

# Survey on Inflation and Growth Expectations

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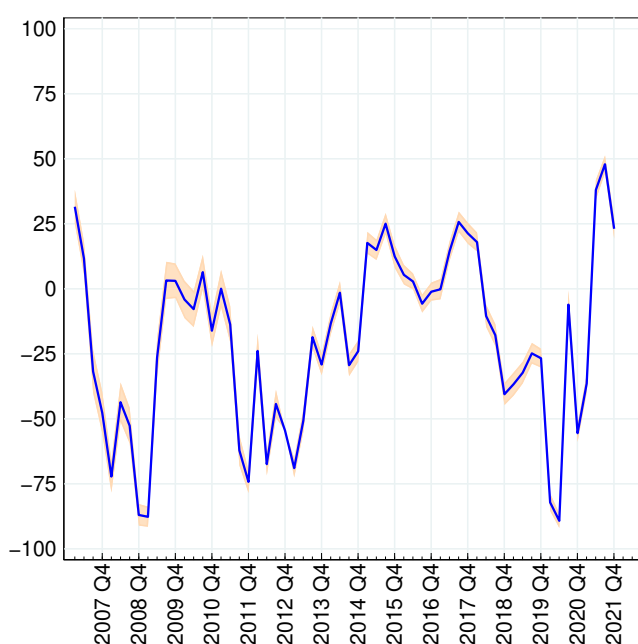
## Main results

According to the survey conducted between 23 November and 15 December 2021 among Italian industrial and service firms with 50 or more employees, opinions regarding the general economic situation in the fourth quarter of 2021 and their own operating conditions in the first quarter of the new year are less favourable compared with the previous survey. Demand dynamics are expected to remain robust, but delays in supply chains and the resurgence of the pandemic will likely entail downside risks to the activity or more than one in two firms.

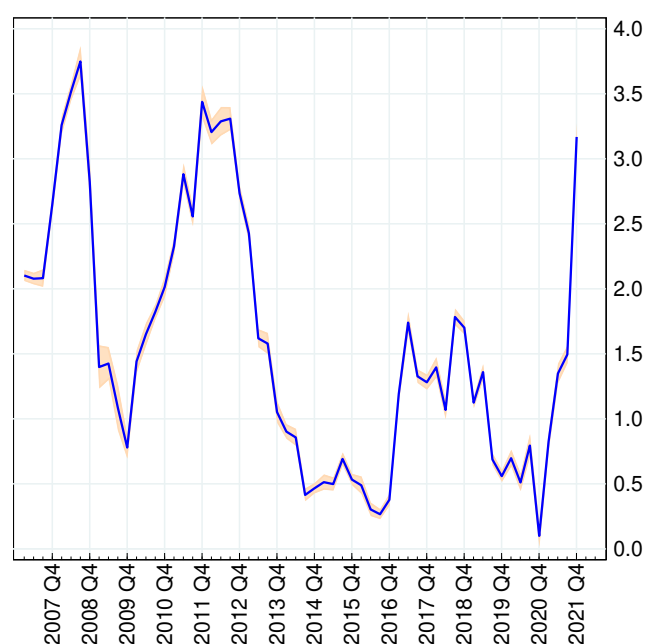
The assessments of investment conditions have become more moderate: the balance between assessments of an improvement and of a worsening remained positive, though it narrowed to less than one third of the levels recorded in the survey conducted between August and September. Investment is expected to expand further in 2022, though at a slower pace than in the previous year. Employment is set to continue to grow in the first quarter of 2022.

Firms revised significantly upwards their selling prices in the last quarter of 2021 and their expectations for consumer price inflation in Italy have risen well above the 2 per cent threshold across all time horizons (12-month expectations have reached 3.2 per cent). The recent increases in energy prices and supply chain difficulties will likely lead to a rise in firms' 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 Expectations<sup>1</sup>

### **Firms' optimism regarding the general state of the economy dampens**

In the fourth quarter of 2021, the balance between firms' opinions indicating an improvement and those indicating a deterioration in the general economic situation remained positive, though it narrowed markedly compared with the historically high level recorded in the previous quarter (to 23.1 per cent, from 47.9 per cent; Table 1). Expectations of an improvement in firms' own operating conditions over the next three months continued to exceed those of a worsening, though the gap narrowed by 15 percentage points, reflecting above all the less favourable assessments by firms in industry excluding construction and in services (Figure 1).

