

Survey on Inflation and Growth Expectations

11 October 2021

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www.bancaditalia.it/statistiche/index.html

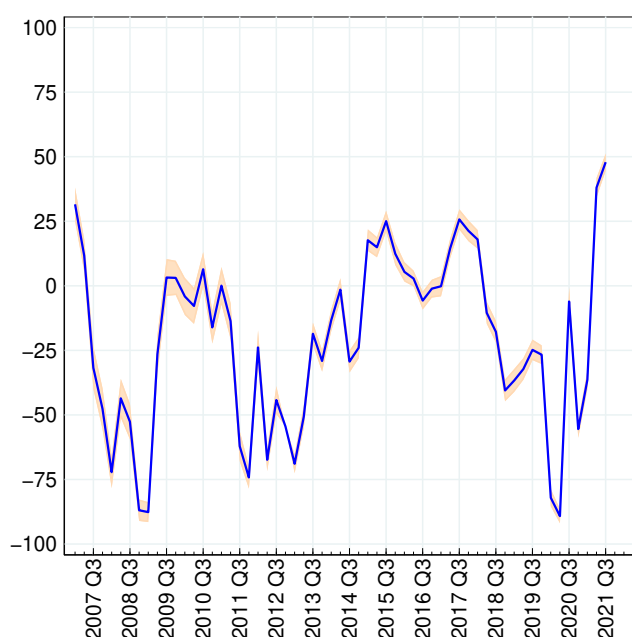
Main results

According to the survey conducted between 26 August and 16 September 2021 among Italian industrial and service firms with 50 or more employees, assessments of the general economic situation in the third quarter improved further, and so did firms' expectations regarding their own operating conditions over the next three months. Assessments of the trend in current demand point to an expansion in both the domestic and foreign components that looks set to continue in the fourth quarter.

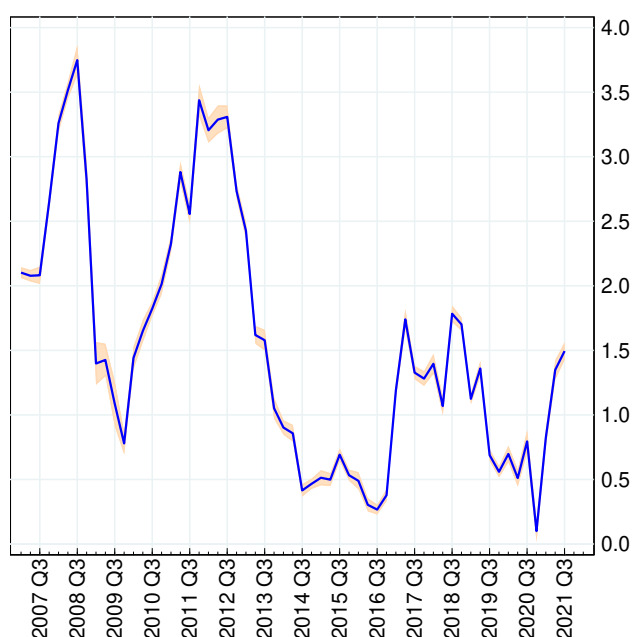
The assessments of investment conditions remained favourable, at historically high levels, and those pointing to growth in investment spending in the current year were confirmed. Firms in all sectors expect an increase in employment in the fourth quarter, with a more favourable outlook for larger companies.

Consumer price inflation expectations rose moderately, but remain below 2 per cent over all forecasting horizons. Firms revised their own selling prices upwards and expect further growth over the next 12 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 ...

In the third quarter of 2021, the balance between judgments of an improvement and of a worsening in the general economic situation improved by around 10 percentage points; following its return into positive territory in the second quarter after three years, it reached historically high levels in the main sectors (Table 1).

Firms' assessments of their operating conditions over the next three months remained favourable: the share expecting an improvement exceeded that anticipating a worsening by 25 percentage points. The balance narrowed slightly compared with the last quarter, by 4 percentage points, and the decrease was more marked for large companies (by about 13 percentage points), which in the previous survey had reported more favourable assessments compared with the smaller firms (Figure 1).

... as do those of current and expected demand

In all three sectors, the vast majority of firms reported an increase in the demand for their own products in the third quarter compared with the previous one (Figures 2.1, 2.2 and 2.3). The balance between expectations of an increase and those of a contraction in total demand, which had widened significantly in the previous survey, rose further, though at a slower pace (to 42 percentage points, from 37 points), reaching its highest level since 2009, the first year in which the relevant data were collected. Assessments of foreign demand show similar developments.

