrower in construction (-1.5 points, concentrated among firms based in the South).

**Credit access
conditions worsen
slightly**

Firms' assessments indicate that credit access conditions worsened only slightly in the second quarter compared with the first (the balance narrowed by 3 percentage points, from -5 points). As regards the liquidity support measures introduced by the recent government decrees, 47 per cent of firms have requested liquidity, and 70 per cent of these have obtained it in full or in part (see Table c19.5 of the [Statistical Appendix](#)).

**Inflation
expectations fall ...**

Compared with the March survey, in the second quarter firms lowered their inflation expectations on average across all time horizons. The expectations decreased by 0.2 percentage points over the 6- and 12-month horizons (to 0.3 and 0.5 respectively; Figures 4, 5 and 6), by 0.3 percentage points over the 24-month horizon (to 0.6 per cent) and by 0.2 percentage points over the 3- to 5-year horizon (to 0.8 per cent).

**... and firms'
selling prices slow**

The yearly change in firms' selling prices decreased compared with the previous survey in industry excluding construction, services and construction (to 0.2, 0.4 and 0.5 per cent, from 0.6 per cent for all these sectors; Figures 2.1, 2.2 and 2.3). The expected change in firms' own selling prices over the next 12 months remained very moderate for firms in industry excluding construction and services (to 0.4 per cent for the two sectors as a whole), while it rose for construction firms (to 1.1 per cent, from 0.6 per cent). The price developments were attributable above all to the contraction in demand and the pricing policies of firms' main competitors.

Table 1

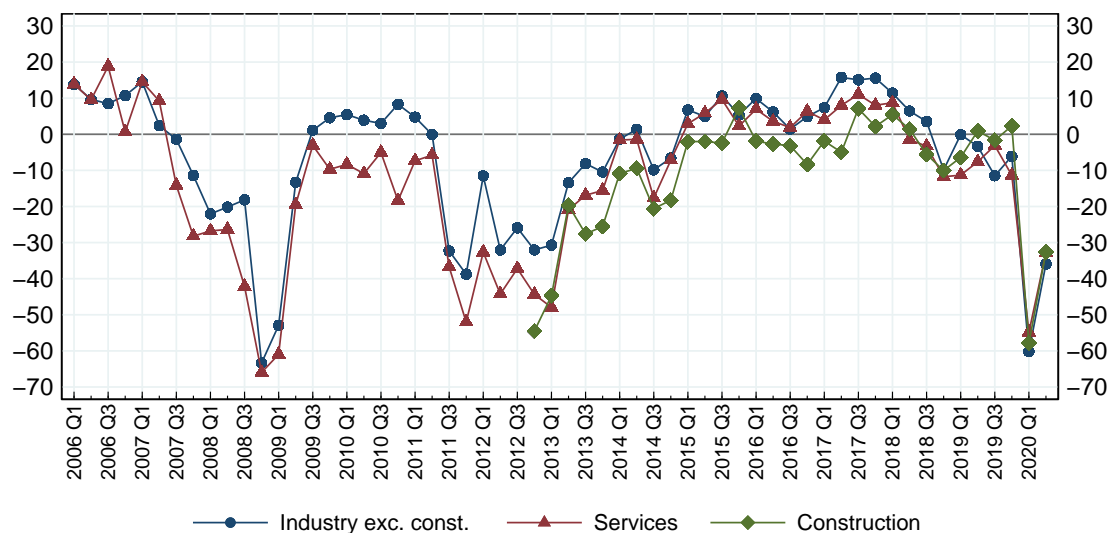
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2020 Q1	2020 Q2	2020 Q1	2020 Q2	2020 Q1	2020 Q2	2020 Q1	2020 Q2
	per cent							
Inflation expectation 6 months ahead	0.5	0.4	0.5	0.3	0.5	0.3	0.5	0.3
Inflation expectation 12 months ahead	0.7	0.5	0.7	0.5	0.6	0.6	0.7	0.5
Change in own prices 12 months ahead	0.3	0.3	0.6	0.5	0.6	1.1	0.5	0.5
Balance between reports of improvement and deterioration (percentage points)								
Judgments on the previous quarter								
General economic situation	-84.5	-90.0	-80.1	-88.8	-79.3	-84.3	-82.1	-89.2
Total demand	-32.3	-69.3	-35.5	-54.1	-12.1	-37.7	-32.9	-60.2
Foreing demand	-23.2	-65.7	-14.3	-46.6	—	—	-20.5	-59.8
Investment conditions	-65.0	-50.6	-56.4	-50.6	-52.6	-50.2	-60.1	-50.6
Forecast 3 months ahead								
Total demand	-48.7	-9.9	-47.2	-0.8	-18.2	2.3	-46.4	-4.8
Foreing demand	-46.8	-3.7	-26.6	-1.0	—	—	-40.8	-2.9
Firms' economic conditions	-60.2	-35.9	-54.8	-32.8	-57.8	-32.6	-57.4	-34.2
Employment	-9.0	-14.2	-5.5	-10.5	-6.1	6.8	-7.1	-11.3
Forecast of investment expenditure								
H2 2020 on H1 2020	—	-19.3	—	-6.9	—	-1.5	—	-12.3
2020 on 2019	-22.0	-44.3	-21.8	-30.3	-20.7	-16.8	-21.8	-36.0