### **Demand is expected to continue to support economic activity, though less strongly**

Demand, which continued to drive economic activity in late 2021, is expected to remain strong in the first quarter of 2022 (Figure 2). The balance between expectations of an increase and of a decrease in sales in the fourth quarter of 2021 remained at historically high levels, though it narrowed compared with the previous survey. The share of firms in industry excluding construction and in services expecting overall demand for their products to expand over the first three months of 2022 exceeds that anticipating a reduction by more than 35 percentage points; the difference rises to 44.2 in construction. About one in two firms in industry excluding construction and in services believe that foreign sales will increase.

### **Difficulties in supply chains and increases in the prices of energy products weigh on prices and the growth outlook ...**

However, significant risk factors remain. Among the possible causes of a slowdown in economic activity in the next quarter are, above all, the uncertainty attributable to economic and political factors and the rise in oil prices.

Problems with the procurement of commodities and intermediate inputs are widespread and are playing a part in holding back the growth outlook for the first quarter of 2022. These difficulties have affected just over half of firms, with higher shares in industry excluding construction (70.7 per cent), in the North-East (61.9 per cent), and for the more export-oriented firms (64.6 per cent). Among these firms, 60 per cent of those in industry excluding construction and in services and more than 40 per cent of those in services expect a negative impact on their business in the first three months of 2022; 70

per cent of firms report that the supply chain problems they face are likely to lead to rises in selling prices. Significant inflationary pressures will likely stem from the recent increase in energy prices, which affected two thirds of firms.

Uncertainty is still lingering as to the time horizon over which the difficulties in procuring production inputs will be overcome and the increases in energy prices will abate. Half of the affected firms believe that these difficulties will fade by the end of the first half of 2022. According to one in ten firms, energy prices will continue to rise beyond 2022.

### **... together with the resurgence of the pandemic**

The resurgence in infections represents a risk factor to growth in the first three months of 2022 for more than 50 per cent of the firms considered in the survey, across all sectors.

### **Investment conditions are less favourable**

The balance between the opinions indicating an improvement in investment conditions and those indicating a deterioration remained positive for the third consecutive quarter, though it narrowed sharply in all sectors (Figure 3). Credit access conditions are stable for about 90 per cent of firms and a similar share report that their overall liquidity position remains adequate or more than adequate.

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<sup>1</sup> The survey report was prepared by Valentina Aprigliano 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 1,547 firms with 50 or more employees (of which 669 in industry excluding construction, 705 in services and 173 in construction) that participated in the 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\\_IV\\_trim\\_2021.pdf?language\\_id=1](https://www.bancaditalia.it/statistiche/basi-dati/bird/inflazione-e-crescita/questionario-inflazione/documenti/en_quest_IV_trim_2021.pdf?language_id=1)

[https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/12/dati\\_2021\\_12\\_eng.zip?language\\_id=1](https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/12/dati_2021_12_eng.zip?language_id=1)  
[http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/metodi\\_e\\_fonti\\_20190114.pdf](http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/metodi_e_fonti_20190114.pdf)

**Investment is expected to slow in 2022**

Investment will likely continue to expand in 2022. The balance between expectations of an increase and a decrease remained strongly positive across all sectors, though there are indications of a slowdown in capital accumulation (27.2 per cent regarding the total economy, compared with 32.2 per cent for 2021). In the first half of 2022, investment expenditure is expected to grow compared with the second half of 2021 for more than 40 per cent of firms, while a modest share (13.5 per cent) anticipates a reduction.

**The dynamics of employment will likely remain strong**

One in four firms expect an increase in employment in the first quarter of 2022, while 10 per cent of them anticipate a reduction. These shares are similar across sectors.

**Firms revise significantly upwards their selling prices**

Firms' selling prices accelerated sharply in the last twelve months (Figure 2), growing by 3.3 per cent, compared with 1.9 per cent in the previous survey. The growth rate is expected to remain above 2 per cent in the next twelve months. The rise in prices was especially significant in industry excluding construction (5.2 per cent over the last twelve months, compared with 2.8 per cent in the previous survey), more moderate in services (1.3 per cent, from 0.9 per cent) while there was a slight slowdown in construction (1.9 per cent, from 2.1 per cent). Over the next twelve months, prices are expected to continue to increase at a fast pace in industry excluding construction (3.9 per cent) and to accelerate in construction (3.0 per cent), while they look set to grow more moderately in services (1.7 per cent).

