



Survey on Inflation and Growth Expectations

12 July 2021

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www.bancaditalia.it/statistiche/index.html

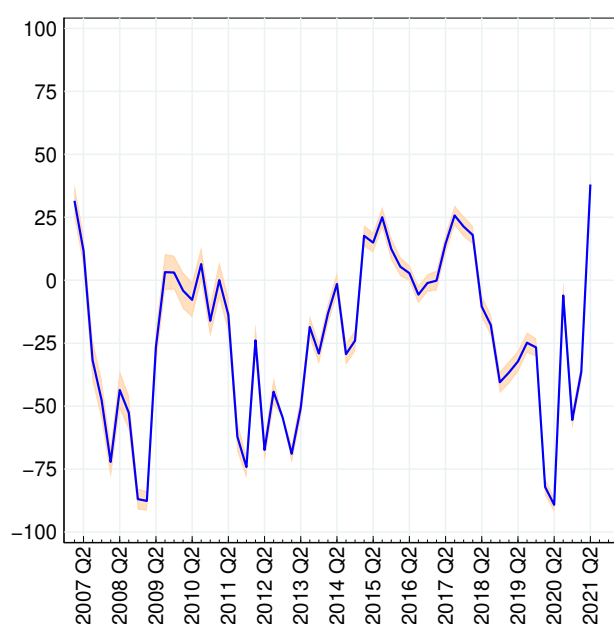
Main results

According to the survey conducted between 24 May and 15 June 2021 among Italian industrial and service firms with 50 or more employees, there was a significant rise in the share of businesses reporting an improvement in the general economic situation in the last quarter and in expectations regarding their own operating conditions over the next three months. The more favourable assessments for the second quarter of the year benefited from the recovery in domestic and foreign demand, especially in the industrial sector. For the third quarter, firms expect turnover to rise further, supported by both the domestic and foreign markets.

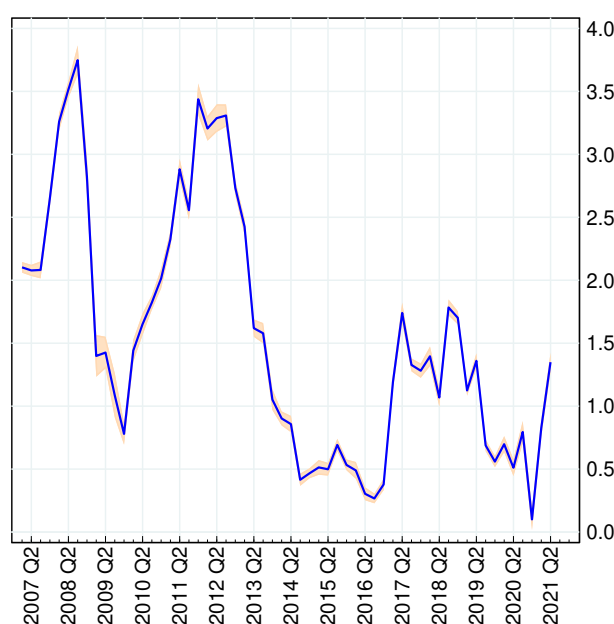
The assessments of investment conditions improved significantly and were associated with an increase in the investment spending planned for 2021 as a whole. Firms expect an increase in employment in the third quarter of the year, especially in the Northern regions of the country.

Consumer price inflation expectations rose over all time horizons, regaining the levels registered in the first half of 2019. Firms also expect an increase in their own selling prices over the next twelve months.

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 markedly ...

In the second quarter of 2021, the share of firms that reported an improvement in the general economic situation rose markedly (to 48.9 per cent, from 9.0 per cent in the previous survey), while the share reporting a worsening fell sharply (to 10.9 per cent, from 45.4 per cent). The balance turned positive for the first time since early 2018 and reached its highest level since 2004, the first year in which the relevant data were collected, and reached particularly high levels for firms in industry excluding construction and for large companies.

The share of firms expecting their operating conditions to strengthen over the next three months also rose sharply, from 14.2 to 35.3 per cent. The balance between assessments of an improvement and of a worsening became positive across all sectors, with a more pronounced rise in services (where the balance reached 31 percentage points, from -8 points last March) compared with non-construction industry (28 points, from 0) and construction (16 points, from -9; Figure 1).

