BANCA D'ITALIA
EUROSISTEMA

Statistics

Survey on Inflation and Growth Expectations

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www.bancaditalia.it/statistiche/index.html

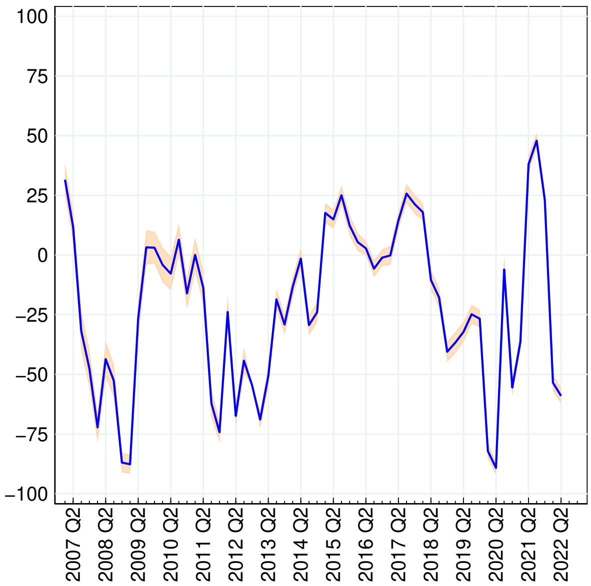
Main results

According to the survey conducted between 23 May and 14 June 2022 among Italian industrial and service firms with 50 or more employees, opinions regarding the general economic situation in the second quarter of 2022 remain unfavourable, while the deterioration in firms' expectations of their own operating conditions in the next three months has slowed. The main obstacles to economic growth continue to be the uncertainty about economic and political factors, developments in commodity prices, and international trade tensions. Firms indicate that the war in Ukraine has impacted their business through the rise in the prices of energy and intermediate goods, together with difficulties in sourcing the latter. Nonetheless, demand has strengthened, thanks to the recovery reported by service companies, which are benefiting from the lifting of the restrictions introduced to curb the pandemic; these positive developments are expected to continue in the coming months.

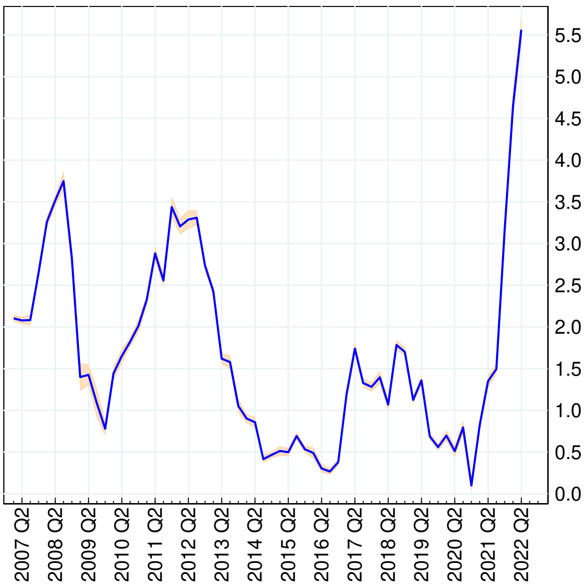
Firms' opinions on investment conditions remain pessimistic, though less so, but their plans continue to point to an expansion in investment spending in 2022 compared with 2021.The employment outlook for the next three months remains on the upside.

Consumer price inflation expectations have risen further, to above 5 percent over a twelve-month horizon and to high levels in the longer term as well. The dynamics of firms' selling prices will likely also remain strong over the next twelve months, confirming the growth rates recorded in the last survey.

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: Q2 2022

Survey on Inflation and Growth Expectations[1]

Firms' assessments of the general state of the economy remain negative...

