

Survey on Inflation and Growth Expectations

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Main results

According to the survey conducted between 27 August and 17 September 2020 among Italian firms with 50 or more employees, assessments of the general economic situation improved. Opinions on their economic conditions became less negative; short-term prospects for total and foreign demand returned predominantly positive for the first time since the outbreak of the epidemic.

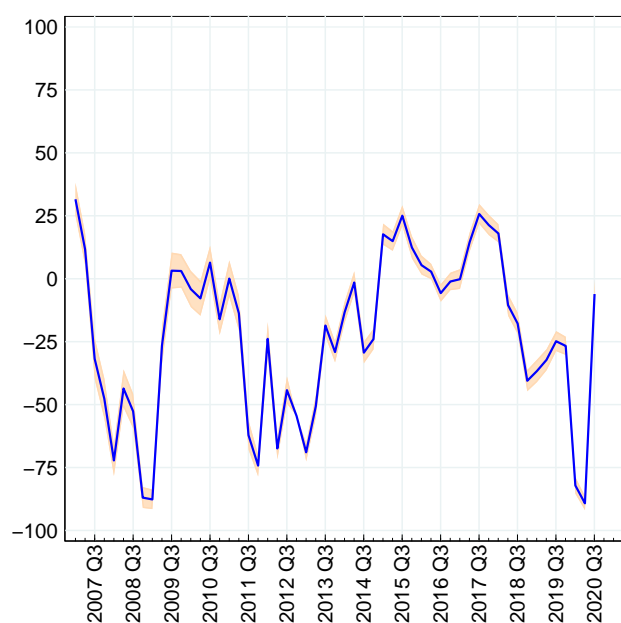
The overall assessment of investment conditions became less negative; compared with the previous survey, firms have revised upwards their investment plans for 2020, although they are still at lower levels than in 2019.

Firms in industry excluding construction and in services continue to expect a reduction in employment in the fourth quarter, but to a lesser extent than that expected in the first half of the year; those in the construction sector plan to expand further the number of employees.

Consumer price inflation expectations, while increased, remain low over all time horizons. For the next twelve months, firms expect to moderately increase their selling prices, which have remained unchanged over the past year.

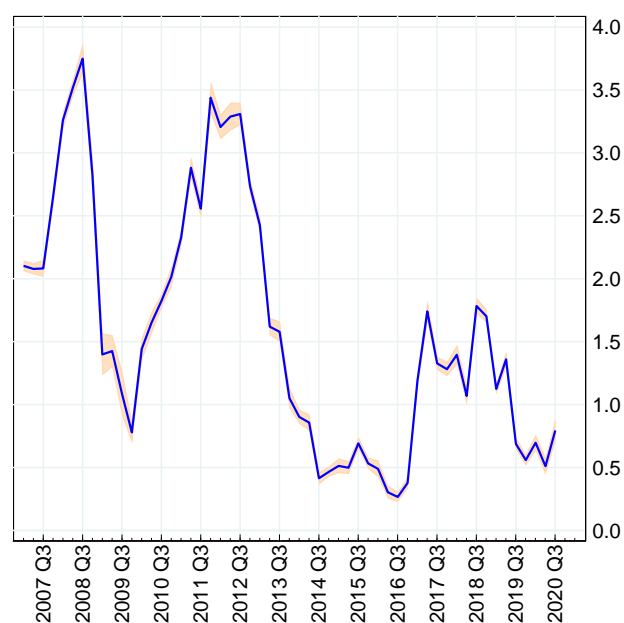
General state of the economy (1)

(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 improve

In the third quarter of 2020, firms' pessimism regarding the current general economic situation softened compared with the views reported three months earlier. The negative balance between opinions of an improvement and those of a deterioration narrowed markedly (from -89 to -6 percentage points; Table 1), returning to levels comparable with those registered in the period prior to the COVID-19 epidemic, thanks to an increase of equal size in the shares of reports pointing to an improvement or to no change. Assessments indicating mostly an improvement emerged among firms with at least 200 employees. The share of firms that do not foresee any improvement over the next three months decreased further, to 32 per cent (from 38 per cent), following the historical highs recorded at the beginning of the year (70 per cent; see Table s5 in the [Statistical Appendix](#)).