The increase in sales is set to continue in the fourth quarter, driven by both the domestic and the foreign components. More than half of firms anticipate an increase in the demand for their own products and the balance between expectations of an increase in sales and those of a decrease remains markedly positive both overall and when looking at the foreign component (49 and 48 percentage points, from 52 and 49 points, respectively). As demand continues to drive economic activity, the uncertainty stemming from economic and political factors is expected to remain the main hindrance to it in the next quarter, together with changes in oil prices. For firms in industry excluding construction with 1,000 or more employees, the main obstacle will likely be the unavailability of intermediate inputs.

Investment conditions remain favourable ...

The balance between the opinions indicating an improvement in investment conditions and those indicating a deterioration – which had risen markedly in the second quarter, returning to positive territory after three years – stabilized at historically very high levels (24 percentage points; Figure 3). Opinions pointing to stability remain predominant (65 per cent), also with respect to credit access conditions (89 per cent).

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

Investment plans for 2021 as a whole remain favourable overall: the balance between firms planning to increase investment and those expecting to decrease it remained practically stable (at 32 percentage points) as the combined effect of a rise in construction (of 8 percentage points, to 37 points), a decline in industry excluding construction (to 36 points, from 41), and stability in services (to 28 points, from 27). Considering the current half of the year alone, the expectations in industry excluding construction and in services suggest that investment will grow less than anticipated in the previous survey (the balance narrowed by 10 percentage points in both sectors), especially among firms with fewer than 200 employees.

... and employment

Firms expect that employment will continue to grow in the fourth quarter. The balance between expectations of an increase and those of a reduction (16 percentage points), which is practically unchanged from the previous quarter, does not differ significantly across sectors, and is wider for large companies.

¹ The survey report was prepared by Lucia Modugno and Cristina Conflitti.

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 1,563 firms with 50 or more employees (of which 679 in industry excluding construction, 711 in services and 173 in construction) that participated in the September 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_III_trim_2021.pdf?language_id=1

https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/09/dati_2021_09_eng.zip?language_id=1

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

Inflation expectations rise but remain below 2 per cent

While rising slightly over all the time horizons considered, consumer price inflation expectations remain below 2 per cent. Specifically, firms expect the annual inflation rate to be 1.4 per cent six months from now, 1.5 per cent in one year, 1.6 per cent in two years and 1.7 over the three- to five-year horizon (Figures 4, 5 and 6).

Firms raise their selling prices

Firms' selling prices appear to have accelerated in all sectors and especially in industry excluding construction, where they grew by 3.1 per cent on average in the last twelve months (compared with 1.8 per cent in the previous survey); the increase was more moderate in services and in construction (1.0 and 2.1 per cent, from 0.6 and 1.1 per cent in the previous survey, respectively). Selling prices are expected to accelerate further over the next twelve months in construction and, somewhat more moderately, in services, while continuing to expand at their current pace in industry excluding construction; their dynamics will likely be influenced by the increases in commodity prices and, especially, the cost of intermediate inputs.

