BANCA D'ITALIA
EUROSISTEMA

Statistics

Survey on Inflation and Growth Expectations

07 April 2022

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Main results

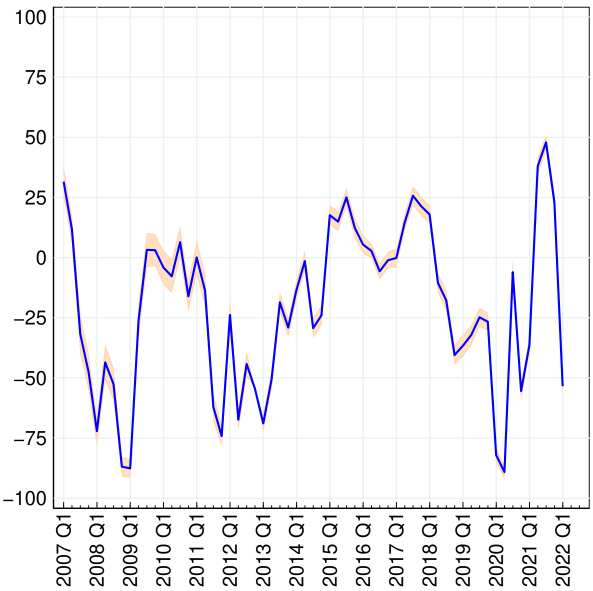
According to the survey conducted between 23 February and 16 March 2022 among Italian industrial and service firms with 50 or more employees, opinions regarding the general economic situation in the first quarter of 2022 and their own operating conditions in the following quarter have worsened compared with the previous survey, reflecting the effects of the Russian invasion of Ukraine, which began immediately after the survey for this quarter was launched. While they are worsening significantly, firms' assessments are much less negative than those prevailing during the first wave of the pandemic.

The main obstacles to economic growth in the months to come are the uncertainty about economic and political factors, developments in commodity prices, and international trade tensions. Demand dynamics are expected to remain positive, though weaker.

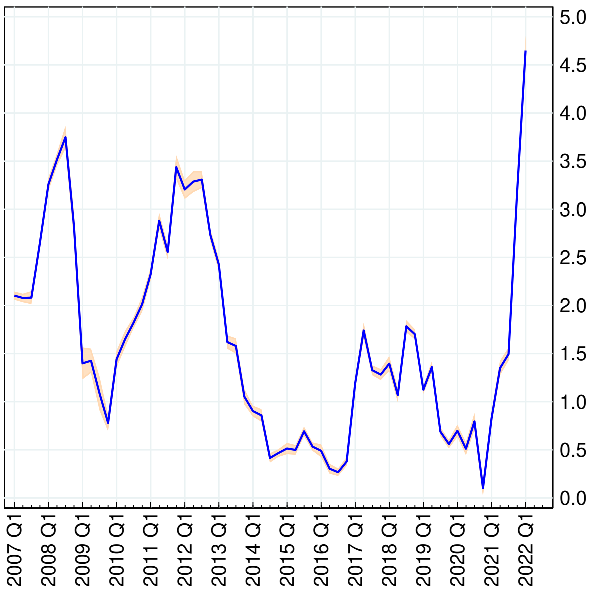
Despite the sharp worsening of investment conditions, a further expansion in investment is expected for 2022, though at a slightly more moderate pace than that reported in the last survey. Employment looks set to continue to grow in the second quarter of 2022.

Expectations for consumer price inflation have reached historically high levels and remain well above 2 per cent across all time horizons (12-month expectations are now equal to 4.6 per cent, those between 3 and 5 years stand at 3.8 per cent). Selling prices have risen and will likely increase further over the next 12 months, driven by the increase in inflation expectations and in the prices of production inputs.

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 of the estimates. Construction firms are included from 2013 Q3. See Tables s1 and s4 of the statistical appendix.

Reference period: Q1 2022

Survey on Inflation and Growth Expectations[1]

Firms' assessments of the general state of the economy worsen sharply...