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2020-indagine-inflazione/06/dati_2020.06.eng.zip?language_id=1

Figure 1

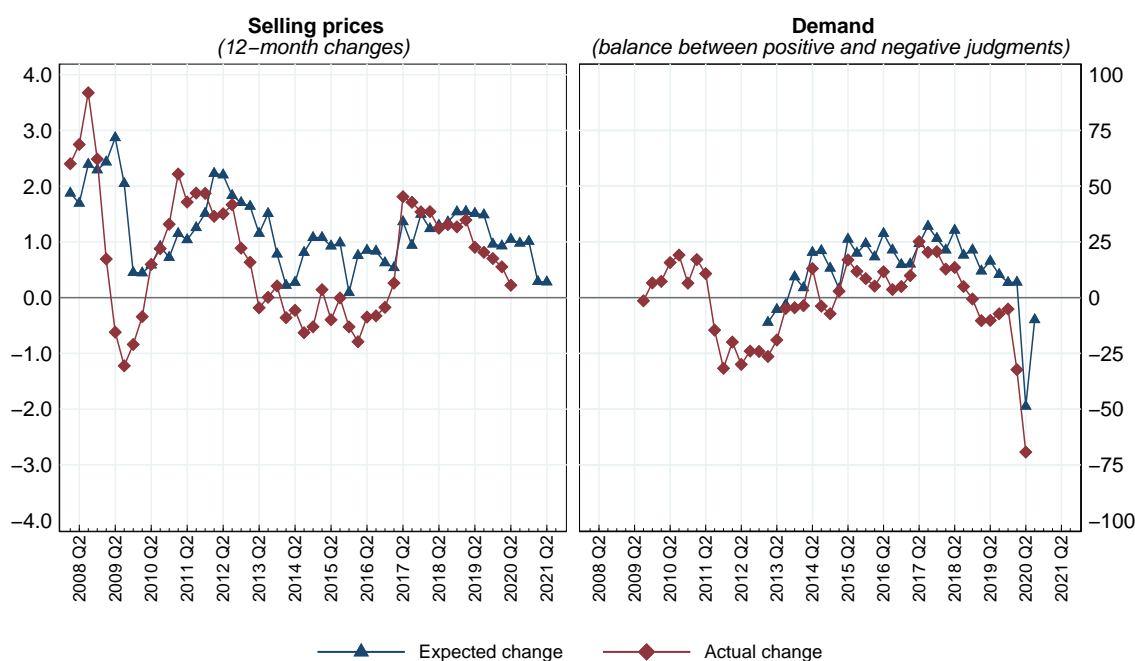
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