... as do those of current and expected demand

Firms also expect strong growth in the demand for their products in the second quarter (Figures 2.1, 2.2 and 2.3). The balance between opinions pointing to an increase or decrease in overall sales, already positive, improved further both for firms in industry excluding construction (from 15 to 46 percentage points), which also benefited from the acceleration in foreign demand, and for those in construction (from 5 to 32 points). The balance returned to positive territory in services for the first time since the outbreak of

the pandemic (from -12 to 30 points).

For the third quarter, a further 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 52 percentage points, from 29 points. When considering only the foreign component of demand, which refers to services and industry excluding construction, the balance rose to 49 percentage points, from 32 points. According to firms, the recovery in demand will be the main driver of their business over the coming months. A second significant element will be the reduction in the uncertainty attributable to economic or political factors.

The recovery in sales in the second quarter was associated with an increase in the share of firms reporting that they had returned to pre-pandemic levels or even exceeded them (34.5 per cent, from 25.6 per cent). However, the share of firms that believe they will not be able to return to those levels also rose (15.1 per cent, from 7.8 per cent; it came to 18.9 per cent in industry). The remaining firms expect to be able to return to pre-pandemic levels in 14.5 months on average, about two months less than envisaged in the previous survey (Table c19.1).

Opinions on investment conditions improve ...

The balance between the opinions indicating an improvement in investment conditions and those indicating a deterioration returned to positive territory, to historically very high levels (24 percentage points, from -6 points; Figure 3). In any case, a majority of firms continued to report stable investment conditions (61.4 per cent). Opinions pointing to stability remain overwhelmingly predominant also with respect to credit access conditions (87.1 per cent, from 89.1 per cent), while the balance between positive and

negative opinions improved slightly compared with the previous survey (4 percentage points, from -2 points).

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

Investment plans for the second half of 2021 are favourable: the share of firms expecting investment to increase is 35 percentage points higher than the share expecting a reduction. Driven by the acceleration recorded in the second half of the year, the balance for 2021 as a whole rose compared with 2020, to 33 percentage points, from 14 points in the previous survey. Investment plans appear especially favourable for firms in industry excluding construction.

¹ The survey report was prepared by Francesco Corsello and Marco Bottone.

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 1,526 firms with 50 or more employees (of which 650 in industry excluding construction, 698 in services and 178 in construction) that participated in the June 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/inflazione-e-crescita/questionario-inflazione/documenti/en_quest_II_trim_2021.pdf?language_id=1
https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/06/dati_2021_06_eng.zip?language_id=1
https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/methods_and_sources.pdf

**... and
employment**

Firms expect an increase in employment in the third quarter. For firms in industry excluding construction and in services, the balance between the share of firms that intend to increase the number of employees and those that expect to reduce it rose, remaining in positive territory for the second consecutive quarter (17 percentage points). The balance also increased for firms in the construction sector (to 19 percentage points), where it has been mostly positive in the last two years. The balance exceeds 20 points when considering the North of the country, while it is about 10 points in the Centre and in the South and Islands.

**Inflation
expectations
have recovered
from the drop
recorded over the
last**

Consumer price inflation expectations rose across all time horizons, offsetting the sharp drop recorded in conjunction with the pandemic, though they are still at historically low levels. Compared with the previous survey, expectations are 0.5 percentage points higher over the 6, 12 and 24-month horizon, and now stand at 1.2, 1.3 e 1.5 per cent respectively (Figures 4, 5 and 6); they are 0.4 percentage points higher over the 3 to 5-year horizon, standing at 1.5 per cent). This rise in expectations was associated with the recent increase in inflation as measured by the official consumer price indices.

**... and firms plan
to increase their
own selling
prices**

Firms in industry excluding construction and in services raised their own selling prices moderately, leading to average year-on-year changes of 1.8 and 0.6 per cent in the two sectors (from 0.3 and 0.4 per cent in the previous survey, respectively). Construction firms, which had recorded slightly declining prices in the previous survey, now report an increase (equal to 1.1 per cent). Prices are expected to grow at a faster pace over the next twelve months in all sectors, especially in non-construction industry and in construction, where firms plan to increase their own selling prices by 2.8 and 2.6 per cent respectively, compared with 1.0 per cent in services. According to manufacturing firms, the prices of their own products over the next twelve months will be influenced by commodity prices and, to a lesser extent, the cost of intermediate inputs, in line with the rise in production prices observed in manufacturing in the second quarter. Compared with the previous survey, the contribution of demand became slightly positive, particularly for firms in industry excluding construction.