In the first quarter of 2022, the share of firms that reported a worsening in the general economic situation rose by almost 50 percentage points, to 62.7 per cent. After remaining in positive territory for three consecutive quarters, the balance between reports of improvement and deterioration became sharply negative (-53.5 percentage points; Table 1), though much less so than during the most acute phase of the pandemic (-89.2 percentage points in the second quarter of 2020). Almost 9 in 10 firms assign a probability of less than 25 per cent to an improvement in the general economic situation over the next three months (it was 8 in 10 in 2022). For around half of the firms interviewed, the probability is zero.

... and so do those of their own operating conditions, owing to the geo-political uncertainty, rising energy prices and trade tensions

The growth outlook is dampened above all by the uncertainty attributable to economic and political factors, the rise in energy prices, and international trade tensions (Figure 1). These difficulties were already present in part, but worsened sharply following the outbreak of the conflict in Ukraine; they are being recorded across all economic sectors but are more pronounced in industry excluding construction and for firms based in the North of the country. Issues connected with insufficient demand and difficulties in accessing credit, while still limited, are nevertheless playing a more significant role than in the earlier quarters. This was associated with a deterioration, which was pronounced and widespread across all sectors, of firms' expectations regarding their operating conditions over the next three months (Figure 2). The balance between positive and negative opinions fell to -32.8 percentage points (from 10.0 points), reflecting a significant increase in the share of firms suggesting a worsening (42.3 per cent, compared with 13.2 per cent in the previous survey).

The share of firms affected by the increase in energy prices, which was already around 70 per cent in the previous survey, rose to 86.0 per cent (90.7 per cent in industry excluding construction, 81.5 per cent in services and 87.9 per cent in construction). For almost three fourths of these, the increase in energy costs will at least in part pass through to selling prices. Problems with the procurement of commodities and intermediate inputs continue to affect about one in two firms (two in three in industry excluding construction). For a majority of firms, these difficulties will continue beyond 2022: those relating to rising energy prices will continue for almost 80 per cent of firms, those connected with procurement problems for about 60 per cent of them (both shares were around 15 per cent in the last survey).

Conversely, concerns relating to the course of the COVID-19 pandemic have abated. While the share of firms that expect it to have a negative impact on economic activity over the next three months is still about 30 per cent (compared with 56.2 per cent three months ago), most firms anticipate a moderate impact.

The stimulus provided by demand decreases

The stimulus provided by demand, which had driven economic activity in 2021, slowed in the first quarter of 2022 (Figure 3). The balance between expectations of an improvement and a worsening in total demand narrowed in all sectors, to 9.4 percentage points overall (compared with 35.2 points in the previous quarter). The balance remained strongly positive in construction (30.5 percentage points, from 41.8 points) and in industry excluding construction (18.6 points, from 39.3), while it is practically zero in services (-1.2 points, from 30.8). The balance of assessments regarding foreign demand also remained positive, though it halved compared with the previous survey (to 16.9 from 34.7 percentage points).

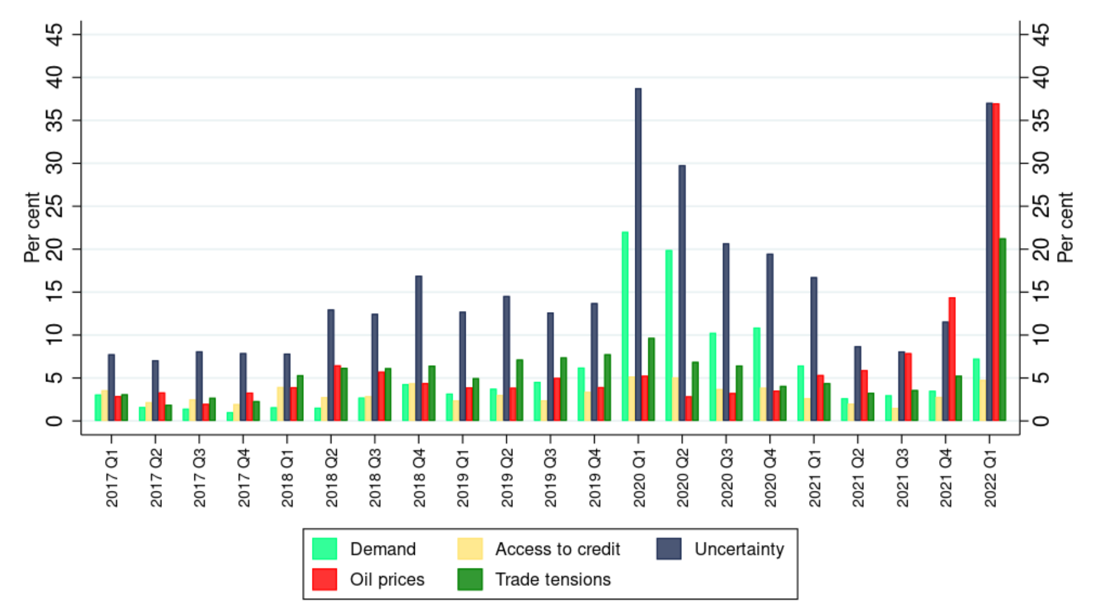
The share of firms that expect demand for their products to grow in the second quarter of 2022 exceeds that anticipating a reduction by about 15 percentage points; the difference rises to 29.6 per cent in the construction sector (66.9 per cent for firms generating at least one third of their turnover in residential housing) while it is narrower in industry excluding construction and in services (16.0 and 11.9 percentage points, respectively). Firms' expectations regarding foreign demand over the next three months fell to 11.2 per cent, consistent with concerns about global developments.