Table 1

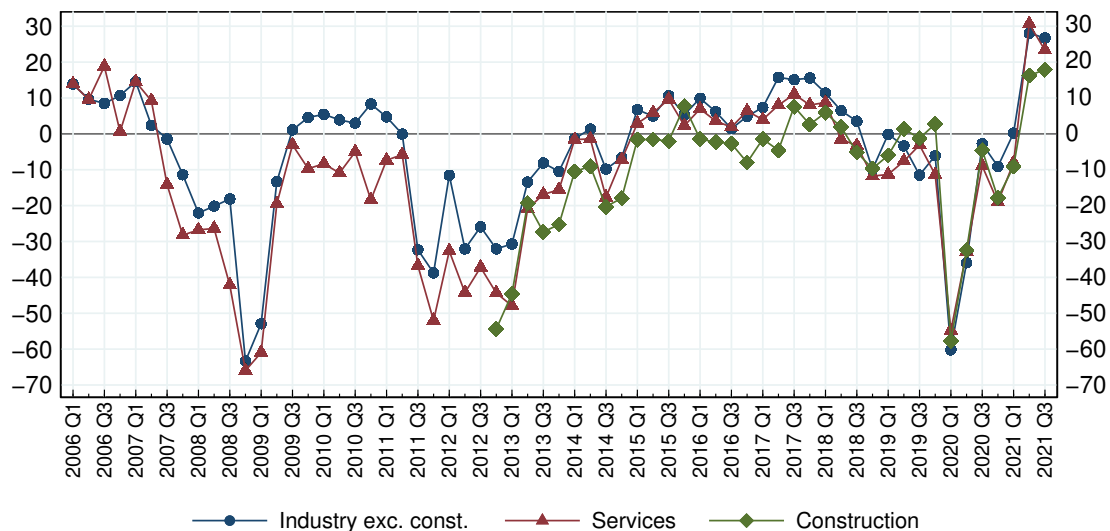
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2021 Q2	2021 Q3	2021 Q2	2021 Q3	2021 Q2	2021 Q3	2021 Q2	2021 Q3
	per cent							
Inflation expectation 6 months ahead	1.3	1.4	1.2	1.3	1.3	1.4	1.2	1.4
Inflation expectation 12 months ahead	1.3	1.5	1.3	1.5	1.4	1.5	1.3	1.5
Change in own prices 12 months ahead	2.8	3.0	1.0	1.2	2.6	2.7	1.7	2.0
	Balance between reports of improvement and deterioration (percentage points)							
	Judgments on the previous quarter							
General economic situation	44.6	51.3	33.4	46.2	24.9	33.3	38.0	47.9
Total demand	45.9	49.1	29.9	36.3	32.3	36.7	37.3	42.1
Foreing demand	44.6	47.7	18.6	26.3	—	—	36.7	40.9
Investment conditions	26.5	23.9	22.6	24.8	14.0	13.7	23.9	23.8
	Forecast 3 months ahead							
Total demand	55.3	54.4	48.9	44.7	54.1	47.8	52.1	49.3
Foreing demand	55.9	52.9	32.5	37.0	—	—	48.8	47.8
Firms' economic conditions	28.1	26.7	30.6	23.3	15.7	17.3	28.7	24.6
Employment	19.6	16.8	15.0	15.3	18.9	16.3	17.3	16.1
	Forecast of investment expenditure							
H2 2021 on H1 2021	39.1	29.1	32.5	22.3	25.9	36.7	35.1	26.1
2021 on 2020	40.9	36.4	26.8	27.8	29.4	37.1	33.3	32.2

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/09/dati_2021_09.eng.zip?language_id=1

Figure 1

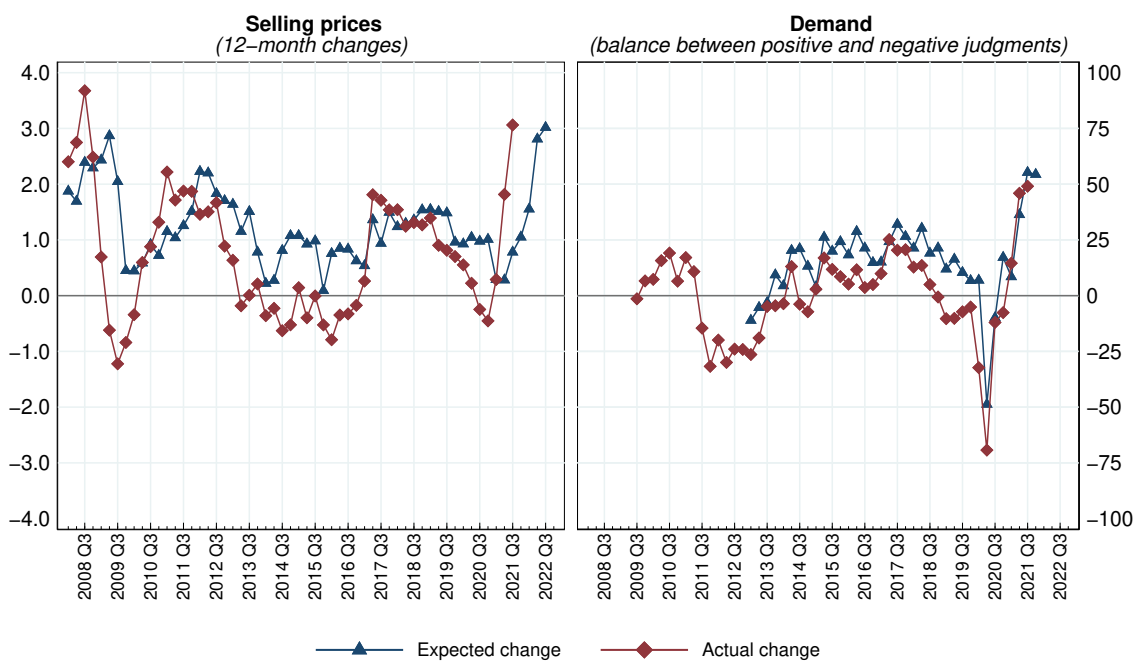
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