Table 1

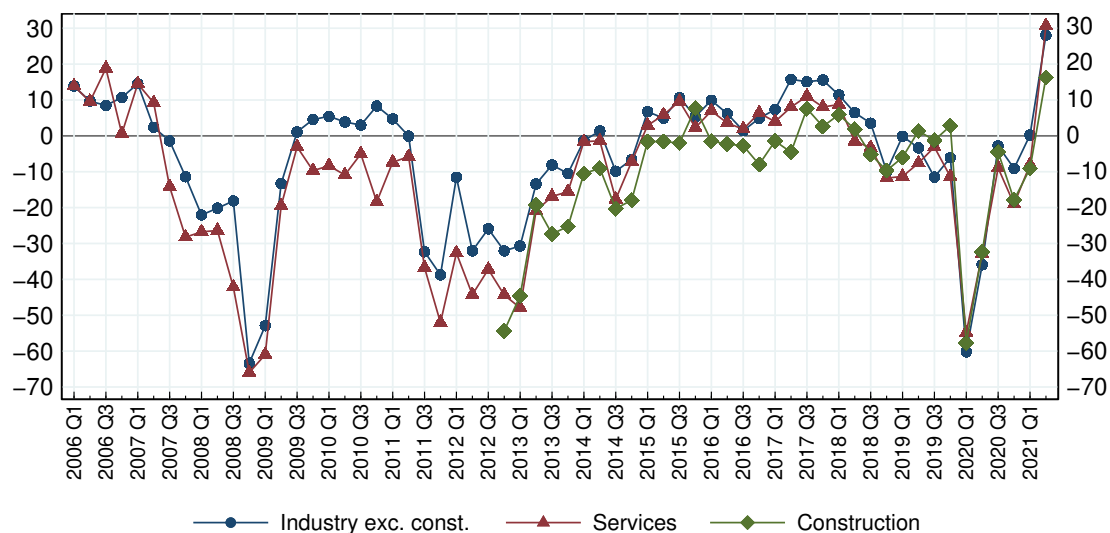
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2021 Q1	2021 Q2	2021 Q1	2021 Q2	2021 Q1	2021 Q2	2021 Q1	2021 Q2
	per cent							
Inflation expectation 6 months ahead	0.7	1.3	0.7	1.2	0.8	1.3	0.7	1.2
Inflation expectation 12 months ahead	0.9	1.3	0.8	1.3	0.9	1.4	0.8	1.3
Change in own prices 12 months ahead	1.6	2.8	0.6	1.0	1.0	2.6	1.0	1.7
Balance between reports of improvement and deterioration (percentage points)								
Judgments on the previous quarter								
General economic situation	-24.8	44.6	-46.2	33.4	-42.8	24.9	-36.4	38.0
Total demand	14.6	45.9	-12.5	29.9	4.8	32.3	0.7	37.3
Foreing demand	19.5	44.6	2.8	18.6	—	—	14.5	36.7
Investment conditions	1.1	26.5	-11.5	22.6	-16.0	14.0	-6.0	23.9
Forecast 3 months ahead								
Total demand	36.3	55.3	23.0	48.9	29.6	54.1	29.4	52.1
Foreing demand	35.7	55.9	22.2	32.5	—	—	31.6	48.8
Firms' economic conditions	0.2	28.1	-8.0	30.6	-9.5	15.7	-4.4	28.7
Employment	9.3	19.6	2.9	15.0	14.5	18.9	6.4	17.3
Forecast of investment expenditure								
H2 2021 on H1 2021	17.6	39.1	6.4	32.5	8.9	25.9	11.6	35.1
2021 on 2020	22.1	40.9	7.1	26.8	17.3	29.4	14.4	33.3

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/06/dati_2021_06.eng.zip?language_id=1