Overall, the rise in selling prices was 1.2 percentage points higher for the firms that recorded an increase in energy prices and 1.4 percentage points higher for those that faced procurement difficulties. Going forward, the growth in selling prices is expected to remain stronger for the firms reporting increases in energy prices and tensions in the supply chains (by 0.5 and 1.1 points respectively).

**Inflation expectations rise by over 2 per cent**

Consumer inflation expectations were revised upwards by more than 1 percentage point on average across all time horizons and by firms across all sectors, and now exceed 2.0 per cent. Firms expect the annual inflation rate to be 3.1 per cent six months from now (compared with 1.4 per cent in the previous survey), 3.2 per cent in one year (from 1.5 per cent), 3.0 per cent in two years (from 1.6 per cent) and 2.8 per cent over the three-to five-year horizon (from 1.7 per cent; Figures 4, 5 and 6).

Table 1

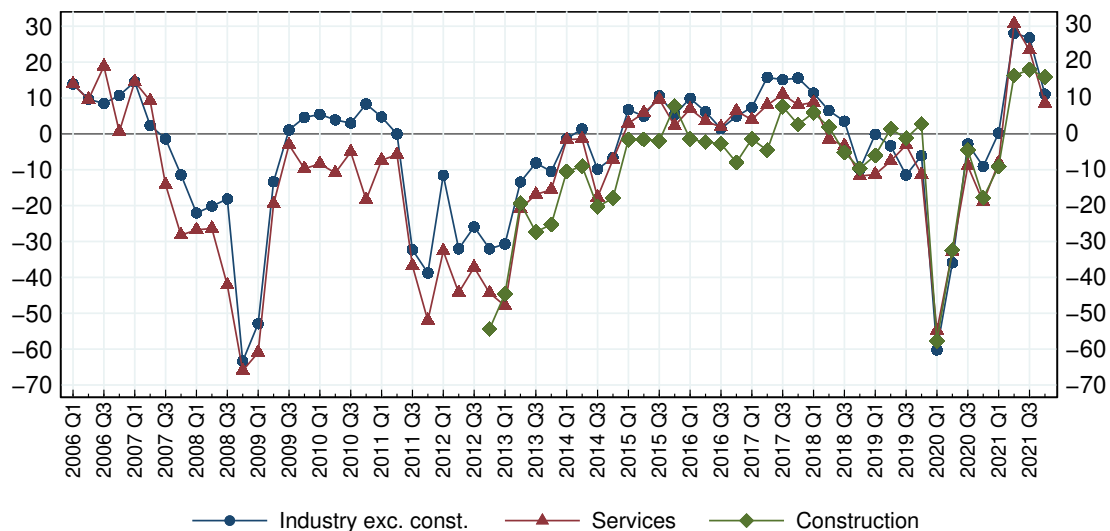
**Main findings (1)**  
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2021 Q3	2021 Q4	2021 Q3	2021 Q4	2021 Q3	2021 Q4	2021 Q3	2021 Q4
	<b>per cent</b>							
Inflation expectation 6 months ahead	1.4	3.3	1.3	3.0	1.4	2.8	1.4	3.1
Inflation expectation 12 months ahead	1.5	3.3	1.5	3.1	1.5	2.9	1.5	3.2
Change in own prices 12 months ahead	3.0	3.9	1.2	1.7	2.7	3.0	2.0	2.5
	<b>Balance between reports of improvement and deterioration (percentage points)</b>							
	<b><i>Judgments on the previous quarter</i></b>							
General economic situation	51.3	20.2	46.2	25.9	33.3	21.7	47.9	23.1
Total demand	49.1	39.3	36.3	30.8	36.7	41.8	42.1	35.2
Foreing demand	47.7	37.6	26.3	27.9	—	—	40.9	34.7
Investment conditions	23.9	7.1	24.8	6.4	13.7	6.6	23.8	6.7
	<b><i>Forecast 3 months ahead</i></b>							
Total demand	54.4	39.5	44.7	32.2	47.8	44.2	49.3	36.2
Foreing demand	52.9	40.3	37.0	25.7	—	—	47.8	35.9
Firms' economic conditions	26.7	11.1	23.3	8.5	17.3	15.3	24.6	10.0
Employment	16.8	18.8	15.3	12.4	16.3	14.0	16.1	15.4
	<b><i>Forecast of investment expenditure</i></b>							
H1 2022 on H2 2021	29.1	27.8	22.3	29.7	36.7	28.7	26.1	28.8
2022 on 2021	—	27.0	—	27.8	—	22.6	—	27.2