[1] The survey report was prepared by Tullia Padellini and Nicolò Gnocato. 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 1,582 firms with 50 or more employees (of which 683 in industry excluding construction, 717 in services and 182 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_I_trim_2022.pdf?language_id=1
https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2022-indagine-inflazione/03/dati_2022_03_eng.zip?language_id=1
http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/metodi_e_fonti_20190114.pdf

Figure 1

Obstacles to production activity over the next three months (1)
(percentage share of firms)



Notes: (1) The bars show the percentage shares of firms that indicated a strong, negative impact of the individual factors on their business over the next three months.

The sharp worsening in investment conditions is associated with a slight downward revision in investment plans for 2022

Investment conditions were deemed less favourable by more than one in two firms: the balance between assessments of an improvement and a deterioration decreased markedly in all sectors, and is now -49.1 percentage points on average, compared with 6.7 points in the last quarter (Figure 4). Firms continue to point to an expansion in fixed investment in 2022, though at a more moderate pace than that reported in the last survey. Overall, 37.5 per cent of firms expect investment expenditure to grow this year compared with last year (compared with 42.1 per cent in the last quarter), while 17.6 per anticipate a reduction (compared with 15.0 per cent). Credit access conditions are stable for about 90 per cent of firms; the overall liquidity position remains at least sufficient for a similar share of firms, though the share of firms reporting that it is more than sufficient fell by around 6.1 percentage points.

The employment outlook remains positive

Firms' expectations regarding employment levels over the next three months remain positive across all sectors: the balance between expectations of an increase and of a decrease widened to 18.0 percentage points, from 15.4 points (it is 30.7 points for firms with at least 1,000 employees).

Inflation expectations are still well above 2 per cent...

Consumer inflation expectations were revised markedly upwards across all time horizons, especially the shorter-term ones, and stand at historically high levels. Firms expect the annual inflation rate to be equal on average to 5.3 per cent six months from now (up from 3.1 per cent), 4.6 per cent in twelve months (up from 3.2 per cent), 4.1 per cent in two years (up from 3.0 per cent) and 3.8 per cent (up from 2.8 per cent) over the three- to five-year horizon (Figures 5, 6 and 7). Three in four firms expect inflation to be at least 4.5 per cent six months from now, at least 3.2 per cent twelve months from now, and 2.5 per cent in two years.

... and contribute to the increase in selling prices, together with rising production input prices

In the last year, firms' selling prices accelerated across all sectors: the average rises were 6.2 per cent in industry excluding construction (compared with 5.2 per cent in the previous survey), 3.3 per cent in construction (up from 1.9 per cent) and 1.7 per cent in services (from 1.3 per cent). They are expected to rise further over the next twelve months (by 5.4, 4.9 and 2.5 per cent, respectively, in the three sectors), mainly owing to developments in commodity prices, intermediate input costs, and inflation expectations.

