

Survey on Inflation and Growth Expectations

10 October 2022

 For further information: statistiche@bancaditalia.it
www.bancaditalia.it/statistiche/index.html

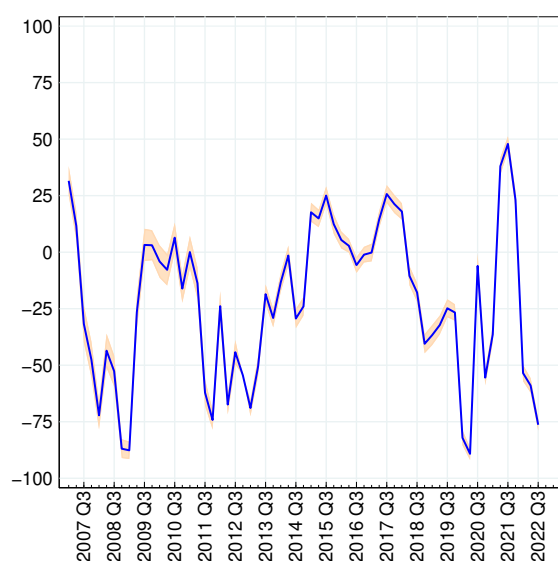
Main results

According to the survey conducted between 25 August and 15 September 2022 among Italian industrial and service firms with 50 or more employees, opinions regarding the general economic situation deteriorated further in the third quarter. Firms' expectations of their own operating conditions in the next three months have become more pessimistic, again reflecting above all the uncertainty attributable to economic and political factors and developments in commodity prices. For almost one third of companies, the difficulties connected to the cost of energy were greater than in the previous quarter. The positive impact of demand, which had supported economic activity in the last few quarters, has waned and the expectations of firms do not point to a recovery in the coming months.

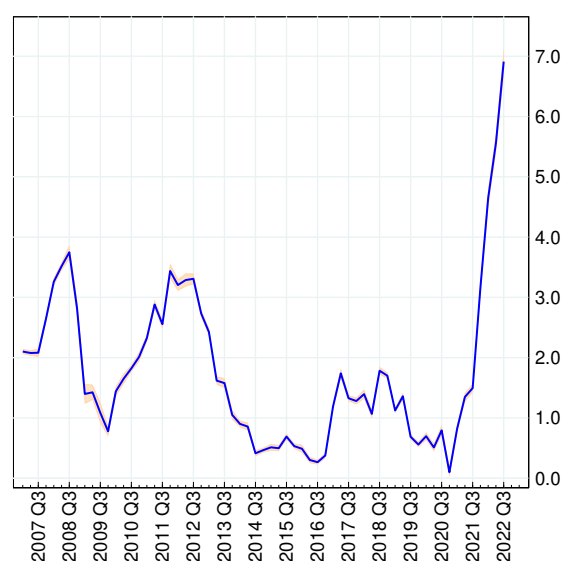
The worsening opinions on investment conditions were associated with a moderate downward revision of investment plans for 2022 by firms in industry excluding construction and in services, whose spending, however, is expected to continue to grow. The expansion of employment will likely continue, albeit at a slower pace.

Consumer price inflation expectations have risen further, exceeding 6 per cent over a twelve-month horizon and hovering around 5 per cent over more distant horizons (two-year and three-to-five-year horizons). The dynamics of firms' selling prices have also strengthened and should remain strong over the next twelve months, driven by rising production input prices and higher inflation expectations.

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.

Survey on Inflation and Growth Expectations¹

Firms' assessments of the general state of the economy worsen in the third quarter ...

In the third quarter, the share of firms that reported a worsening in the general economic situation compared with the previous quarter rose by 14 percentage points, to 77.9 per cent. Only 1.6 per cent of firms indicated an improvement (against 4.7 per cent in the previous survey; Table 1). Over 90 per cent of firms thought that the likelihood of the general economic situation improving was no more than 25 per cent (the probability was zero for 60 per cent of firms).