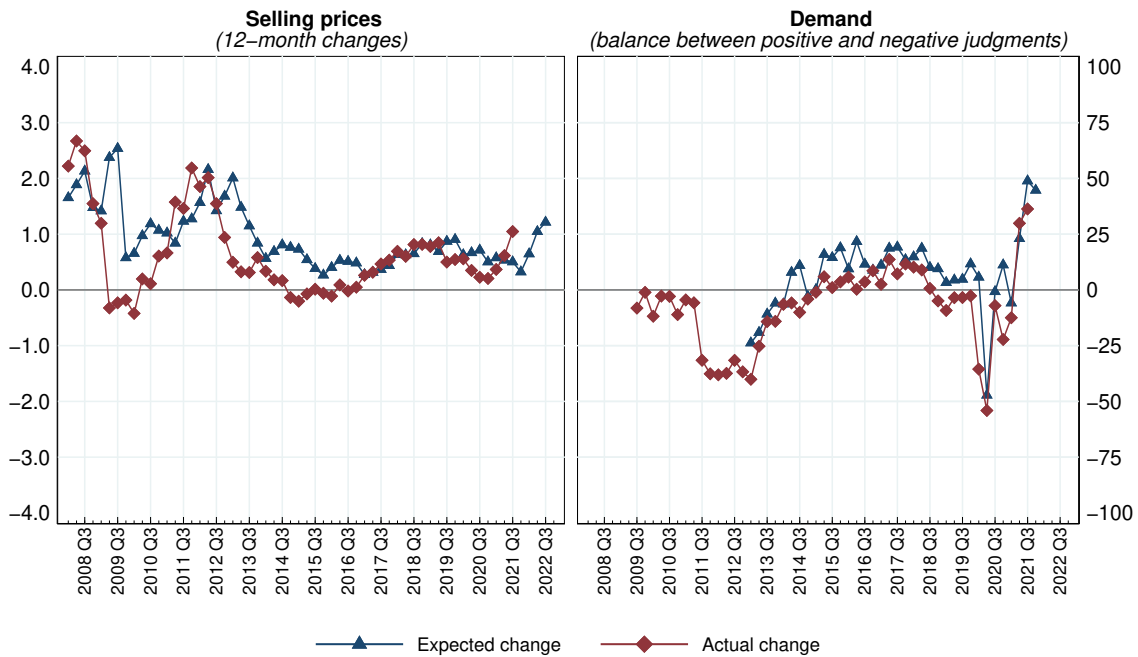
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

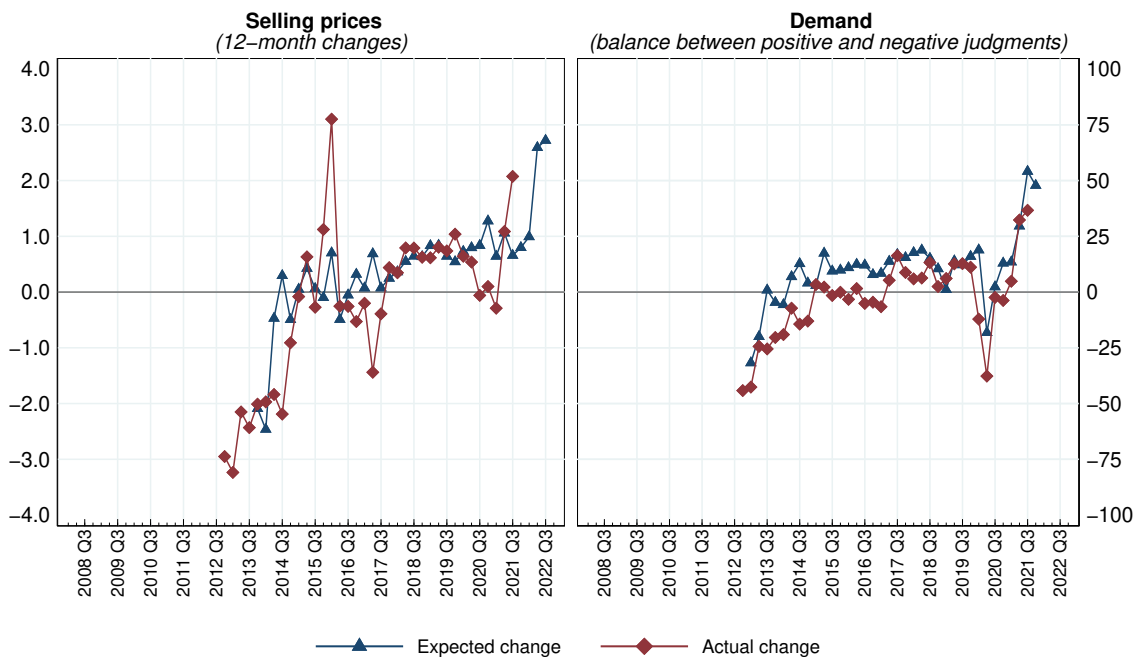
Expected and actual changes in selling prices and demand (1)
(services)