Figure 1

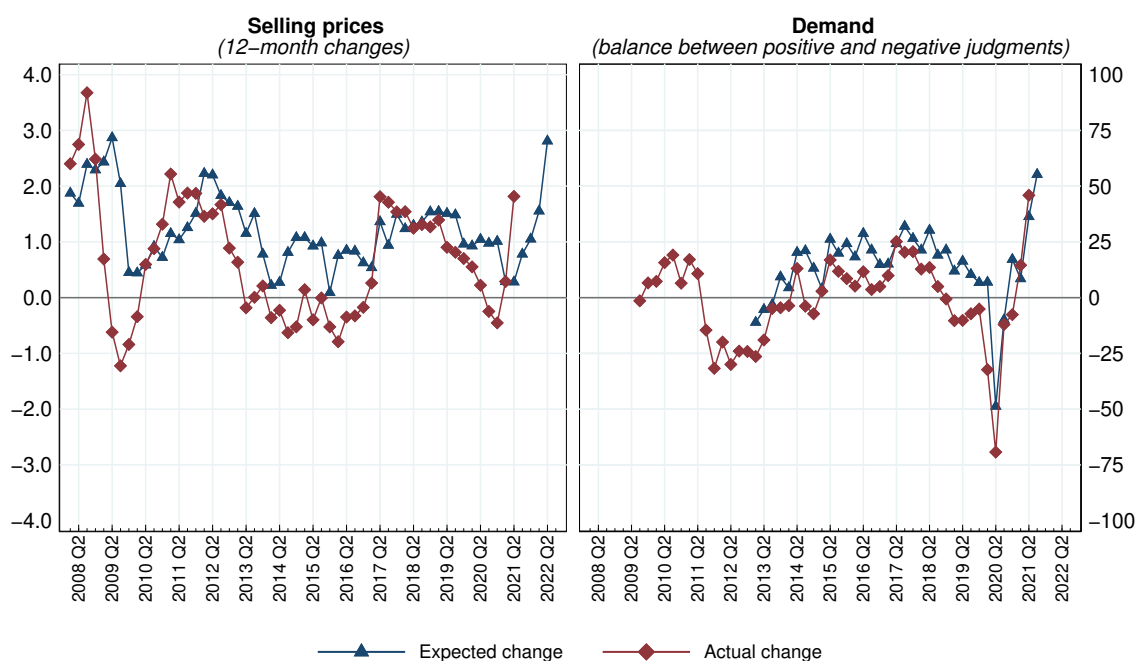
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

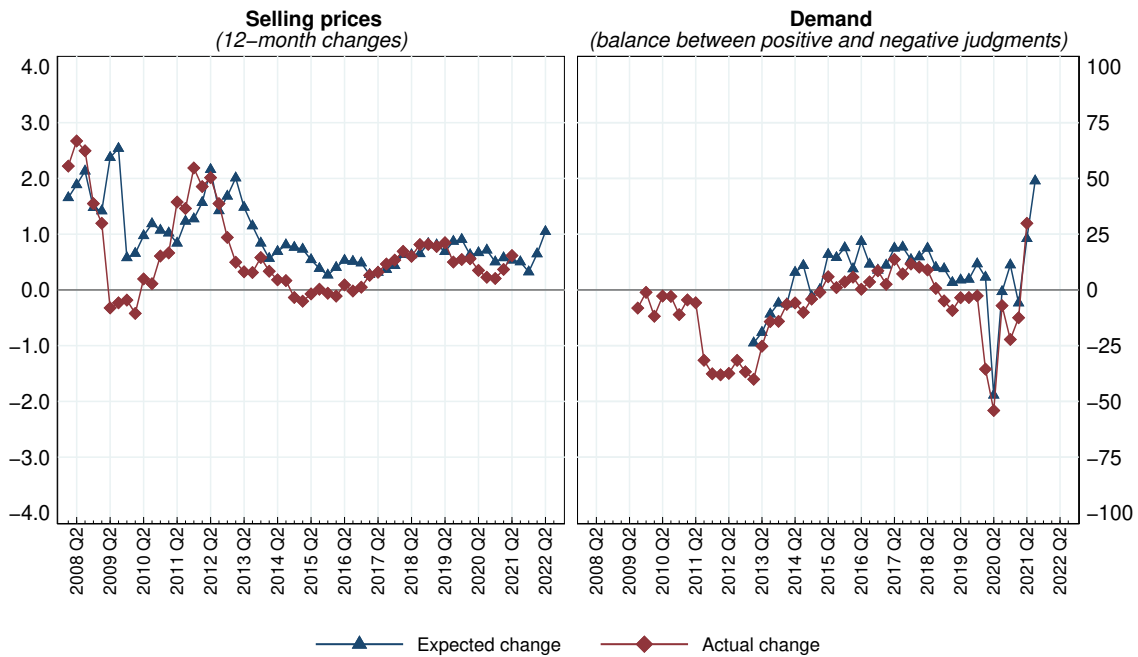
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