In the second quarter of 2022, the share of firms that reported an improvement in the general economic situation halved (4.7 per cent, from 9.2 per cent in the previous survey), while the share indicating a worsening was practically unchanged (63.7 per cent, from 62.7 per cent). The negative balance between positive and negative assessment widened further (to -59 percentage points, from -53.5 points; Table 1), though it remains well above the level recorded during the most acute phase of the pandemic (when it neared -90 points).

... while the deterioration of their expectations regarding their own operating conditions slows

The negative balance between expectations of an improvement and of a worsening in firms' operating conditions over the next three months instead narrowed (to -19.6 percentage points, from -32.8; Table 1): the reduction in the share of firms expecting a worsening (30 per cent, from 42.3) was associated with overall stability (around 10 per cent) in the share anticipating an improvement. The main obstacles to growth continue to be the high energy prices, the uncertainty about economic and political factors and the international trade tensions, though their intensity has declined (Figure 1). The difficulties connected to demand shortages and credit access are instead expected to remain less significant.

Just under half of firms indicated that the recent increases in energy costs hindered production in the second quarter to a degree similar to or greater than that recorded in the previous survey. Firms in construction and in industry excluding construction were hit harder than those in services (68.1, 56.9 and 35.4 per cent, respectively). The rise in energy prices will exert upward pressures on firms' selling prices over the next three months and, again, these developments will occur more frequently for firms in industry excluding construction and in construction than for those in services (75.2, 72.3 and 51.0 per cent, respectively). In the second quarter, difficulties in sourcing commodities and intermediate inputs affected about 62.8 per cent of firms: a share of 10.9 per cent reported an attenuation of such difficulties in the first quarter, while the remaining share (51.9 per cent) indicated that they were similar or more intense. At sectoral level, industry is more exposed to these issues (about two thirds of firms) compared with were services (just over one third).

The war in Ukraine is having a negative impact on firms' business through several channels. In particular, for seven in ten firms, the conflict contributed to the rise in energy prices, for about 55 per cent of them it worsened the difficulties in sourcing production inputs, and for around 64 per cent it played a part in raising the prices of the latter.

Demand strengthens, especially in services

Demand, which had weakened in the first quarter of 2022, picked up again. The difference between reports of improvement and deterioration rose to 17.8 percentage points (from 9.4 points in the previous quarter), driven by the strong recovery in services (16.3 percentage points, from -1.2 points), which benefited from the lifting of the restrictions introduced to counter the pandemic. The balance held largely stable in industry excluding construction (19.1 points, from 18.6) while it narrowed in construction (20.4 points, from 30.5), though it remained at historically high levels. The positive balance relating to assessments of foreign demand also rose (to 19.3 points, from 16.9).

Demand expectations for the third quarter are favourable: the balance between the share of responses indicating an improvement and those indicating a worsening stands at 19.3 percentage points (17.1 points in industry excluding construction, 20.6 points in services and 25.7 points in construction). The balance of assessments regarding foreign demand over the next three months rose by about 9 percentage points compared with the previous quarter, thanks to the improvement in industry excluding construction and in services, reaching 19.8 per cent points, a figure in line with the pre-pandemic average.