(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

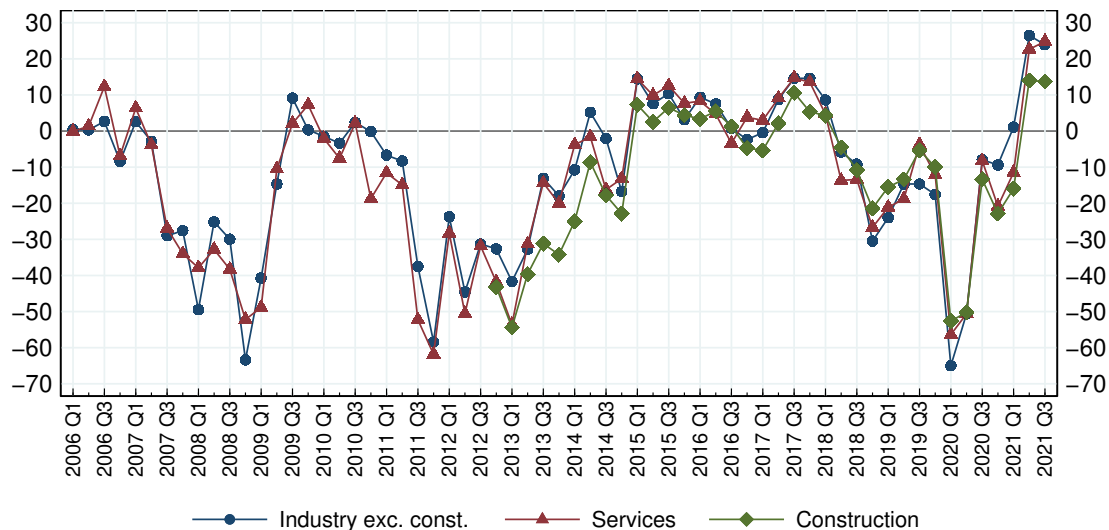
Expected and actual changes in selling prices and demand (1)
(Construction)



(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

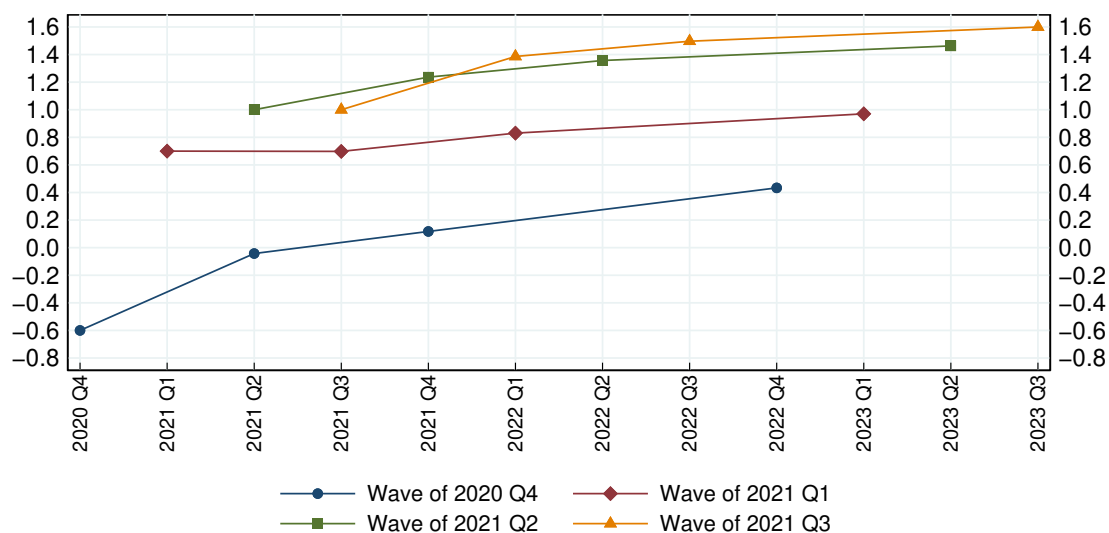
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