Table 1

Main findings (1)

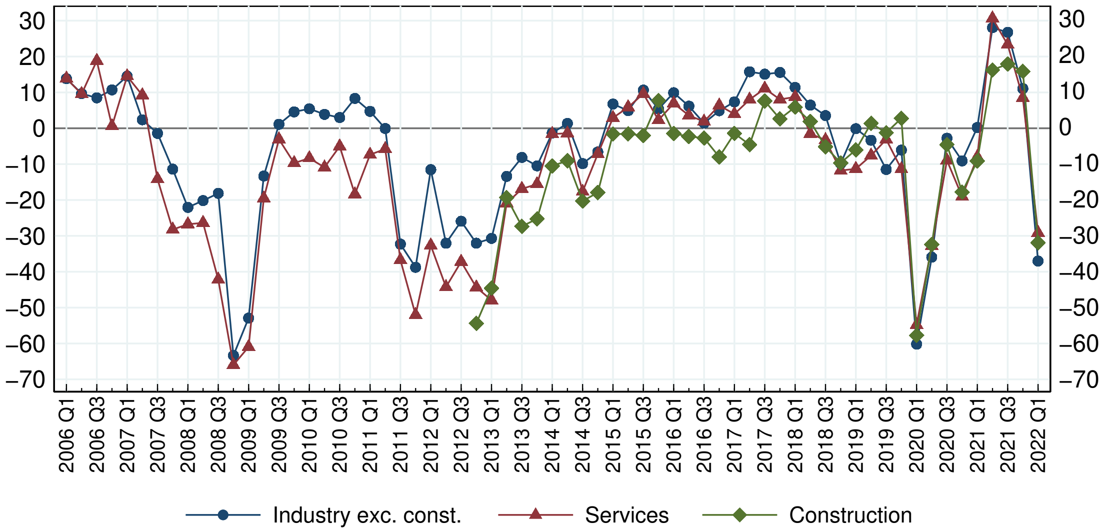
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2021 Q4	2022 Q1	*2021 Q4*	2022 Q1	*2021 Q4*	2022 Q1	*2021 Q4*	2022 Q1
	per cent							
Inflation expectation 6 months ahead	*3.3*	5.7	*3.0*	5.0	*2.8*	4.9	*3.1*	5.3
Inflation expectation 12 months ahead	*3.3*	4.9	*3.1*	4.4	*2.9*	4.4	*3.2*	4.6
Change in own prices 12 months ahead	*3.9*	5.4	*1.7*	2.5	*3.0*	4.9	*2.5*	3.6
	Balance between reports of improvement and deterioration (percentage points)							
Judgments on the previous quarter								
General economic situation	*20.2*	-53.5	*25.9*	-53.5	*21.7*	-52.3	*23.1*	-53.5
Total demand	*39.3*	18.6	*30.8*	-1.2	*41.8*	30.5	*35.2*	9.4
Foreing demand	*37.6*	20.2	*27.9*	8.8	—	—	*34.7*	16.9
Investment conditions	*7.1*	-48.2	*6.4*	-50.3	*6.6*	-46.0	*6.7*	-49.1
Forecast 3 months ahead								
Total demand	*39.5*	16.0	*32.2*	11.9	*44.2*	29.6	*36.2*	14.7
Foreing demand	*40.3*	13.3	*25.7*	6.1	—	—	*35.9*	11.2
Firms' economic conditions	*11.1*	-37.0	*8.5*	-29.1	*15.3*	-32.1	*10.0*	-32.8
Employment	*18.8*	18.7	*12.4*	17.7	*14.0*	14.3	*15.4*	18.0
Forecast of investment expediture								
H1 2022 on H2 2021	*27.8*	20.3	*29.7*	29.6	*28.7*	26.3	*28.8*	25.2
2022 on 2021	*27.0*	16.6	*27.8*	23.3	*22.6*	16.2	*27.2*	19.9

(1) The statistical appendix is available at
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2022-indagine-inflazione/03/dati_2022_03_eng.zip?language_id=1