Firms also reported less unfavourable expectations of what their own economic situation will be in the final quarter of the year. The share of assessments pointing to a worsening decreased, mostly in favour of those reporting no change, bringing the overall balance to -6 percentage points (from -34 points; Figure 1). The uncertainty ascribable to economic, political and trade factors is still acting as the main brake on firms' business over the next three months; conversely, credit demand and credit access conditions now appear to be supporting it again.

The dynamics of demand were less unfavourable ...

Firms widely reported that developments in demand in the third quarter were markedly less unfavourable compared with those observed in the previous quarter, with the balance between assessments of an increase and those of a decrease going from -60 to -9 percentage points; Figures 2.1 and 2.2). The opinions reported by large companies and by residential construction firms became mostly positive. Total demand also benefited from the less unfavourable assessments of the performance of foreign demand compared with the previous survey: the balance between assessments of an improvement and those of a deterioration, though still low, rose by 48 percentage points, to -12 points, above all owing to the positive judgments reported by larger firms.

... and an expansion is expected, though with a slow recovery in the levels of economic activity

Expectations regarding developments in demand point, for the first time since the onset of the recession caused by the epidemic, to an expansion in sales in the next quarter, also thanks to the renewed stimulus from exports. The balance between expectations of an increase and those of a reduction in demand turned positive again in industry excluding construction and in services (to 14 percentage points) for both total and foreign demand, and rose from 2 to 13 points in construction. Compared with the previous survey, there was an increase (of 6 percentage points in industry excluding construction and in services and of 17 points in construction) in the share of firms reporting that their current level of activity is equal or greater to that recorded before the spread of the pandemic (28 and 46 per cent respectively). However, one in two firms in industry excluding construction and in services, and two in five in construction, report a level of turnover that in September is still at least 5 per cent lower than that recorded before the crisis. The firms that have not yet returned to normal levels of activity but are optimistic about doing so (66 per cent, compared with 75 per cent in the last survey) suggest that, on average, they expect to achieve those levels in one year, i.e. five months later than they had reported in the previous quarter (see Tables c19.1 and c19.2 in the [Statistical Appendix](#)).

¹ The survey report was prepared by Lucia Modugno and Marianna Riggi.

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 1,260 firms with 50 or more employees (of which 534 in industry excluding construction, 543 in services and 183 in construction) that participated in the September 2020 survey. 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_III_trim_2020.pdf?language_id=1

https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2020-indagine-inflazione/09/dati_2020_09_eng.zip?language_id=1

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

Assessments of investment conditions are markedly less negative ...

The negative balance between the opinions indicating an improvement in investment conditions and those indicating a deterioration narrowed considerably and evenly across sectors compared with the last quarter (to -8 percentage points overall, from -51 points; Figure 3), but it is still worse than the balances recorded last year. Assessments of credit access conditions became barely positive (with the balance now at 2 percentage points, up from -8 points), thanks above all to the judgments of improvement reported by service firms (see Table c16 in the [Statistical Appendix](#)).

... leading firms to revise upwards their investment plans for 2020

Investment expenditure forecasts for the second half of the year compared with the first are less pessimistic than in the last survey, though with differences between sectors. For firms in industry excluding construction, the balance between judgments of an increase and of a decrease in investment expenditure, though improved, remains barely negative, while it points to a slight expansion for firms in services and in construction, which is expected to be more marked for those in the residential segment. However, firms continue to plan lower investment this year compared with 2019.

Employment appears to contract further, but more moderately

Overall, employment is expected to decline further in the last quarter of the year, though less markedly than forecasted in the previous two quarters. For firms in industry excluding construction and in services, the balance between the share of firms that intend to increase the number of workers and those that expect to reduce it has improved compared with the previous survey (to -7 and -6 percentage points respectively, from -14 and -10 points in June). Construction firms, instead, expect a further increase in the number of people in employment, though more moderate than in the previous quarter (4 percentage points, from 7 points; Table 1).

Inflation expectations remain low ...