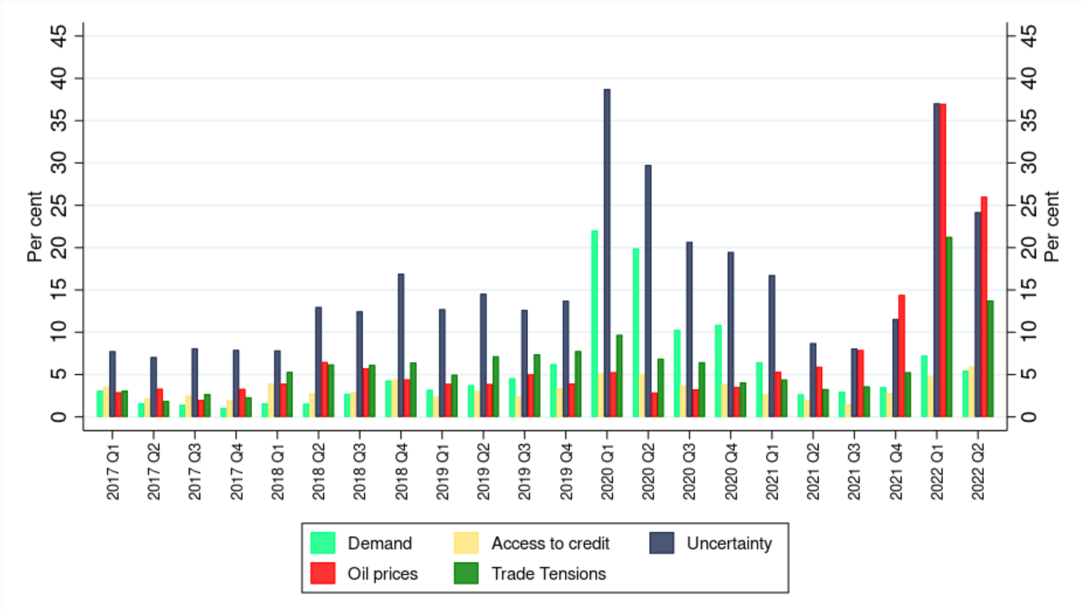
[1] The survey report was prepared by Nicolò Gnocato and Tullia Padellini.

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 1,541 firms with 50 or more employees (of which 680 in industry excluding construction, 698 in services and 163 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_II_trim_2022.pdf?language_id=1
https://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2022-indagine-inflazione/06/dati_2022_06_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.

Pessimism about investment conditions attenuates slightly; firms' plans to expand investment in 2022 are confirmed

Firms' opinions on investment conditions remain pessimistic, though less so: the balance between assessments of an improvement and of a worsening is -40.9 percentage points overall (from -49.1 points in the previous quarter; Figure 4), with no significant differences between sectors. However, the negative assessments continue to have a modest impact on firms' spending plans for 2022, which are still signalling an expansion in capital accumulation. The share of firms expecting investment expenditure to increase this year compared with last year is 19.7 percentage points higher than the share anticipating a reduction, a figure that is in line with the previous survey. Credit access conditions are deemed unchanged by 84.4 per cent of firms (87 per cent in the previous quarter), while 12.7 per cent considers them to have worsened (up from 10.2 per cent); the overall liquidity position for the next three months is still considered at least sufficient for 90 per cent of firms.

The employment outlook remains positive

The outlook for employment in the third quarter remains positive overall: the balance between the share of firms expecting to increase the number of people they employ and the share anticipating a reduction is still positive, though it has narrowed slightly (to 15.4 percentage points, from 18 points in the previous survey).

Inflation expectations rise further

Consumer price inflation expectations rose further across all time horizons (Figure 5), displaying similar dynamics across economic sectors, to above 5 per cent over a twelve-month horizon. On average, firms expect the annual inflation rate to be 6.4 per cent six months from now (compared with 5.3 per cent in the previous survey), 5.6 per cent in twelve months (from 4.6 per cent), 4.8 per cent in two years (from 4.1 per cent) and 4.3 per cent over the three- to five-year horizon (from 3.8 per cent).

Firms' selling prices are expected to continue to grow at a fast pace over the next 12 months

In the last year, firms' selling prices accelerated across all sectors: the average increases were 7.8 per cent in industry excluding construction (compared with 6.2 per cent in the previous survey), 5.9 per cent in construction (up from 3.3 per cent) and 2.5 per cent in services (from 1.7 per cent). They are expected to rise further over the next twelve months – by 3.5 per cent on average, a figure in line with the previous survey – mainly owing to developments in commodity prices, intermediate input costs and inflation expectations.