Figure 2

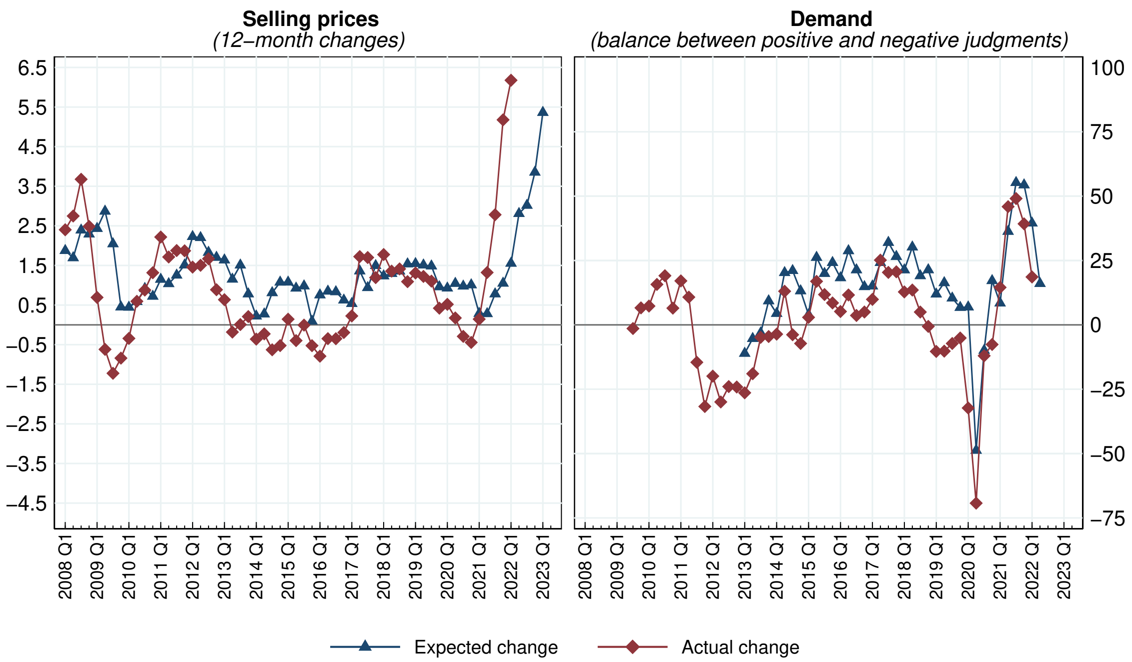
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 3.1

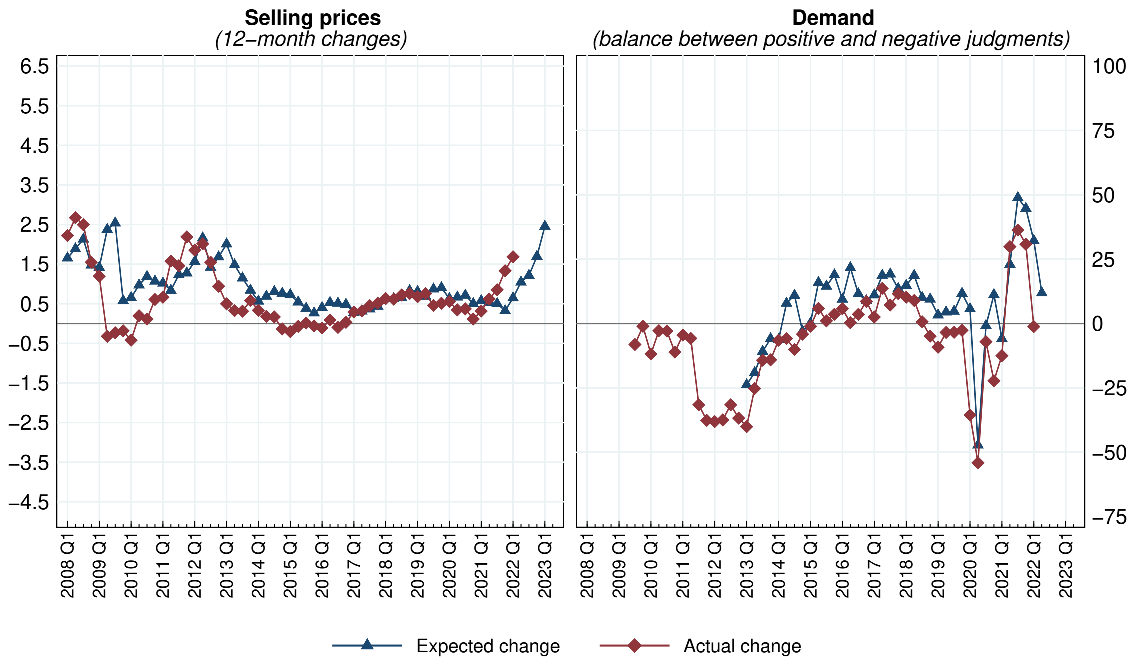
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles. For selling prices, the actual change (red line) refers to price changes in the previous 12 months, while the expected change (blue line) refers to forecasts over a 12-month horizon, made in the same quarter of the previous year. For demand, the balances refer to changes observed over the reference quarter (red line) and to the forecasts made in the current quarter for the following three months (blue line).