Firms' inflation expectations, while rising compared with those reported in the previous survey, remain low across all time horizons. Overall, firms expect the annual inflation rate to be 0.7 per cent six months from now, 0.8 per cent in one year, 1 per cent in two years and 1.1 over the three-to-five-year horizon (Figures 4, 5 and 6). Expectations have likely been affected by the rise in the consumer price index recorded in July.

... while firms' selling prices are expected to grow moderately

Firms report selling prices that are stable on average compared with one year earlier, but uneven between sectors: a slight decrease among firms in industry excluding construction (to -0.2 per cent) and in construction (to -0.1 per cent) was offset by a small increase among service firms, which was, however, more moderate than that reported three months earlier (to 0.2 per cent, from 0.4 per cent; Figures 2.1, 2.2 and 2.3). Selling prices are expected to post moderate growth across all sectors over the next twelve

months. While the developments in services appear in line with those suggested by the June survey (0.5 per cent), firms in industry excluding construction and those in construction revised their expectations upwards and downwards respectively, from 0.8 and 0.7 per cent to 0.3 and 1.1 per cent. As in the previous survey, according to the firms interviewed, the trend in selling prices over the next twelve months will be supported above all by developments in labour costs and commodity prices, in addition to funding costs; the greatest downward pressure continues to be that exerted by the pricing policies of competitors and by developments in demand, though the latter factor has become less significant compared with June, in line with the expected recovery in sales.

Table 1

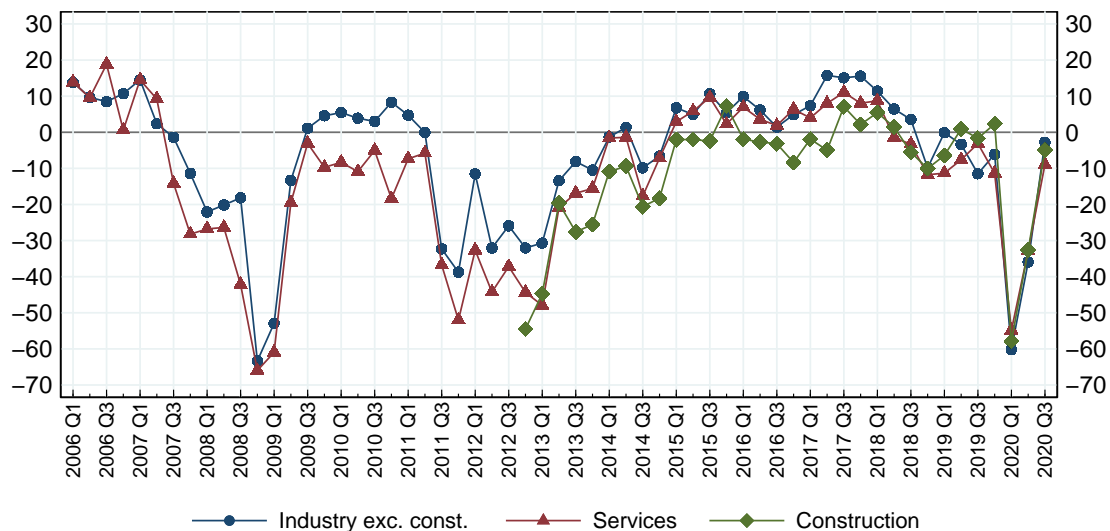
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2020 Q2	2020 Q3	2020 Q2	2020 Q3	2020 Q2	2020 Q3	2020 Q2	2020 Q3
	per cent							
Inflation expectation 6 months ahead	0.4	0.6	0.3	0.7	0.3	0.6	0.3	0.7
Inflation expectation 12 months ahead	0.5	0.7	0.5	0.9	0.6	0.8	0.5	0.8
Change in own prices 12 months ahead	0.3	0.8	0.5	0.5	1.1	0.7	0.5	0.6
	Balance between reports of improvement and deterioration (percentage points)							
	Judgments on the previous quarter							
General economic situation	-90.0	1.3	-88.8	-12.2	-84.3	-11.7	-89.2	-6.1
Total demand	-69.3	-12.0	-54.1	-7.0	-37.7	-2.4	-60.2	-9.1
Foreing demand	-65.7	-14.6	-46.6	-7.3	—	—	-59.8	-12.2
Investment conditions	-50.6	-8.0	-50.6	-8.2	-50.2	-13.4	-50.6	-8.4
	Forecast 3 months ahead							
Total demand	-9.9	17.2	-0.8	11.2	2.3	13.0	-4.8	14.0
Foreing demand	-3.7	15.8	-1.0	9.0	—	—	-2.9	13.6
Firms' economic conditions	-35.9	-2.8	-32.8	-8.9	-32.6	-4.9	-34.2	-5.9
Employment	-14.2	-7.3	-10.5	-5.6	6.8	3.8	-11.3	-5.9
	Forecast of investment expenditure							
H2 2020 on H1 2020	—	-3.6	—	3.7	—	8.5	—	0.7
2020 on 2019	-44.3	-31.9	-30.3	-16.6	-16.8	-11.3	-36.0	-23.2