Table 1

Main findings (1)

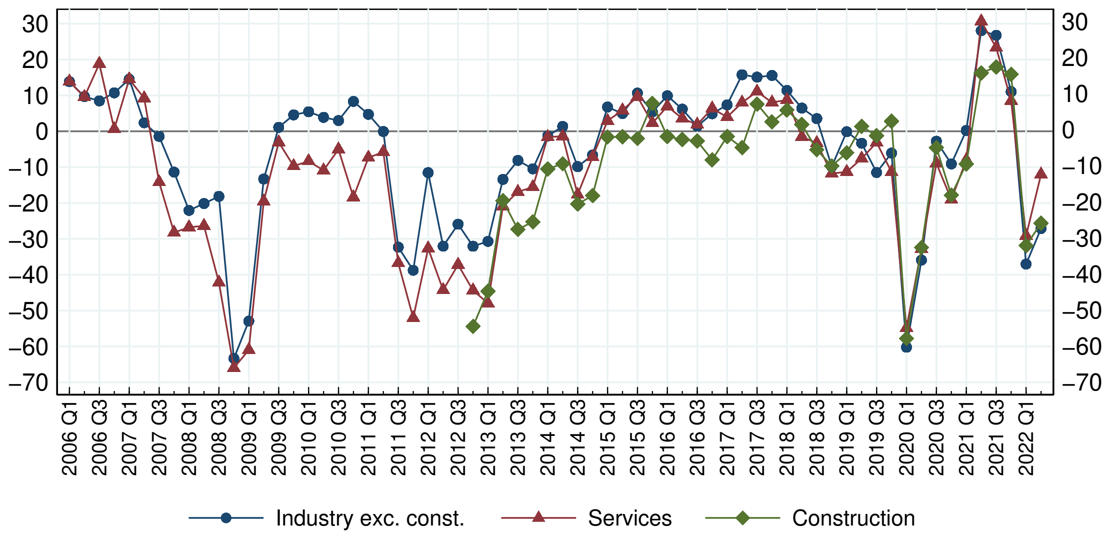
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2022 Q1	2022 Q2	*2022 Q1*	2022 Q2	*2022 Q1*	2022 Q2	*2022 Q1*	2022 Q2
	per cent							
Inflation expectation 6 months ahead	*5.7*	6.5	*5.0*	6.2	*4.9*	6.1	*5.3*	6.4
Inflation expectation 12 months ahead	*4.9*	5.6	*4.4*	5.6	*4.4*	5.0	*4.6*	5.6
Change in own prices 12 months ahead	*5.4*	4.4	*2.5*	2.9	*4.9*	6.5	*3.6*	3.5
	Balance between reports of improvement and deterioration (percentage points)							
Judgments on the previous quarter								
General economic situation	*-53.5*	-61.8	*-53.5*	-56.1	*-52.3*	-61.9	*-53.5*	-59.0
Total demand	*18.6*	19.1	*-1.2*	16.3	*30.5*	20.4	*9.4*	17.8
Foreing demand	*20.2*	22.2	*8.8*	12.3	—	—	*16.9*	19.3
Investment conditions	*-48.2*	-40.9	*-50.3*	-40.2	*-46.0*	-48.1	*-49.1*	-40.9
Forecast 3 months ahead								
Total demand	*16.0*	17.1	*11.9*	20.6	*29.6*	25.7	*14.7*	19.3
Foreing demand	*13.3*	21.7	*6.1*	15.0	—	—	*11.2*	19.8
Firms' economic conditions	*-37.0*	-27.1	*-29.1*	-12.0	*-32.1*	-25.9	*-32.8*	-19.6
Employment	*18.7*	14.3	*17.7*	16.9	*14.3*	10.8	*18.0*	15.4
Forecast of investment expediture								
H2 2022 on H1 2022	*20.3*	21.1	*29.6*	28.0	*26.3*	21.5	*25.2*	24.6
2022 on 2021	*16.6*	20.8	*23.3*	19.1	*16.2*	14.8	*19.9*	19.7

(1) The statistical appendix is available at
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2022-indagine-inflazione/06/dati_2022_06_eng.zip?language_id=1