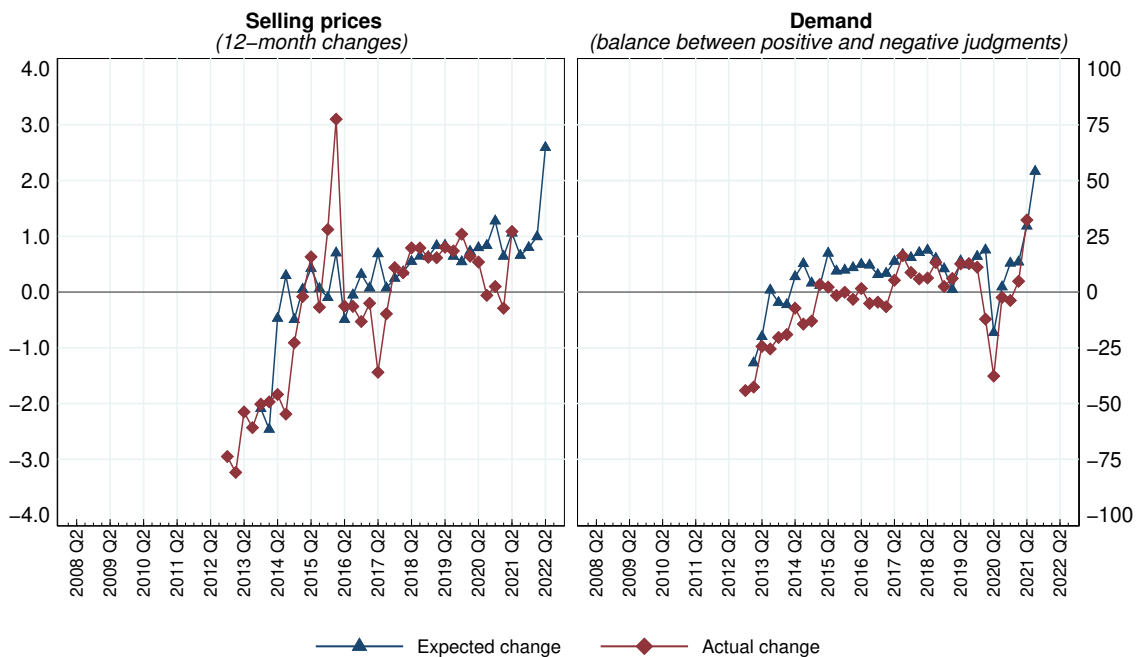
Expected and actual changes in selling prices and demand (1)
(services)



