

# Survey on Inflation and Growth Expectations

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## Main results

According to the survey conducted between 25 February and 19 March 2021 among Italian industrial and service firms with 50 or more employees, negative assessments of the general economic situation and of firms' own economic conditions eased slightly compared with the survey carried out at the end of last year. The recovery in domestic and foreign demand, especially in the industrial sector, appears to have contributed to the more favourable assessments for the first quarter. For the second quarter, firms expect sales to strengthen in both industry and services, supported by both the domestic and foreign markets.

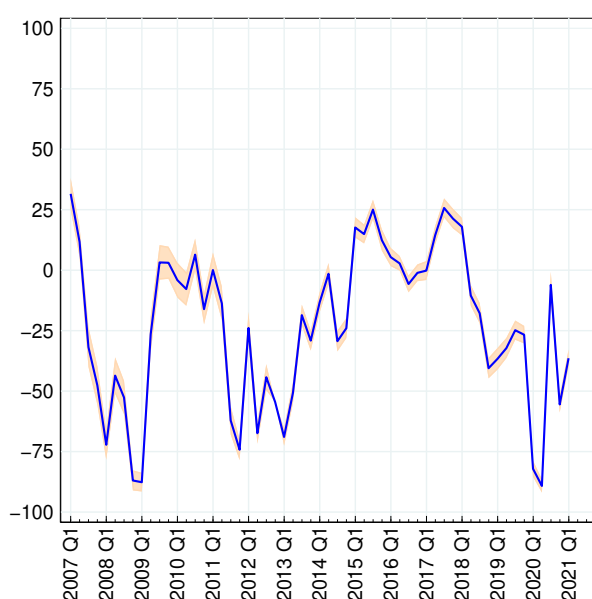
The assessments of investment conditions also became less unfavourable and were associated with an improvement in the balance of opinions between firms intending to increase investment spending and those planning to decrease it, both for the first half of the year and for 2021 as a whole.

Firms expect an increase in employment in the second quarter of the year. For firms in industry excluding construction and in services, this trend was observed for the first time since the end of 2019. In the construction sector, the balance, which was already mostly positive in 2020, increased further.

Consumer price inflation expectations, while remaining low, rose over all time horizons, recouping the significant decline observed in the previous survey and reflecting the recent increase in the consumer price index. Firms' selling prices also started to grow again, even if to a very limited extent. Expectations for the next twelve months point to a further increase.

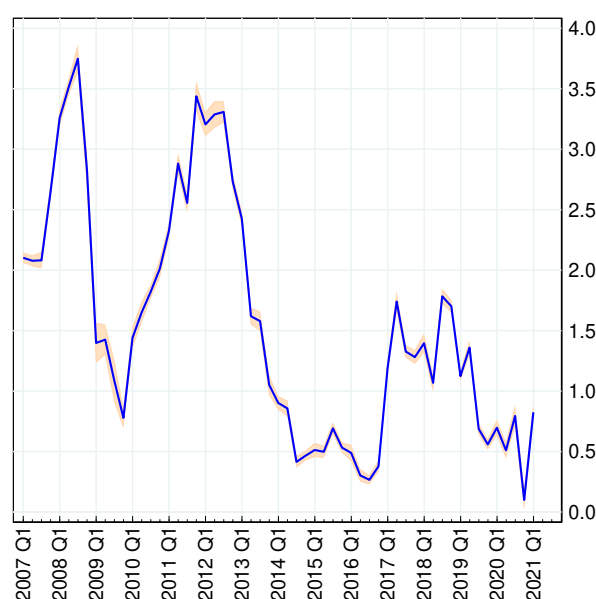
### General state of the economy (1)

(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 Expectations<sup>1</sup>

### Assessments of the general state of the economy improve ...

In the first quarter of 2021, the share of firms that reported a worsening in the general economic situation decreased from 61 to 45 per cent, mainly owing to the increase in the assessments reporting stable conditions, from 33 to 46 per cent. The narrowing of the negative balance between opinions of an improvement and of a deterioration was more marked for firms in industry excluding construction, whose assessments had already become less unfavourable in the previous survey.

The share of firms expecting their operating conditions to worsen over the next three months declined from 26 to 19 per cent. The balance between the opinions indicating an improvement and those indicating a deterioration remained negative for firms in services and in construction, while it became virtually nil for those in industry excluding construction (Figure 1).