Figure 2

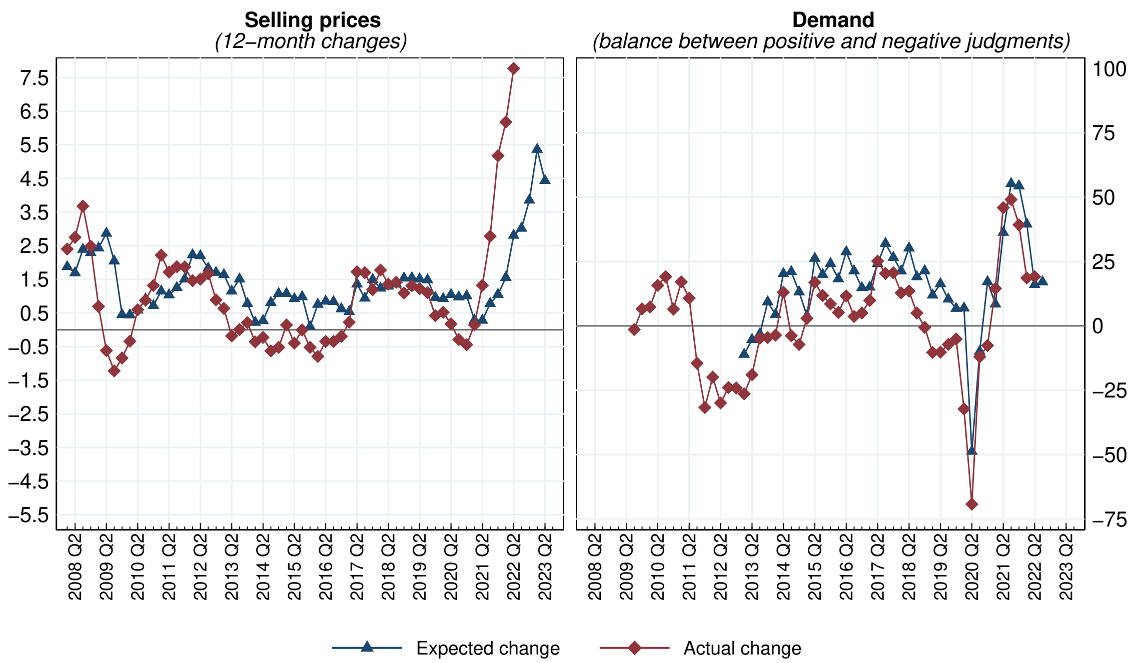
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 3.1

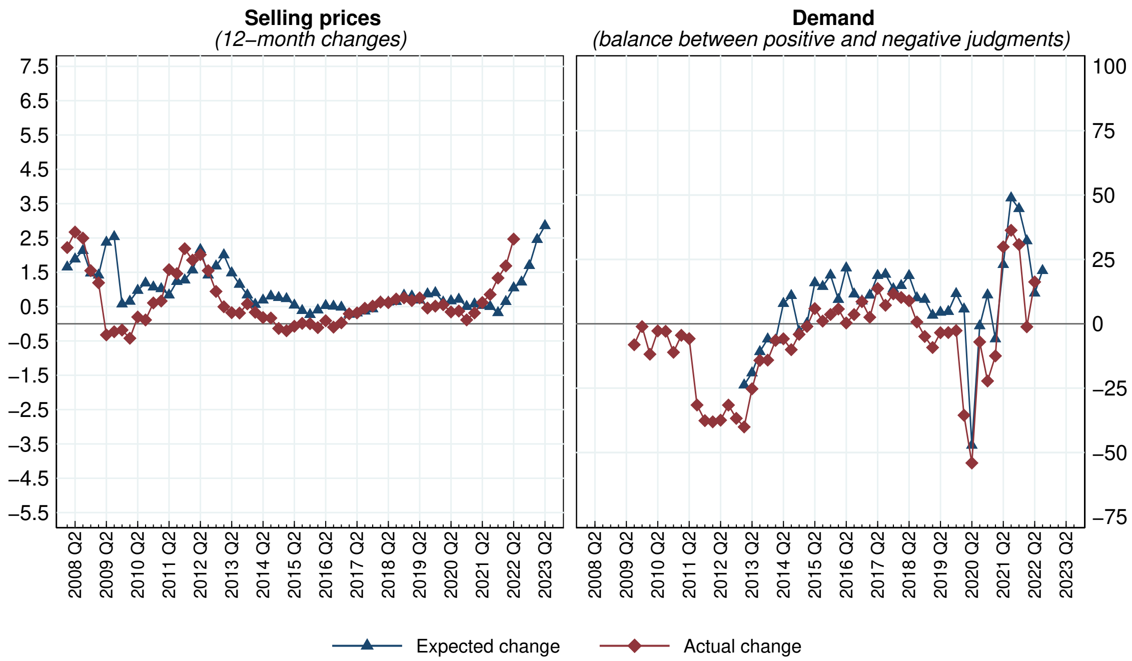
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