(1) The statistical appendix is available at [http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/12/dati\\_2021\\_12\\_eng.zip?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2021-indagine-inflazione/12/dati_2021_12_eng.zip?language_id=1)

Figure 1

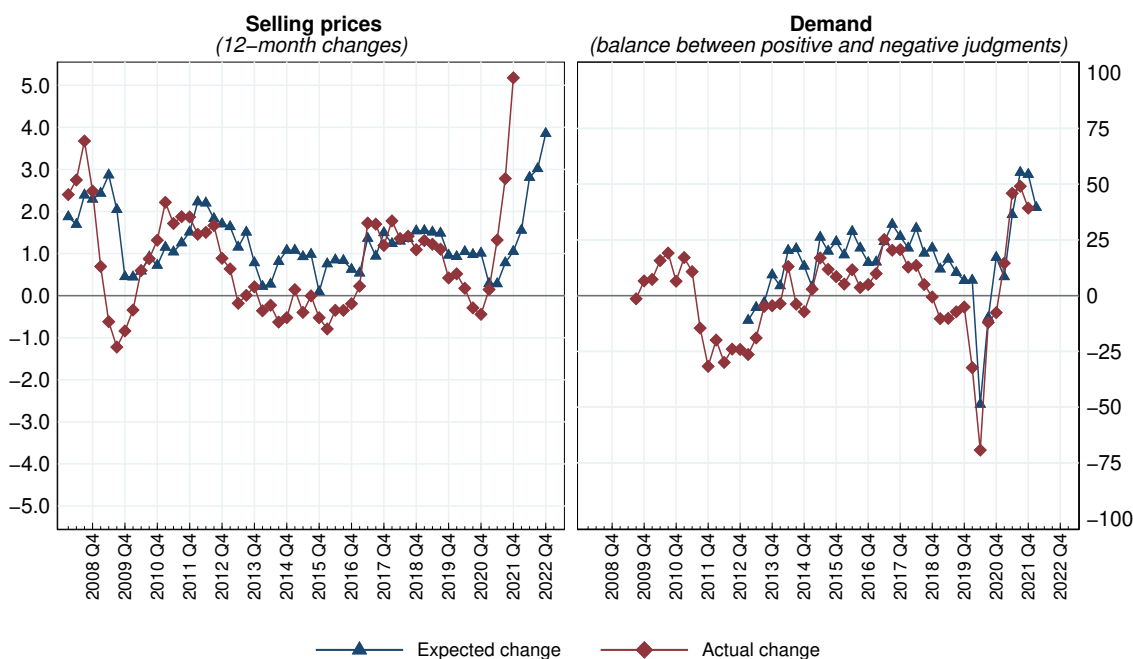
Three-month forecast of the firm's business conditions (1)  
(percentage points)