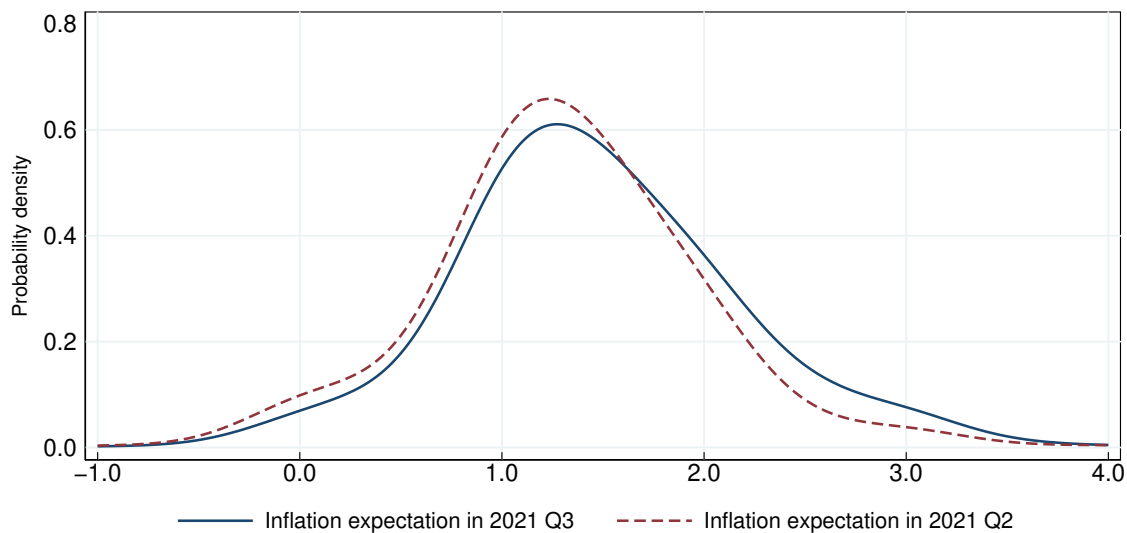
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

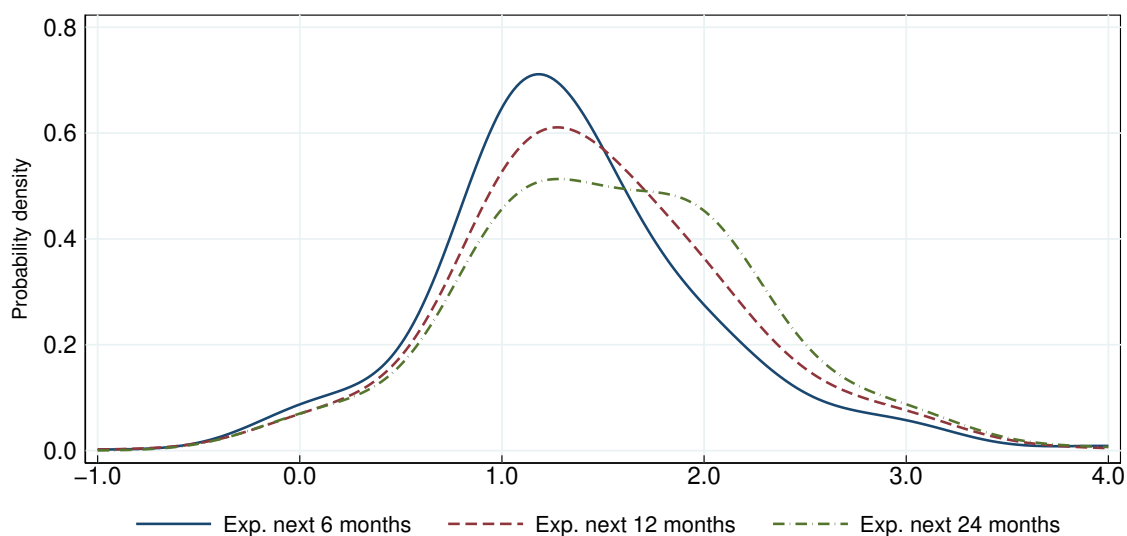
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



(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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