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2020-indagine-inflazione/09/dati_2020.09.eng.zip?language_id=1

Figure 1

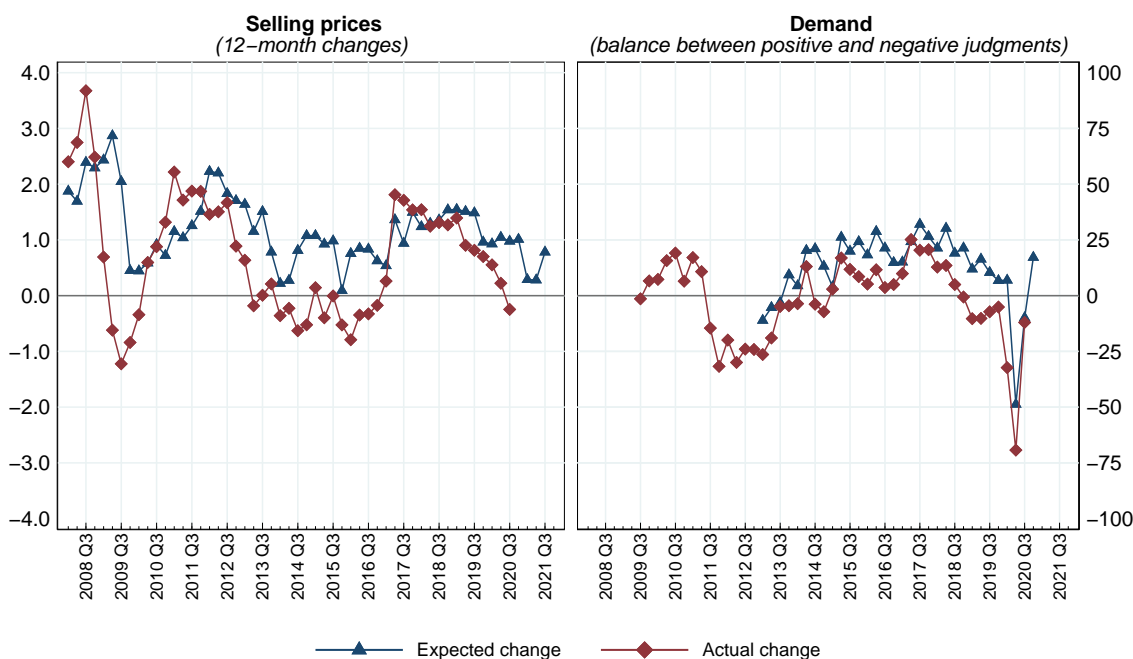
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