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

Figure 2.1

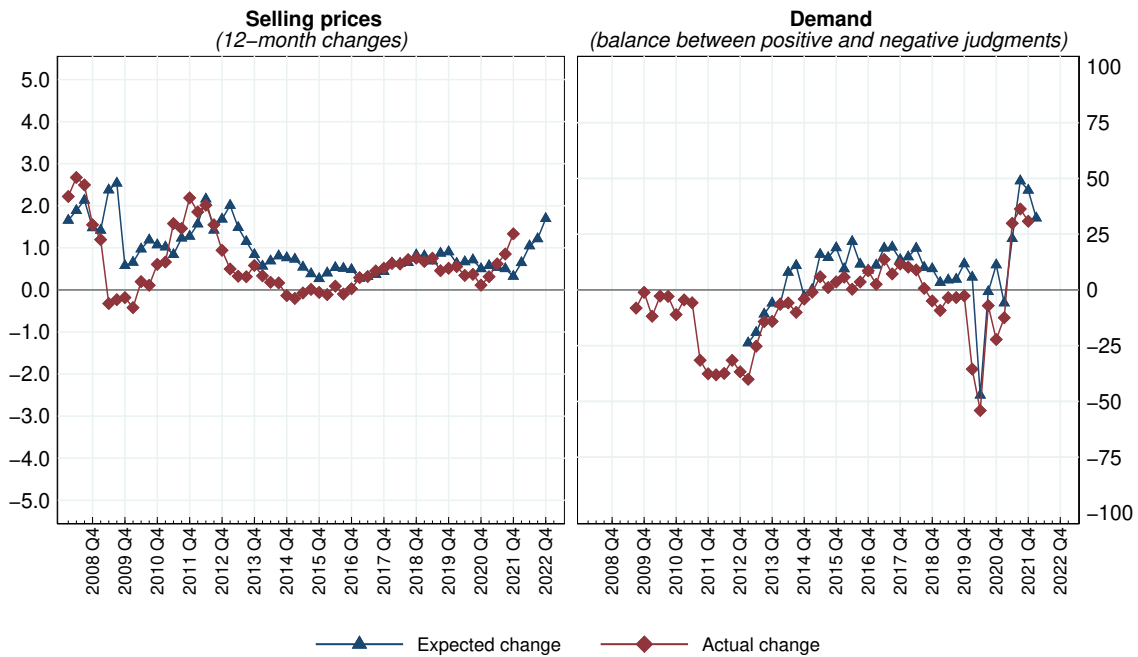
Expected and actual changes in selling prices and demand (1)  
(industry excluding construction)



(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

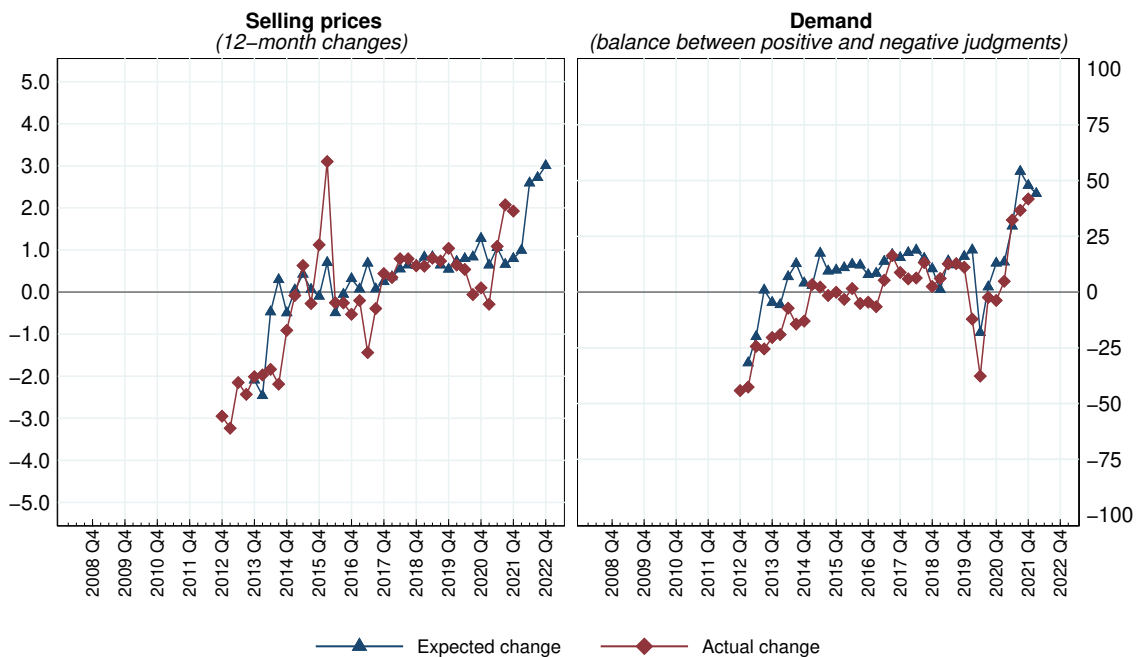
Expected and actual changes in selling prices and demand (1)  
(services)