... as do, even more so, assessments of their own operating conditions in the next three months

Firms' opinions on their own operating conditions in the next three months also became more pessimistic: the negative balance between expectations of an improvement or of a worsening widened to 49.2 percentage points from 19.6 points in the previous survey (Figure 1). This mirrors both the sharp increase in the share of negative assessments (52.8 per cent, from 30 per cent) and the decrease in positive assessments (3.6 per cent, from 10.4 per cent). The main obstacles to production growth are likely to remain the high energy commodity prices and the uncertainty attributable to economic and political factors, both of which would have very negative repercussions for over one quarter of firms (Figure 7). While remaining below 10 per cent, there was a greater

share of firms that expect demand and credit access conditions to have a very negative impact on their business. The balance between the three-year forward expectations regarding their own operating conditions deteriorated considerably to historically low levels (11.7 percentage points from 30.4 points in the previous survey).

The difficulties associated with soaring energy prices increase

Some 31.2 per cent of firms pointed to an exacerbation of the difficulties associated with energy prices, up from 17.7 per cent in the previous quarter. The outlook is particularly unfavourable for construction firms, 73 per cent of which experienced difficulties to a similar or greater extent than in the previous quarter (from 68.1 per cent in the previous survey), compared with 65.2 per cent of firms in industry excluding construction (up from 56.9 per cent) and 43.7 per cent of firms in services (up from

35.4 per cent). As a result of high energy prices, over two thirds of firms are likely to raise their selling prices over the next three months. The increase will be significant for 26.5 per cent of firms in industry excluding construction (up from 14.4 per cent in the previous survey), for 14.9 per cent of firms in services (up from 9.8 per cent), and for 20.5 per cent of firms in construction (up from 14.4 per cent). As in the previous quarter, difficulties in sourcing commodities and intermediate inputs affected around 60 per cent of firms in industry excluding construction and in services and around 85 per cent of firms in construction.

Current and expected demand worsens

For firms in industry excluding construction and in services, the balance between positive and negative opinions on overall demand in the third quarter returned to negative territory (-3.7 per cent) for the first time since early 2021 (down from 17.6 per cent; Figures 2.1 and 2.2). The deterioration was especially pronounced in the North-East and in the South and islands of Italy, where it went down from 17 per cent for both

areas to -12.7 per cent and -8.9 per cent respectively. Foreign demand also lost momentum in the third quarter, showing a zero balance between expectations of an improvement and of a deterioration (down from 19.3 per cent). As for sales, firms do not foresee any improvement in the fourth quarter: the share of firms expecting a contraction in sales exceeds that of firms anticipating an expansion of overall demand and of the foreign component by 4.8 and 0.7 percentage points respectively. In the construction sector, the balances relating to assessments of current and expected demand both remained positive at 8.4 percentage points and 15.0 points, albeit considerably less so than in the previous survey, when they were 20.4 and 25.7 points respectively (Figure 2.3).

¹ The survey report was prepared by Tullia Padellini and Marianna Riggi.

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 1,536 firms with 50 or more employees (of which 677 in industry excluding construction, 682 in services and 177 in construction) that participated in the survey. The survey questionnaire, the statistical appendix and the methodological note are available on the Bank's website:

http://www.bancaditalia.it/statistiche/basi-dati/bird/inflazione-e-crescita/questionario-inflazione/documenti/en_quest_III_trim_2022.pdf?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2022-indagine-inflazione/09/dati_2022_09_eng.zip?language_id=1

https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2022/IAI_methods_and_sources.pdf?language_id=1

Investment conditions are more unfavourable

The balance of opinions of an improvement and of a worsening of investment conditions – already markedly negative since the first quarter of this year – fell further to -60.0 percentage points (from -40.9 in the previous quarter), on a par with the lowest levels of early 2020, at the beginning of the pandemic (Figure 3). Firms in industry excluding construction and in services revised their capital accumulation

plans downwards. The balance between firms pointing to an increase or a decrease in fixed investment spending in 2022 diminished by 6 percentage points, while still remaining positive at 13.7 points. The decline was steeper in the North-East (from 24 to 12 percentage points) and in the South and islands of Italy (from 17.8 to 2.5 points). Conversely, the balance rose from 14.8 to 18.4 percentage points for firms in construction, owing to the opinions reported by the firms that operate mainly in non-residential construction.

Credit access conditions worsened for 21 per cent of firms (up from 12.7 per cent); only 2 per cent assessed them to be better (down from 2.9 per cent). Total liquidity is expected to be sufficient for 87.9 per cent of firms, only slightly less than in the previous edition of the survey.