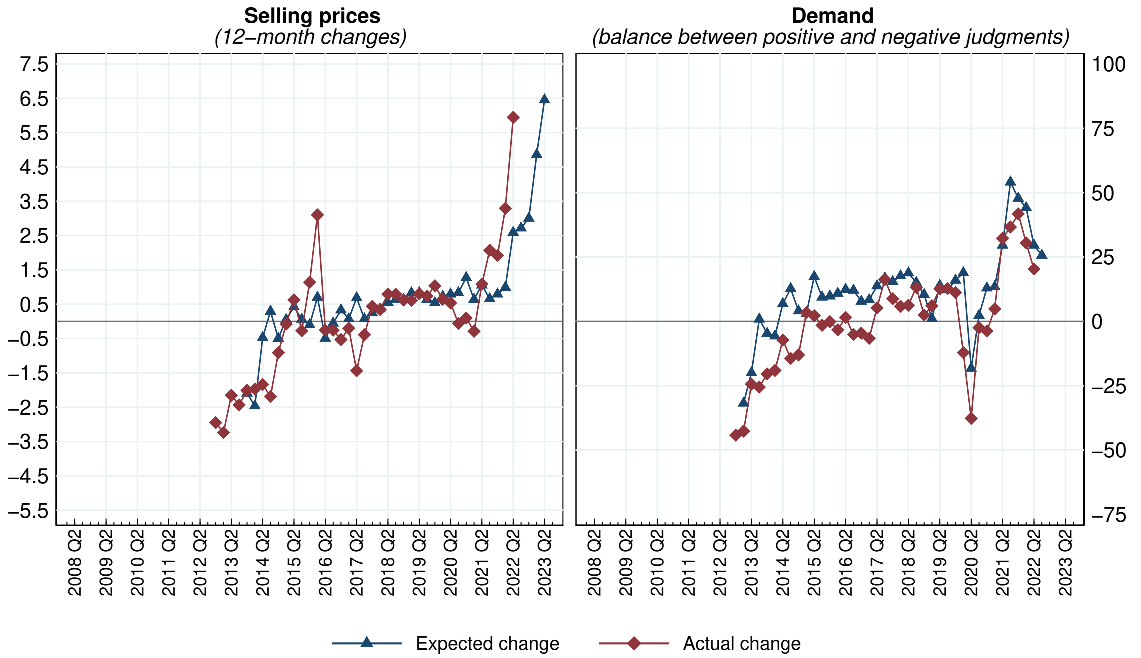
Expected and actual changes in selling prices and demand (1)
(services)