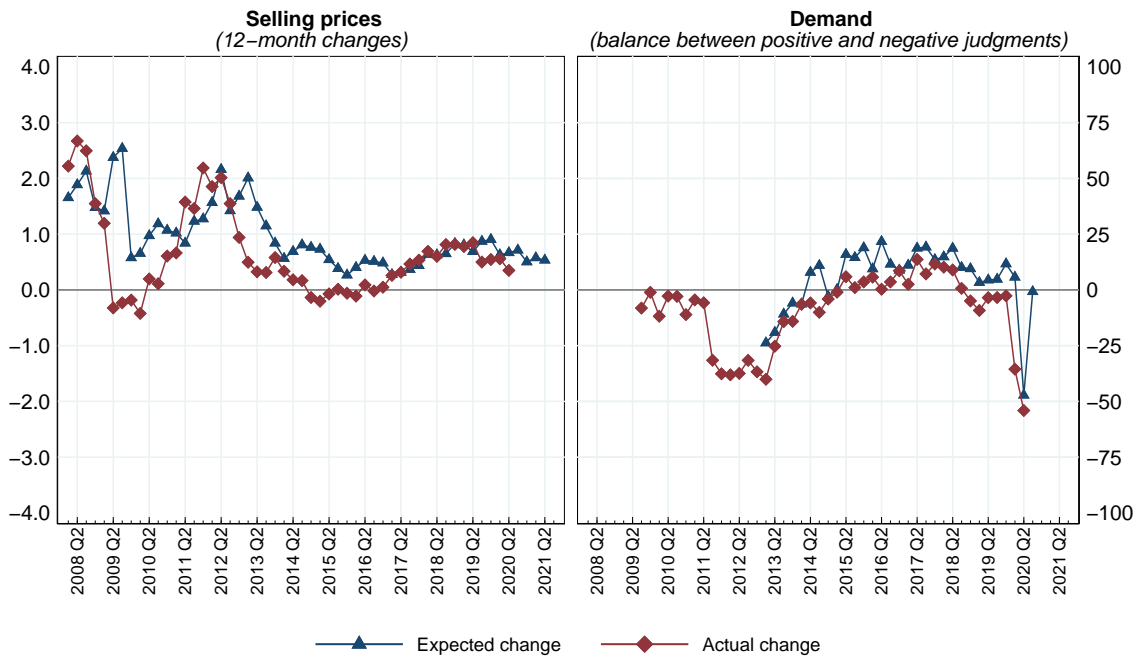
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

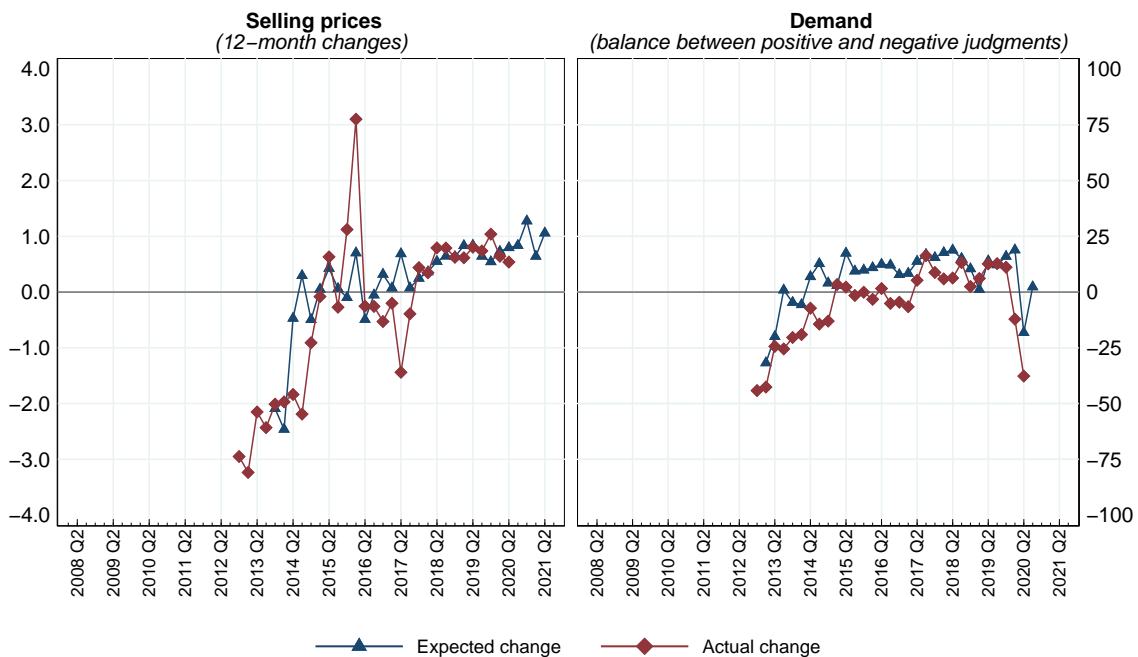
Expected and actual changes in selling prices and demand (1)
(services)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