(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

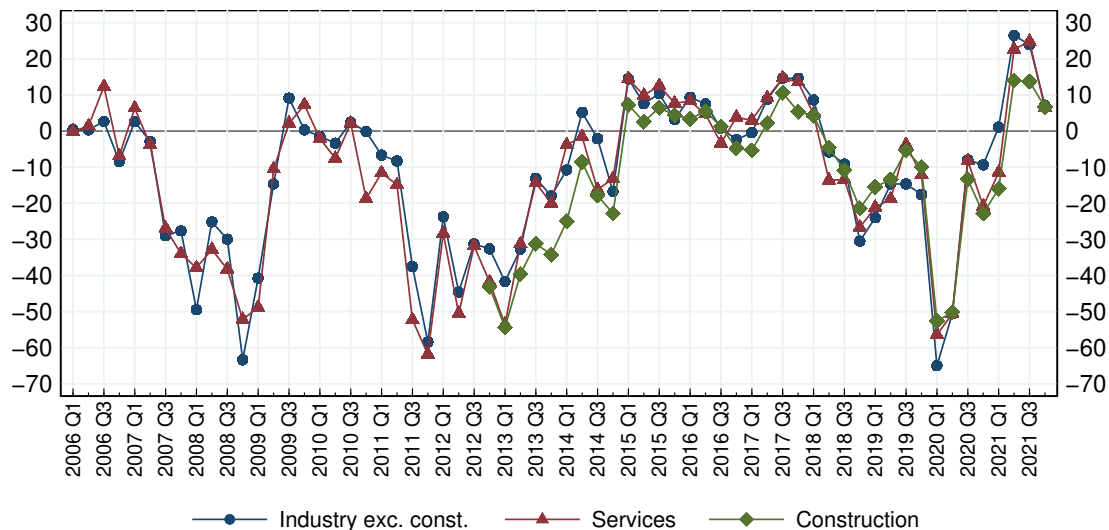
Expected and actual changes in selling prices and demand (1)  
(Construction)



(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

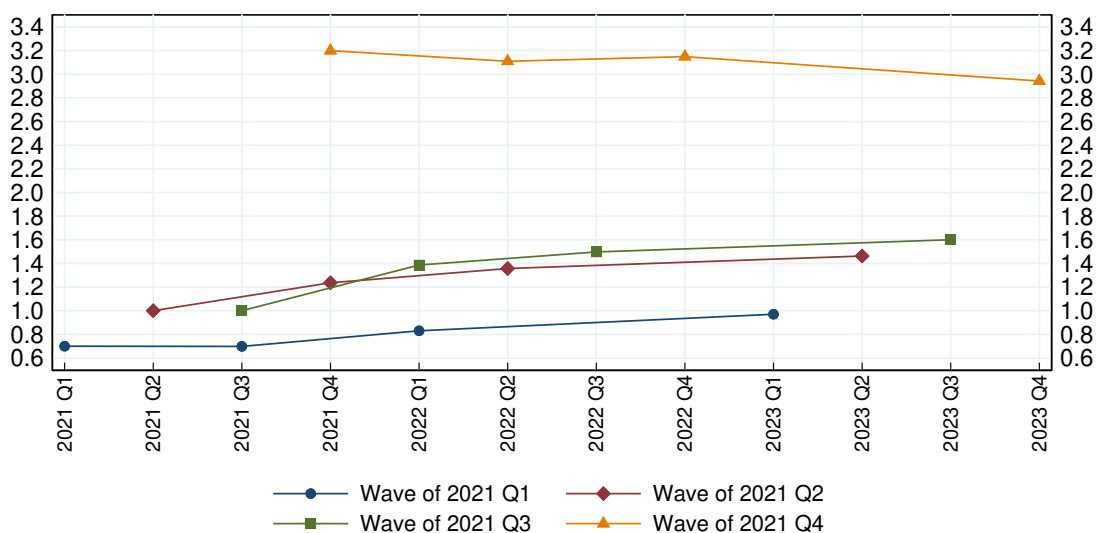
Conditions for investment with respect to previous quarter (1)  
(percentage points)



(1) Balance between positive and negative judgments.