Figure 3.2

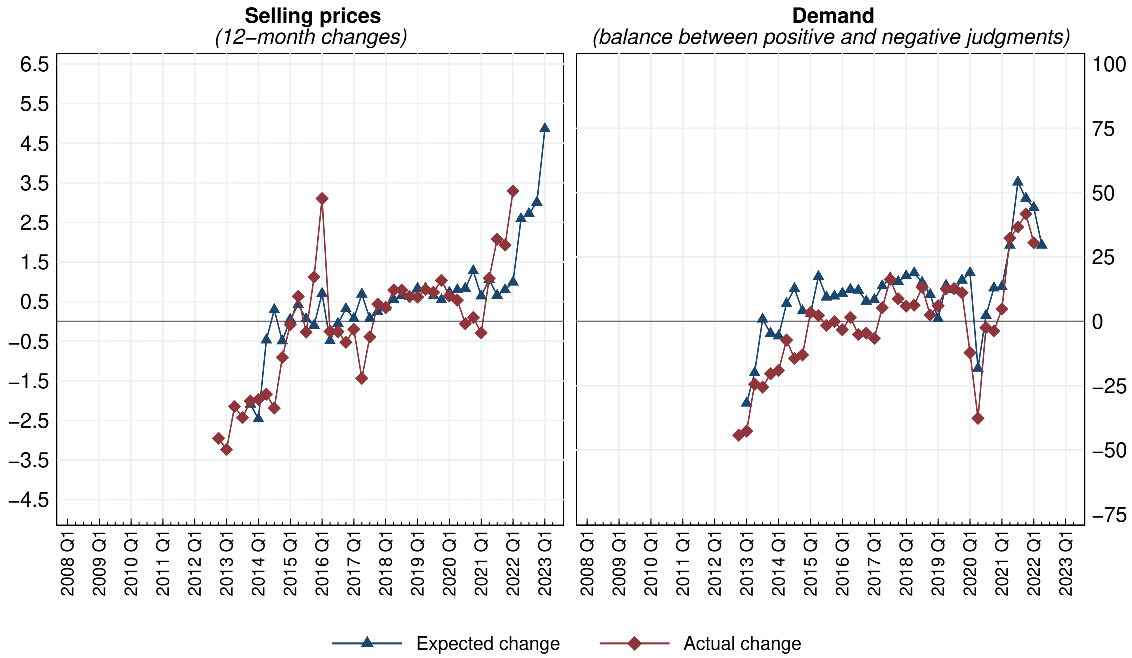
Expected and actual changes in selling prices and demand (1)
(services)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles. For selling prices, the actual change (red line) refers to price changes in the previous 12 months, while the expected change (blue line) refers to forecasts over a 12-month horizon, made in the same quarter of the previous year. For demand, the balances refer to changes observed over the reference quarter (red line) and to the forecasts made in the current quarter for the following three months (blue line).