(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

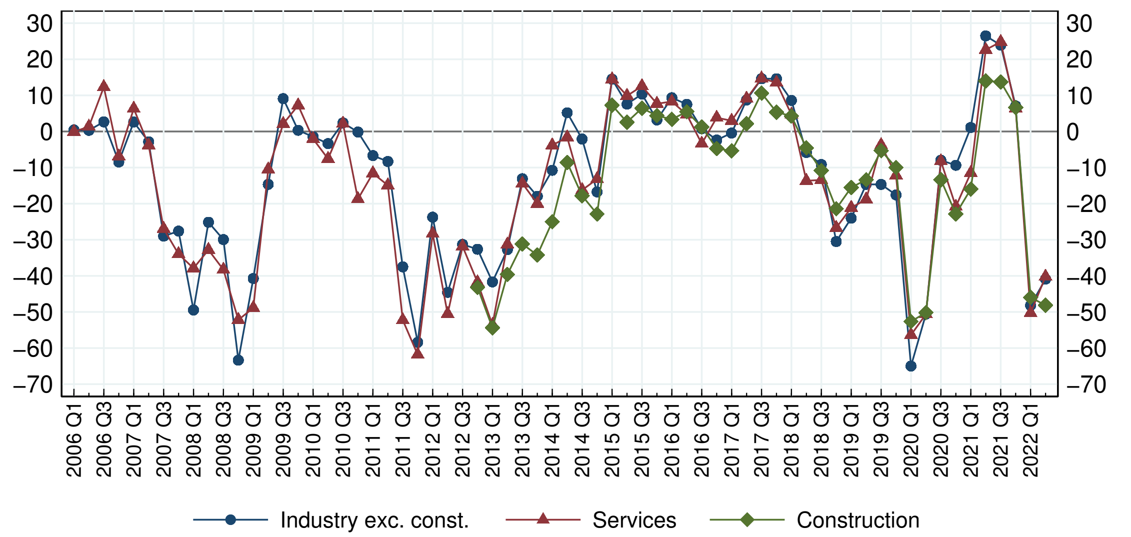
Expected and actual changes in selling prices and demand (1)
(Construction)



(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

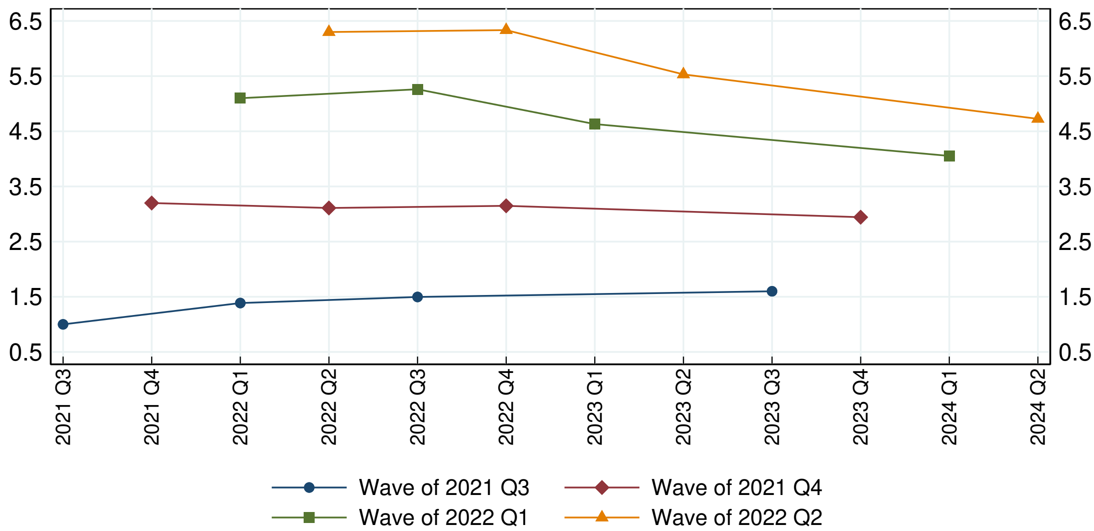
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 5