### ... and so do those of demand

The reduction of negative opinions on Italy's general economic situation was accompanied by an improvement in those relating to demand for their own products in the first quarter compared with the previous one (Figures 2.1, 2.2 and 2.3). The balance between opinions pointing to an increase or decrease in overall sales turned positive for the first time since the outbreak of the pandemic, both for firms in industry excluding construction (from -7.6 to 14.6 percentage points), which benefited from the marked recovery in foreign demand, and for those in construction (from -3.8 to 4.8 points). An improvement was also recorded for service firms, though for them the balance is still negative (-12.5 points, from -22.2 points). According to firms, uncertainty stemming from economic and political factors will remain the main hindrance to their activity in the coming months.

For the second quarter, a substantial rise in sales is expected across all sectors, driven by both the domestic and foreign components: the balance between firms expecting an increase in total demand and those anticipating a decrease rose to 29.4 percentage points, from 1.6 points; the balance relating to the foreign component reached 31.6 points, from 10.2 points.

Despite the recovery in sales in the first quarter, the share of firms that reported that they had at least returned to pre-pandemic levels was practically stable, at 25 per cent, while the share of firms that consider they would not be able to return to those levels rose slightly, though it remains low (up by 2 percentage points, to 8 per cent). The remaining firms expect to be able to return to pre-pandemic levels in 16 months on average, about one month more than envisaged in the previous survey (Table c19.1).

### Investment conditions are seen as less unfavourable ...

The negative balance between the opinions indicating an improvement in investment conditions and those indicating a deterioration narrowed overall, offsetting the drop recorded in the previous survey and moving from -16 to -6 percentage points; Figure 3); a majority of firms, and the share is rising, reported stable investment conditions (67 per cent). Opinions pointing to stability remain overwhelmingly predominant also with

respect to credit access conditions (89 per cent, from 83 per cent), while the balance between positive and negative opinions was largely unchanged (-2.2 percentage points).

### ... and are accompanied by expectations of an expansion for both investment ...

Firms' investment plans improved in the first half of 2021 compared with the second half of 2020: the balance between the share expecting investment spending to increase and that expecting it to decrease rose by about 2 percentage points overall, to 11.6 per cent. The balance relating to investment spending for 2021 as a whole in relation to that for 2020 rose by 4 percentage points compared with the previous survey, to 14.4 per cent, suggesting that investment will continue to record positive growth in the second half of the year as well, driven by the especially favourable expectations of firms in industry

excluding construction as well as in construction.

### ... and employment

Firms expect an increase in employment in the second quarter of this year. For firms in industry excluding construction and in services, the balance between the share of

<sup>1</sup> The survey report was prepared by Marco Bottone and Elisa Guglielminetti.

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 1,561 firms with 50 or more employees (of which 683 in industry excluding construction, 689 in services and 189 in construction) that participated in the March 2021 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/infrazione-e-crescita/questionario-infrazione/documenti/en\\_quest\\_1\\_trim\\_2021.pdf?language\\_id=1](https://www.bancaditalia.it/statistiche/basi-dati/bird/infrazione-e-crescita/questionario-infrazione/documenti/en_quest_1_trim_2021.pdf?language_id=1)  
[https://www.bancaditalia.it/pubblicazioni/indagine-infrazione/2021-indagine-infrazione/03/dati\\_2021\\_03\\_eng.zip?language\\_id=1](https://www.bancaditalia.it/pubblicazioni/indagine-infrazione/2021-indagine-infrazione/03/dati_2021_03_eng.zip?language_id=1)  
[https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/methods\\_and\\_sources.pdf](https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/methods_and_sources.pdf)

firms that intend to increase the number of workers and those that expect to reduce it has returned positive for the first time since the fourth quarter of 2019 (5.9 percentage points). For construction firms, for which the balance remained mostly positive in 2020, a further rise was reported in the share of respondents expecting employment to increase in the next quarter.