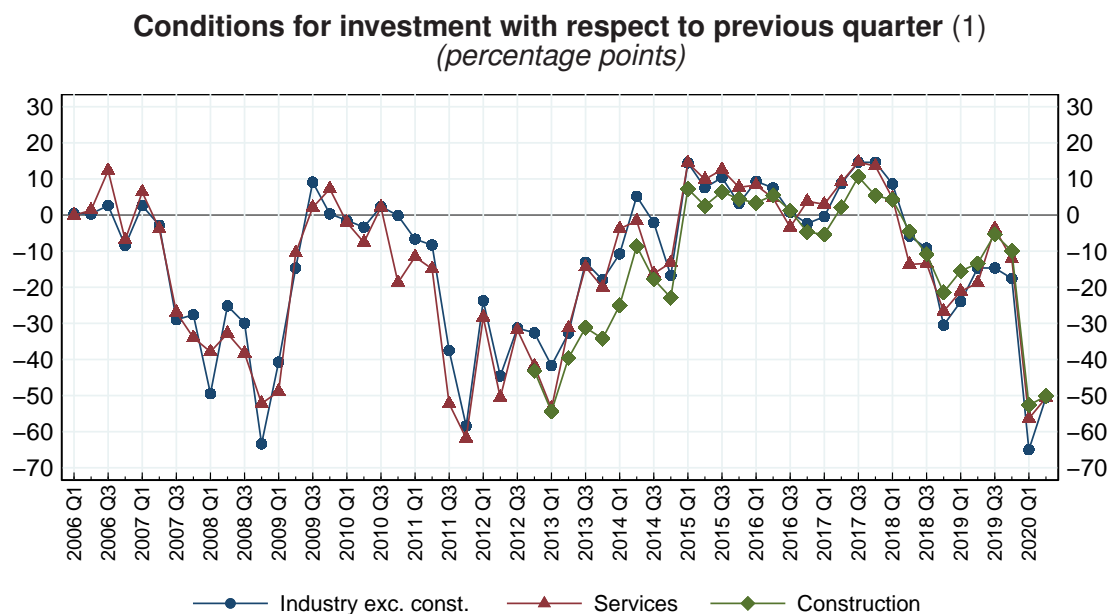
Figure 2.3

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



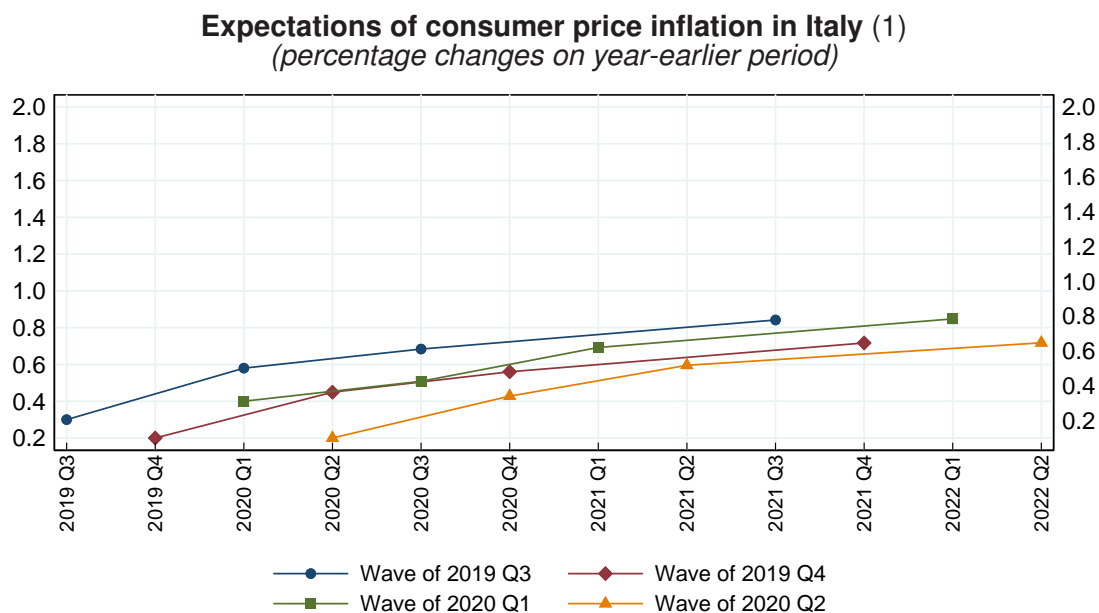
(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