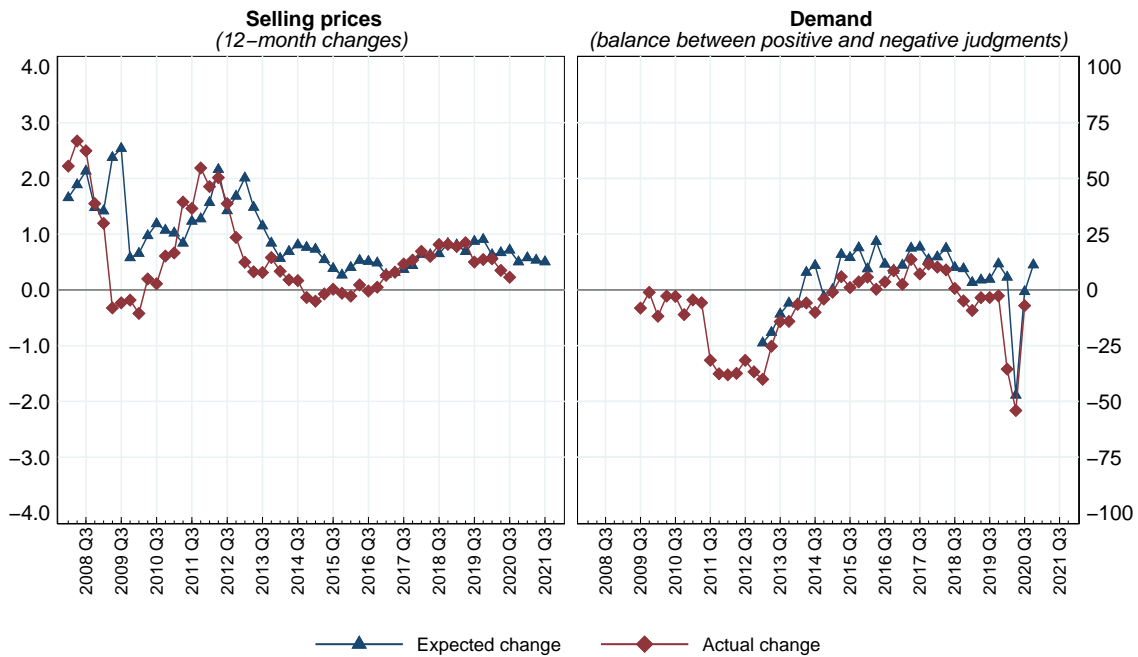
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

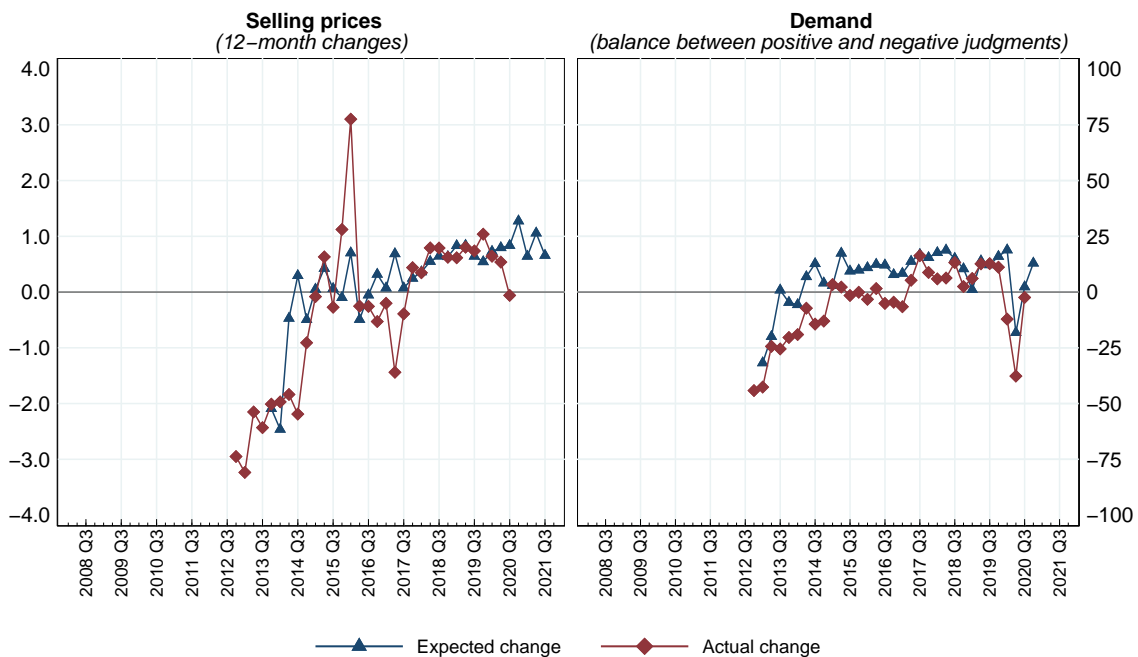
Expected and actual changes in selling prices and demand (1)
(services)