**Inflation expectations rise and so do those regarding selling prices**

While they remain at low levels, firms' twelve-month consumer price inflation expectations rose on average, recouping the sharp drop observed in the December survey and reflecting above all the recent developments in the official price index. Compared with the previous survey, the expectations are higher by 0.8 and 0.7 percentage points over the 6- and 12-month horizons (at 0.7 and 0.8 per cent respectively; Figures 4, 5 and 6), by 0.6 percentage points over the 24-month horizon (1 per cent) and by 0.3 percentage points over the 3- to 5-year horizon (1.1 per cent).

Moreover, firms in industry excluding construction and in services have revised upwards their own selling prices, leading to average year-on-year changes of 0.3 and 0.4 per cent in the two sectors (from -0.5 and 0.2 per cent in the previous survey, respectively). Construction firms, which had reported stable prices on average in the previous survey, now report a slight decline (-0.3 per cent). Prices are expected to grow at a faster pace across all sectors over the next twelve months, especially in industry excluding construction, where firms anticipate an increase in their own selling prices equal to 1.6 per cent, compared with 0.6 per cent in services and 1.0 per cent in construction. The expected increase in selling prices compared with the December survey is due above all to the rise in commodity prices and to a lesser extent to the lower downward pressures exerted by the pricing policies of firms' main competitors.

Table 1

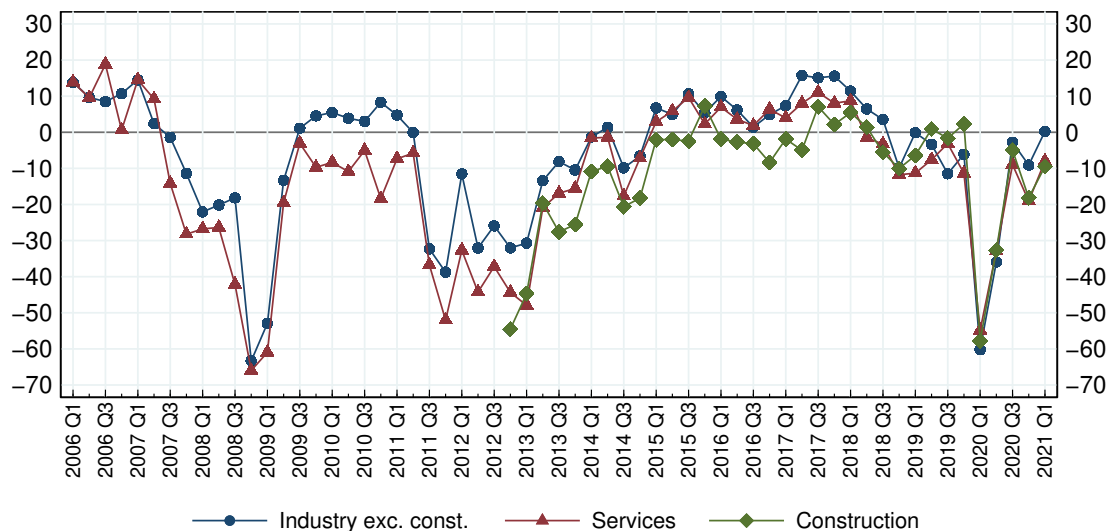
**Main findings (1)**  
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2020 Q4	2021 Q1	2020 Q4	2021 Q1	2020 Q4	2021 Q1	2020 Q4	2021 Q1
	<b>per cent</b>							
Inflation expectation 6 months ahead	-0.0	0.7	-0.1	0.7	0.1	0.8	-0.1	0.7
Inflation expectation 12 months ahead	0.1	0.9	0.0	0.8	0.3	0.9	0.1	0.8
Change in own prices 12 months ahead	1.1	1.6	0.3	0.6	0.8	1.0	0.6	1.0
	<b>Balance between reports of improvement and deterioration (percentage points)</b>							
	<b>Judgments on the previous quarter</b>							
General economic situation	-47.5	-24.8	-63.3	-46.2	-50.9	-42.8	-55.5	-36.4
Total demand	-7.6	14.6	-22.2	-12.5	-3.8	4.8	-14.7	0.7
Foreing demand	-2.8	19.5	-10.7	2.8	—	—	-5.2	14.5
Investment conditions	-9.4	1.1	-20.8	-11.5	-22.9	-16.0	-15.7	-6.0
	<b>Forecast 3 months ahead</b>							
Total demand	8.5	36.3	-5.9	23.0	13.5	29.6	1.6	29.4
Foreing demand	12.8	35.7	4.2	22.2	—	—	10.2	31.6
Firms' economic conditions	-9.1	0.2	-19.0	-8.0	-18.2	-9.5	-14.5	-4.4
Employment	-0.7	9.3	-7.8	2.9	7.5	14.5	-3.8	6.4
	<b>Forecast of investment expenditure</b>							
H1 2021 on H2 2020	18.4	17.6	1.7	6.4	6.9	8.9	9.5	11.6
2021 on 2020	17.2	22.1	5.2	7.1	6.9	17.3	10.7	14.4