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

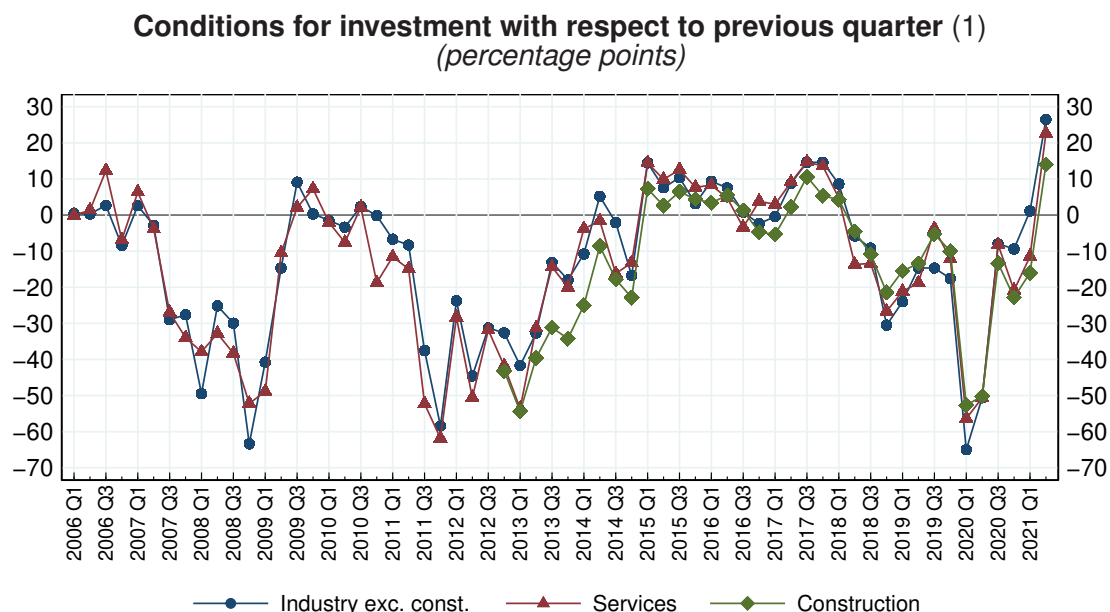
Figure 2.3

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



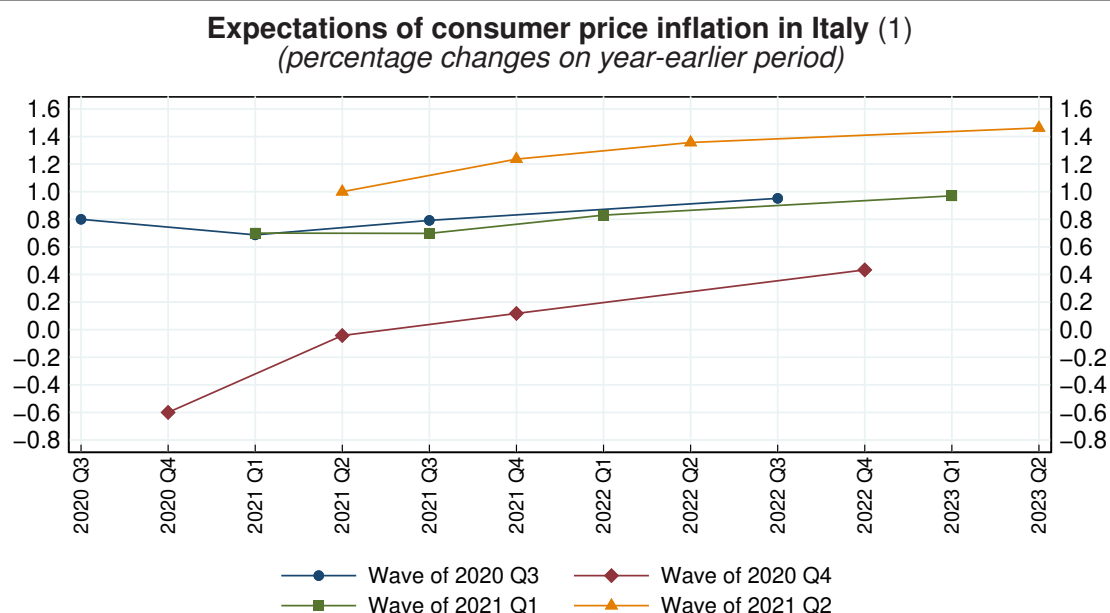
(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