(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

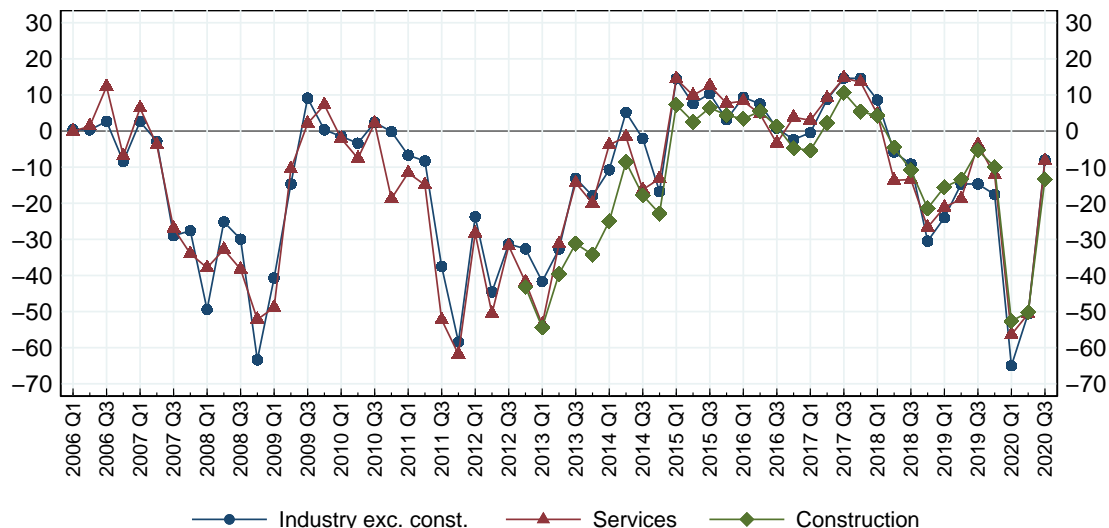
Expected and actual changes in selling prices and demand (1)
(Construction)



(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

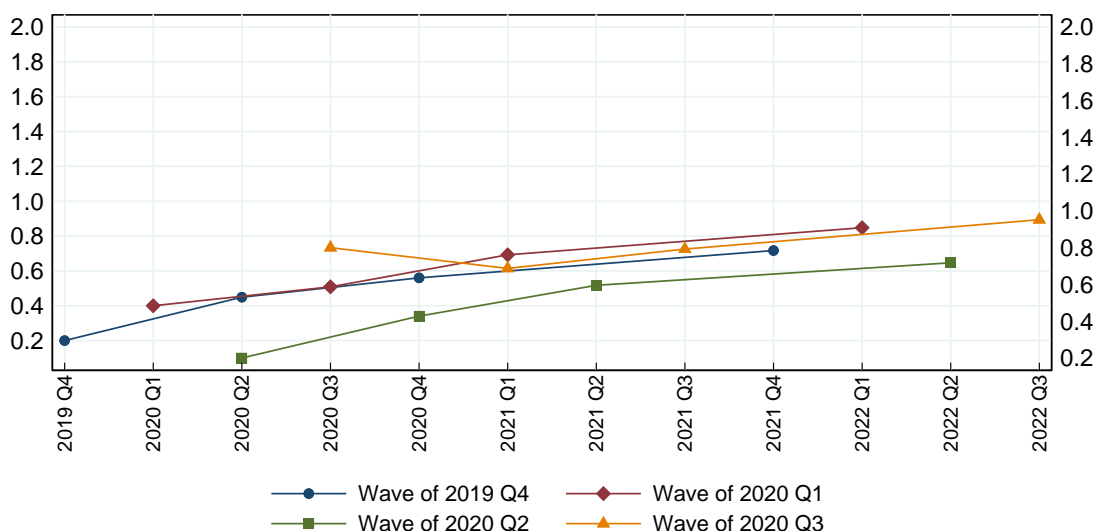
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