Figure 3.3

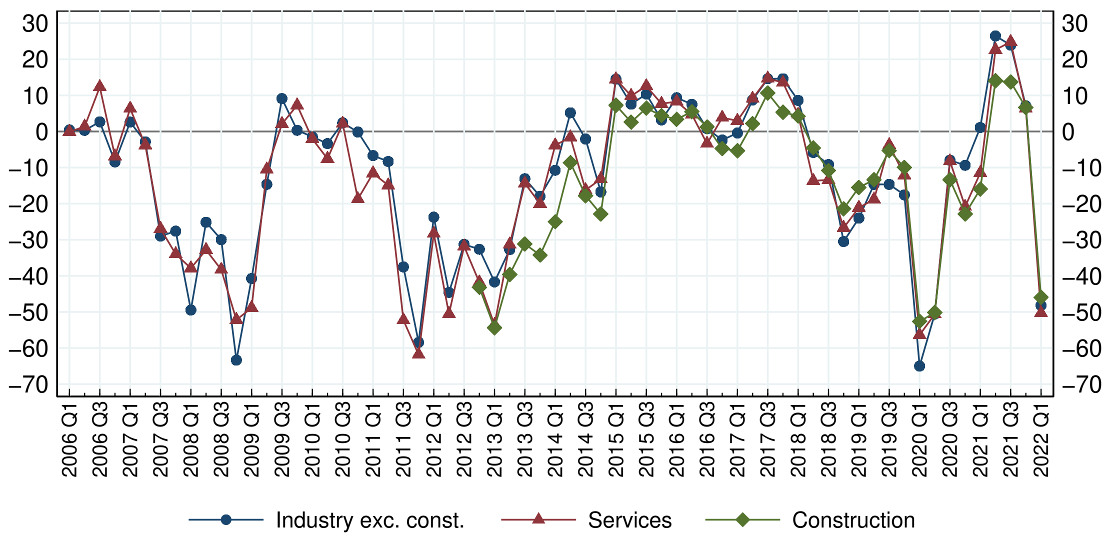
Expected and actual changes in selling prices and demand (1)
(Construction)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles. For selling prices, the actual change (red line) refers to price changes in the previous 12 months, while the expected change (blue line) refers to forecasts over a 12-month horizon, made in the same quarter of the previous year. For demand, the balances refer to changes observed over the reference quarter (red line) and to the forecasts made in the current quarter for the following three months (blue line).

Figure 4

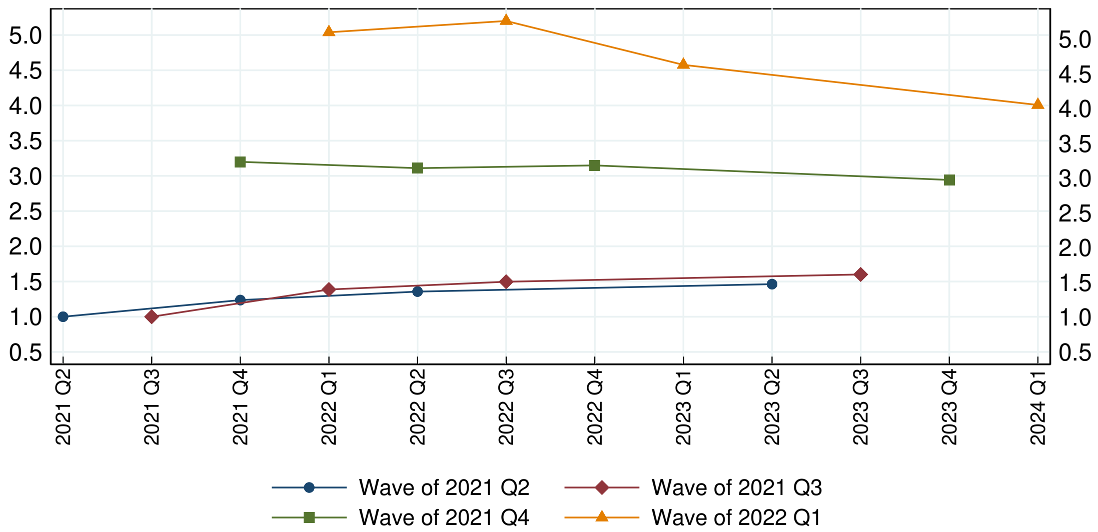
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 5