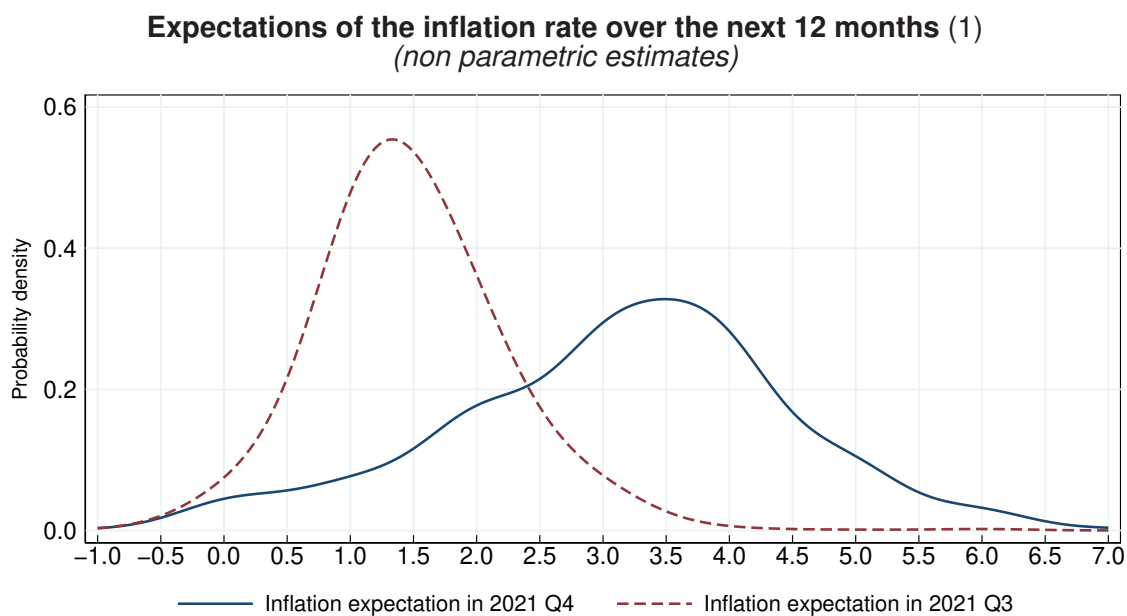
Figure 4

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



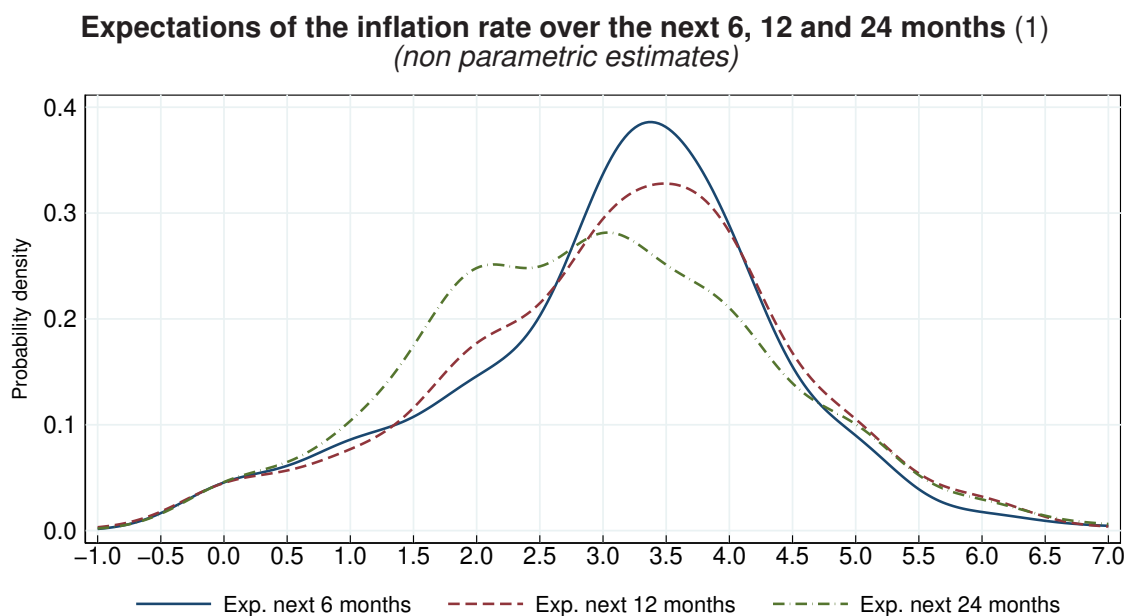
(1) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next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



(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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