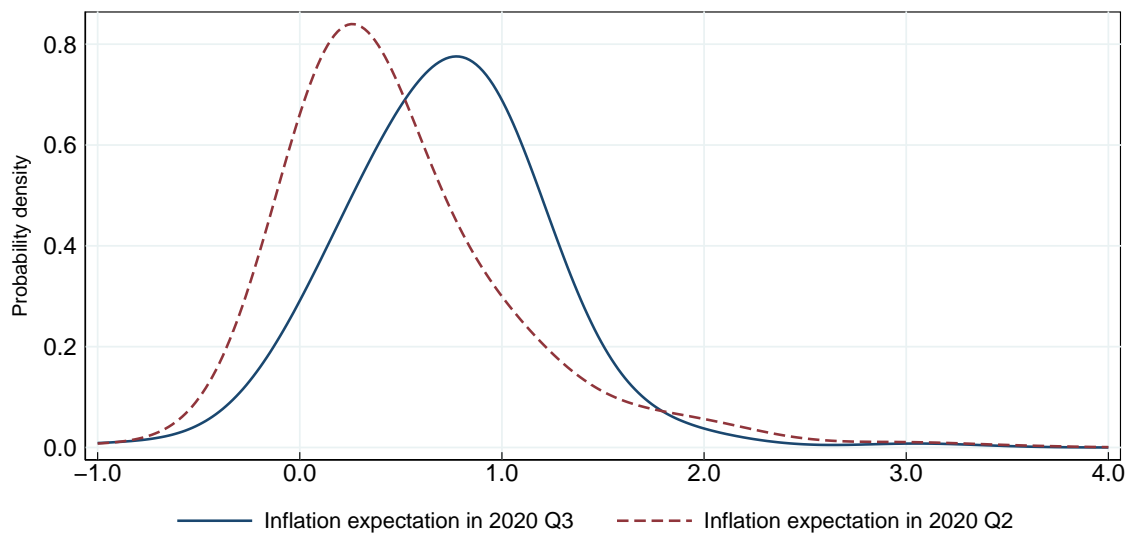
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

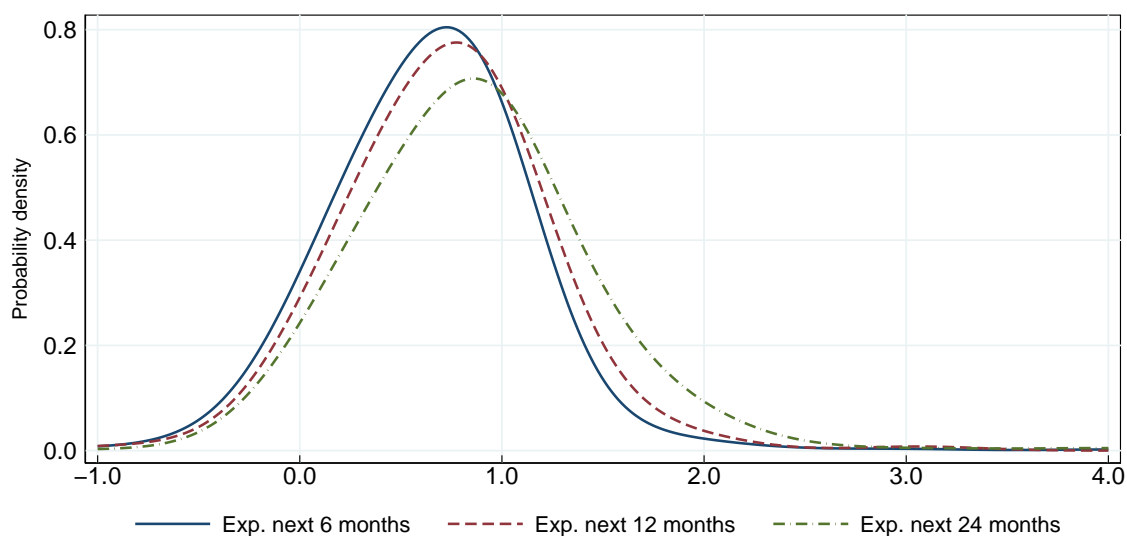
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



(1) The estimates are obtained using a Gaussian kernel density with a 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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