(1) The statistical appendix is available at [http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/03/dati\\_2021\\_03.eng.zip?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/03/dati_2021_03.eng.zip?language_id=1)

Figure 1

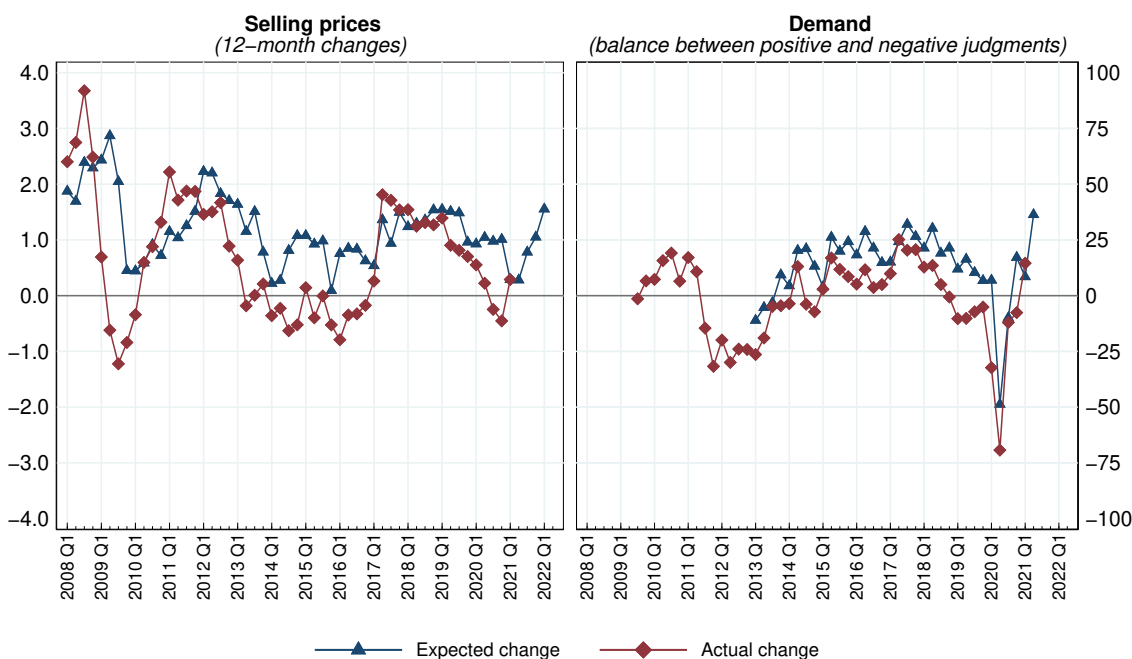
Three-month forecast of the firm's business conditions (1)  
(percentage points)