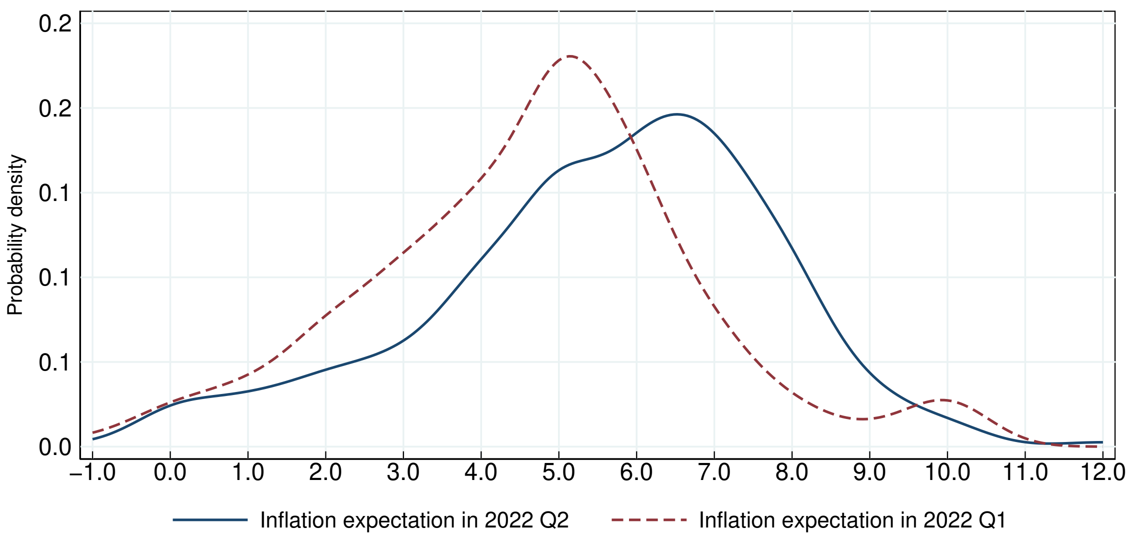
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

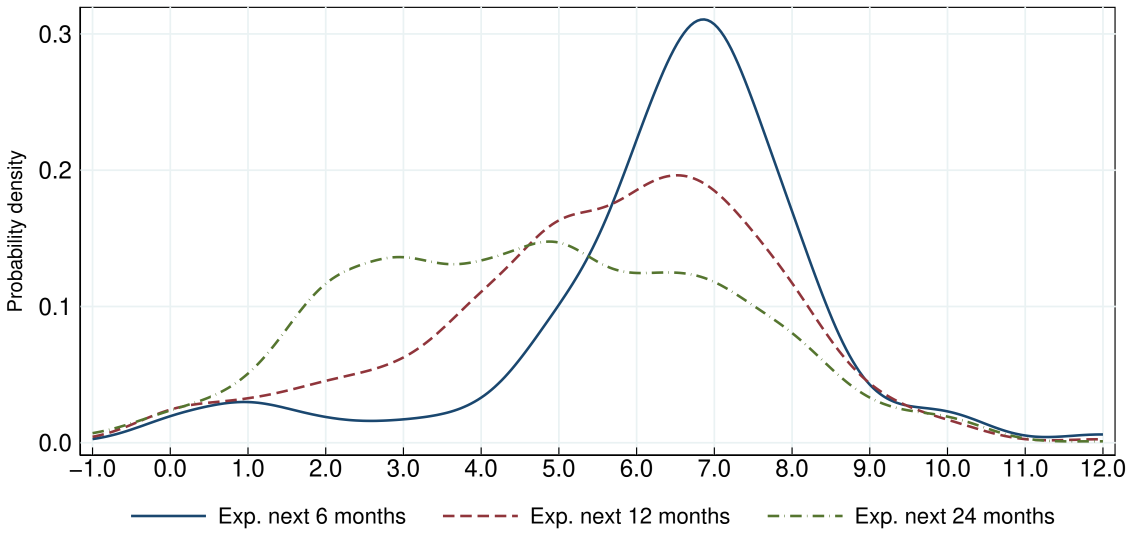
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



(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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