Figure 3



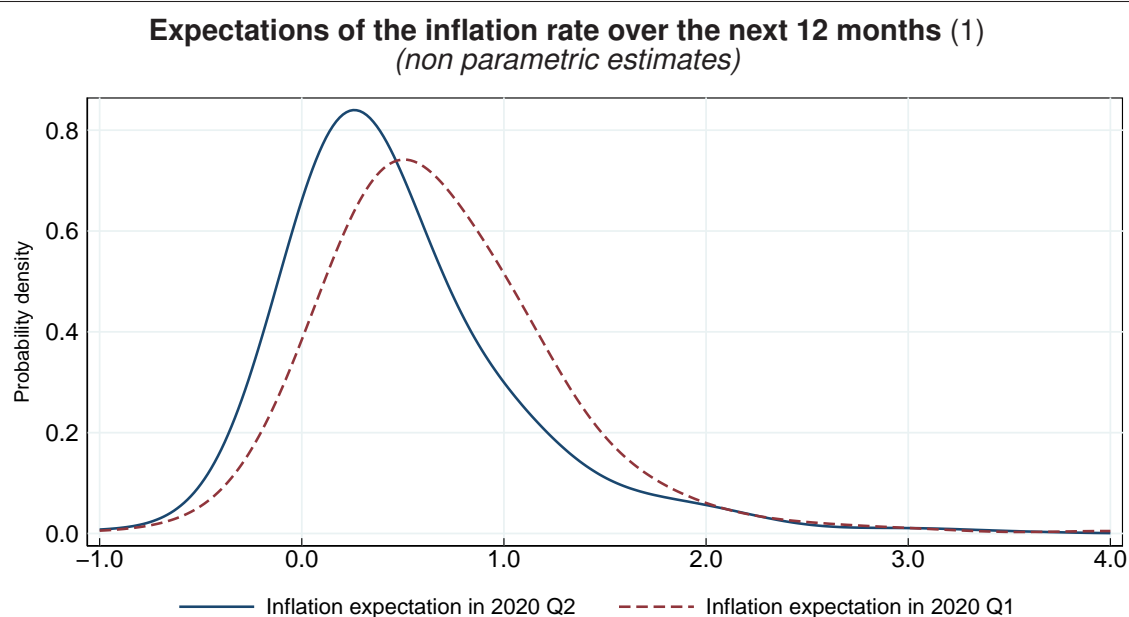
(1) Balance between positive and negative judgments.

Figure 4



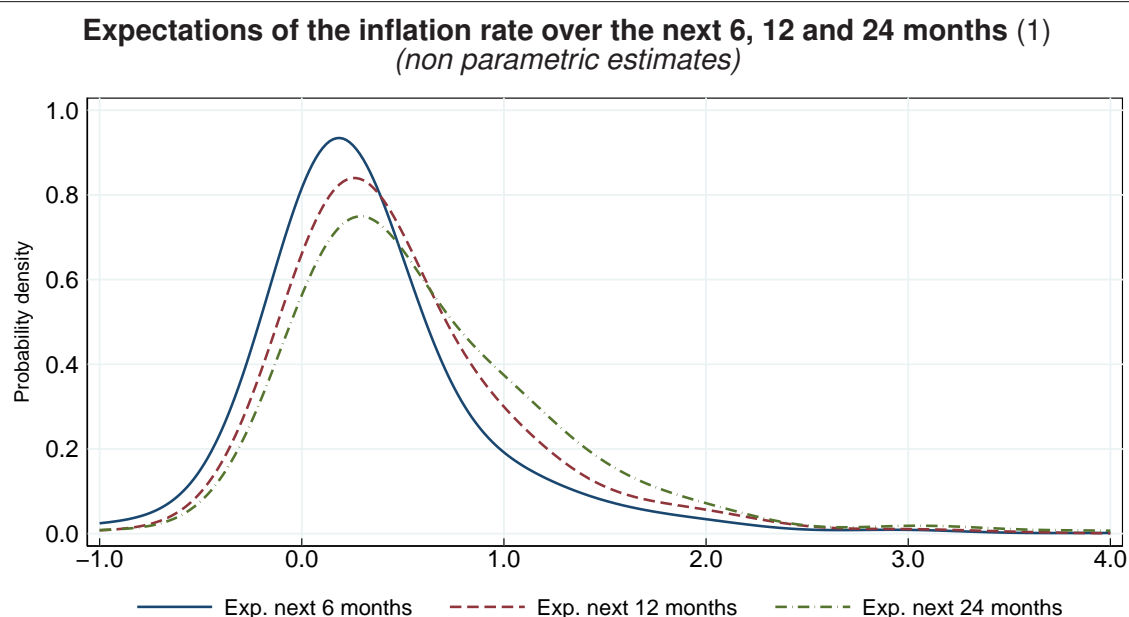
(1)) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next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



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

Figure 6



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

'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