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

Figure 2.1

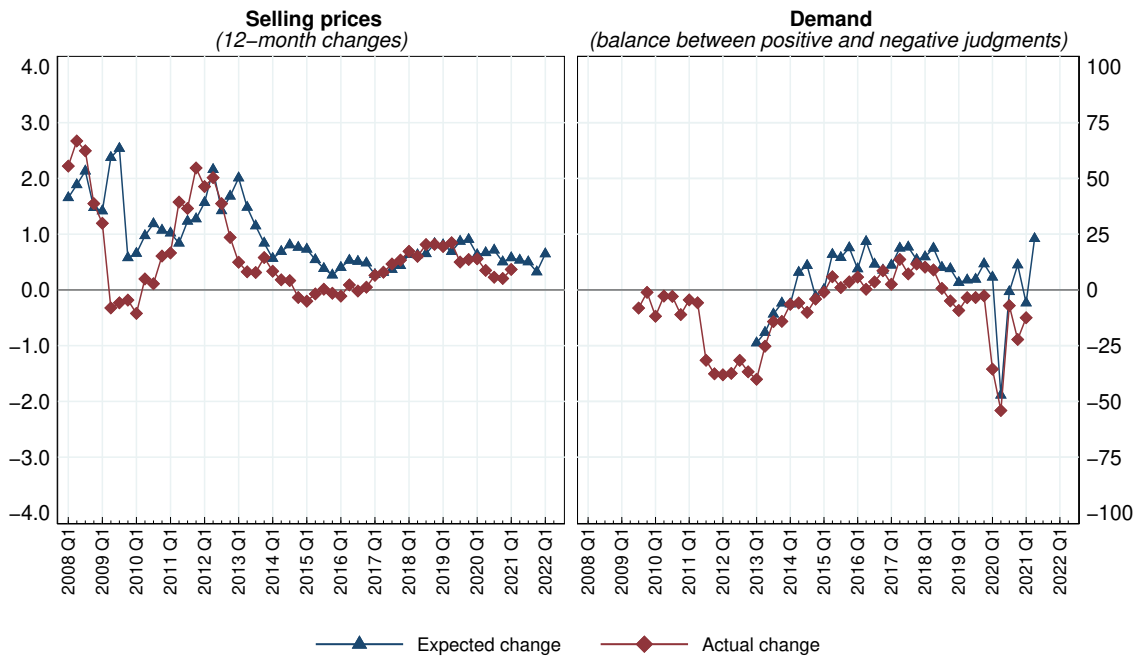
Expected and actual changes in selling prices and demand (1)  
(industry excluding construction)



(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

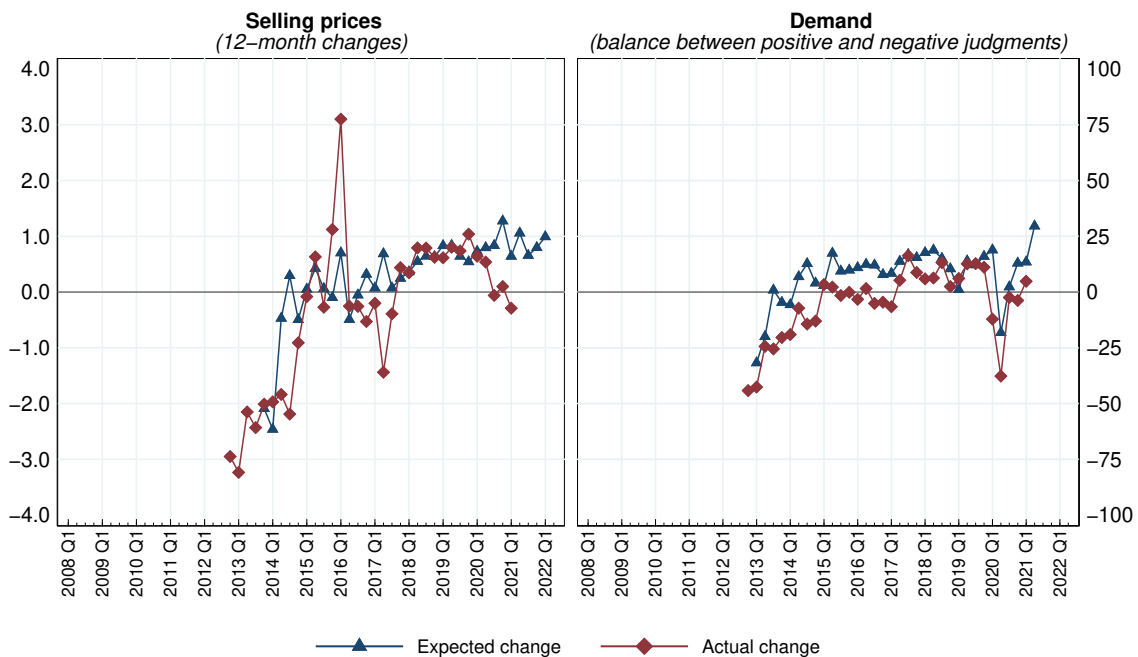
Expected and actual changes in selling prices and demand (1)  
(services)