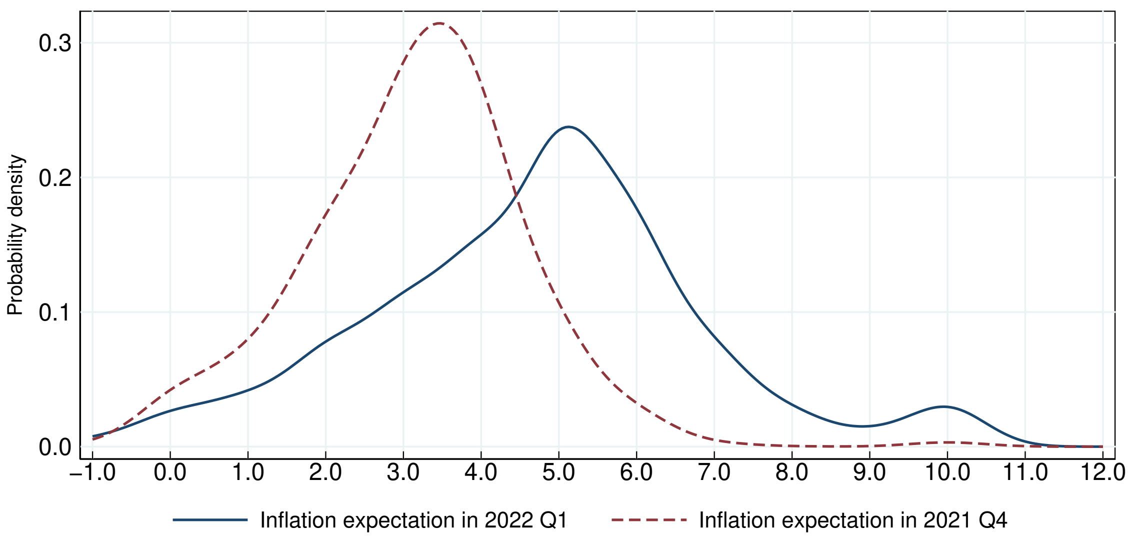
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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 6

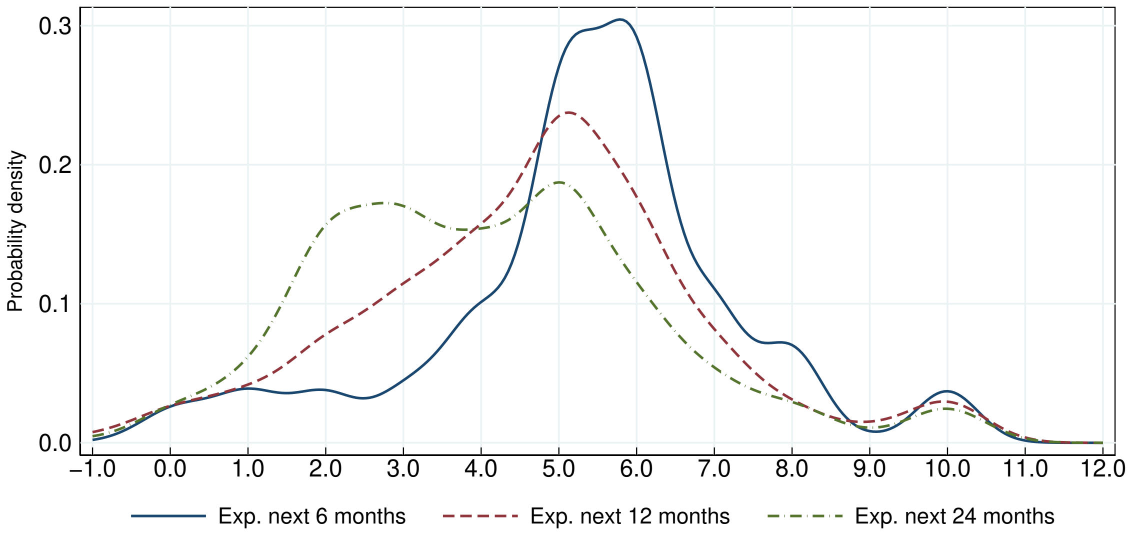
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



(1) The estimates are obtained using a Gaussian kernel density with a bandwith equal to 0.55.

Figure 7

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 bandwith equal to 0.55.

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