Figure 3



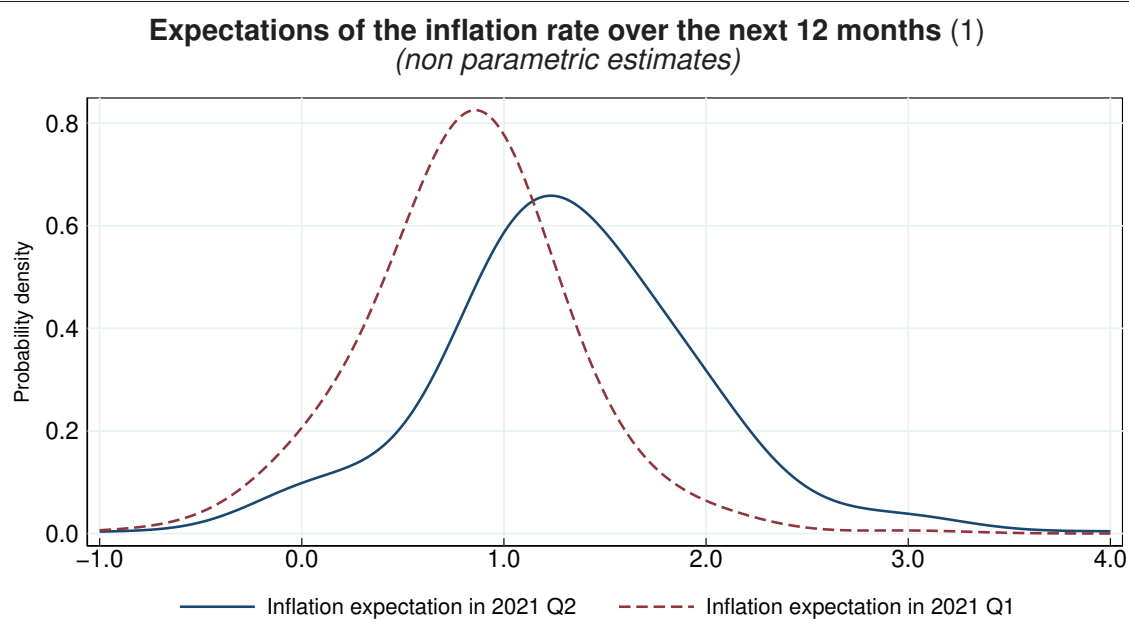
(1) Balance between positive and negative judgments.

Figure 4



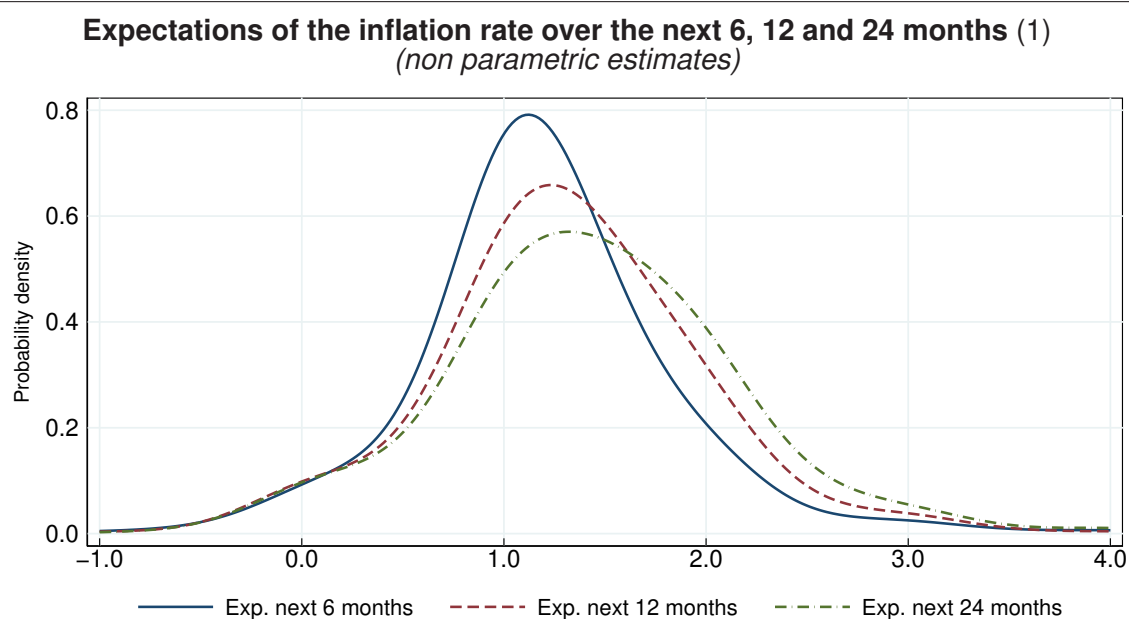
(1) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next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

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<http://www.bancaditalia.it/statistiche/>

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