(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

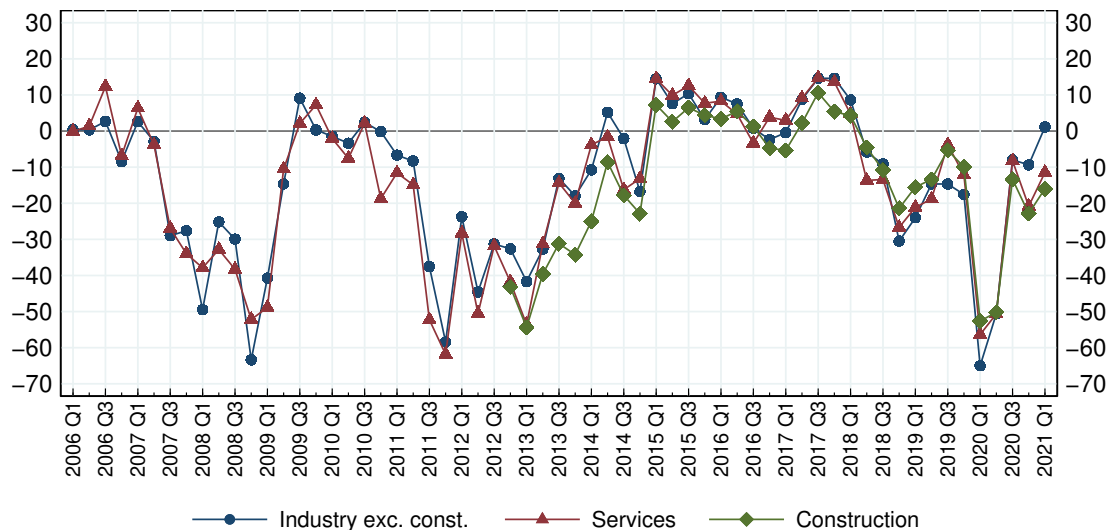
Expected and actual changes in selling prices and demand (1)  
(Construction)



(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

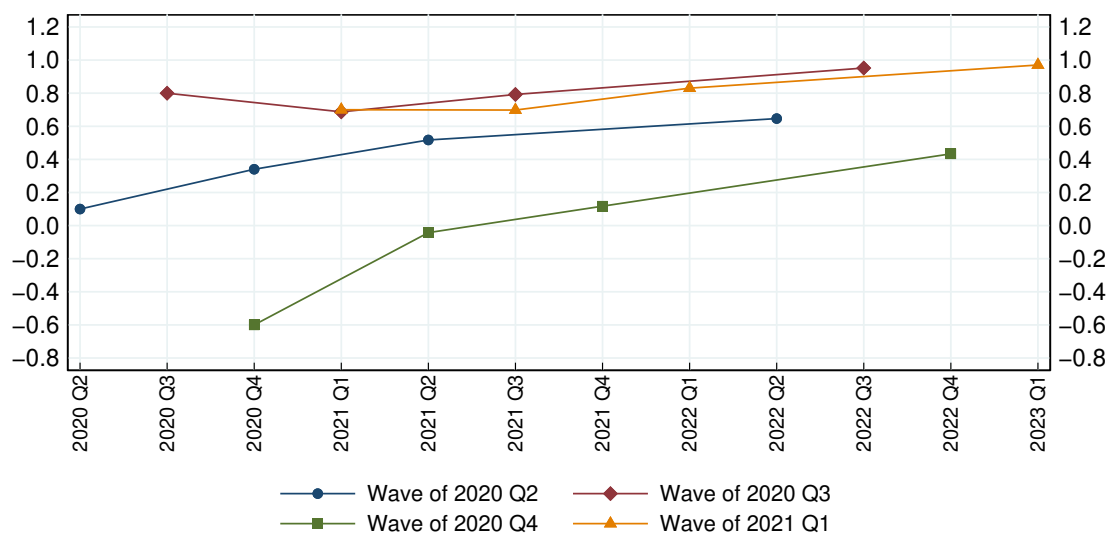
Conditions for investment with respect to previous quarter (1)  
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

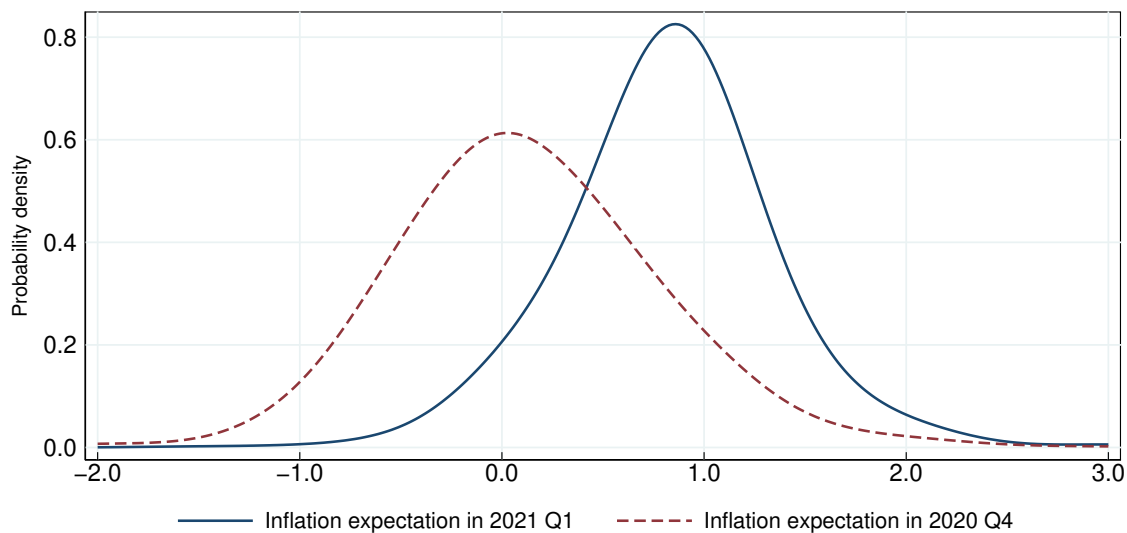
Expectations of consumer price inflation in Italy (1)  
(percentage changes on year-earlier period)



(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**

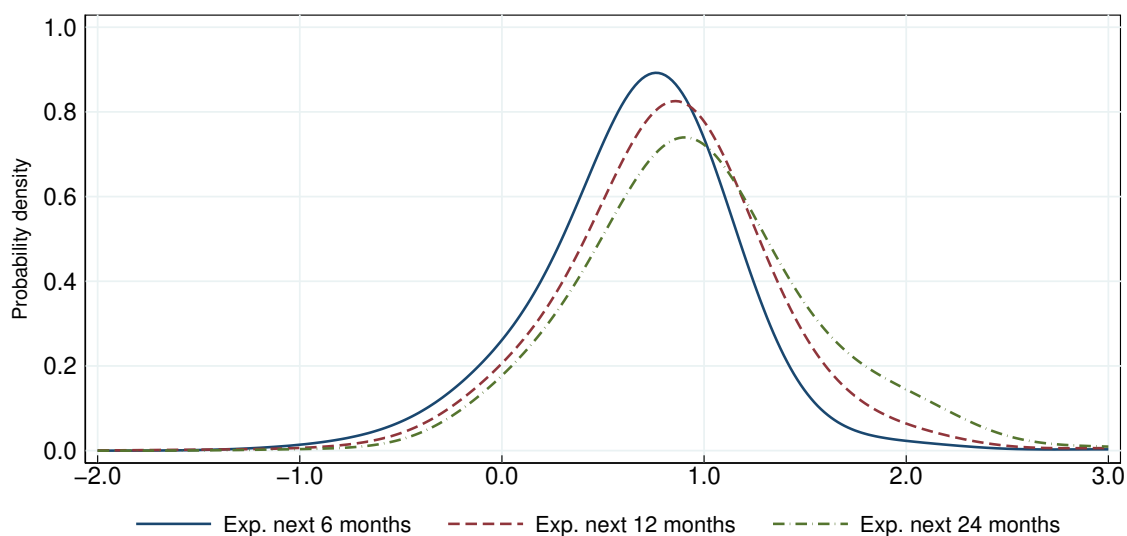
**Expectations of the inflation rate over the next 12 months (1)**  
*(non parametric estimates)*



(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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