Employment outlook is weaker but still positive

Employment prospects for the fourth quarter remain favourable overall. For firms in industry excluding construction and in services, the balance between the share of firms that intend to increase the number of workers and those that expect to reduce it narrowed compared with the previous survey (from 15.7 to 5.6 percentage points). Firms in construction, for which the positive balance increased slightly from 10.8 to

11.7 percentage points, have a more optimistic outlook.

Inflation expectations rise further

Consumer price inflation expectations rose sharply over the various forecasting horizons, thus reaching the highest levels across all economic sectors since the first edition of the survey in 1999. On average, firms expect the inflation rate to be 7.5 per cent six months from now (compared with 6.4 per cent in the previous survey), 6.9 per cent in one year (from 5.6 per cent), 5.7 per cent in two years (from 4.8 per

cent) and 4.9 over the three- to five-year horizon (from 4.3 per cent).

Firms' selling prices gain momentum year-on-year and are expected to continue to grow at a fast pace over the next twelve months

Growth in firms' selling prices accelerated: the year-on-year upswing equalled 9.3 per cent in industry excluding construction (compared with 7.8 per cent in the previous survey), 3.0 per cent in construction (up from 2.5 per cent) and 6.8 per cent in services (from 5.9 per cent). Prices are expected to continue to grow at a fast pace over the next twelve months (by 6.1, 3.7 and 6.5 per cent respectively, in the three sectors). The most recent rise in selling prices is mainly the result of developments in commodity prices, intermediate input costs, and inflation expectations.

Table 1

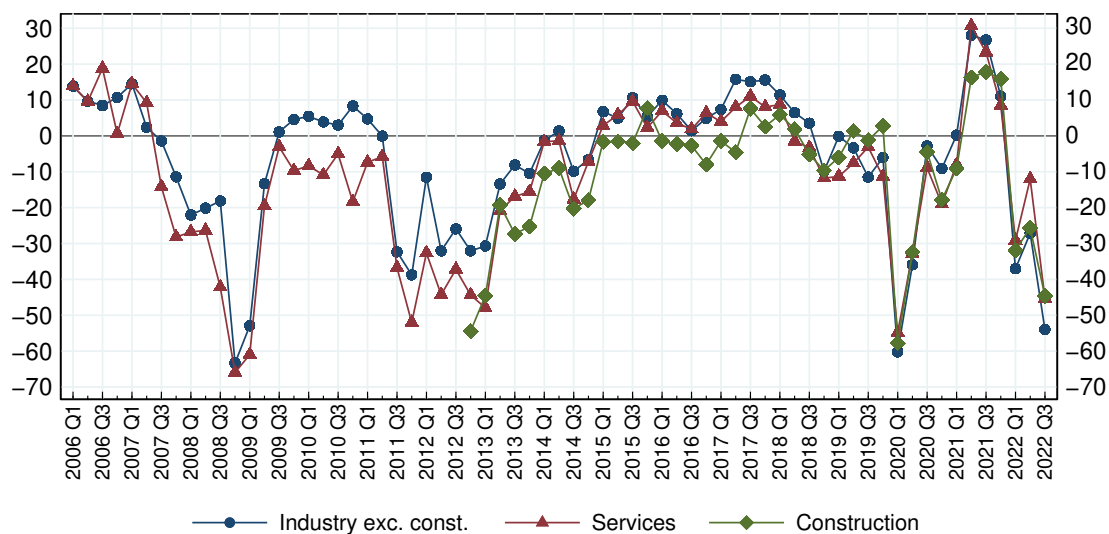
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2022 Q2	2022 Q3	2022 Q2	2022 Q3	2022 Q2	2022 Q3	2022 Q2	2022 Q3
	per cent							
Inflation expectation 6 months ahead	6.5	7.8	6.2	7.3	6.1	6.7	6.4	7.5
Inflation expectation 12 months ahead	5.6	7.1	5.6	6.8	5.0	6.2	5.6	6.9
Change in own prices 12 months ahead	4.4	6.1	2.9	3.7	6.5	6.5	3.5	4.6
	Balance between reports of improvement and deterioration (percentage points)							
	Judgments on the previous quarter							
General economic situation	-61.8	-78.6	-56.1	-74.7	-61.9	-72.2	-59.0	-76.3
Total demand	19.1	-6.5	16.3	-1.2	20.4	8.4	17.8	-3.1
Foreing demand	22.2	-2.3	12.3	5.3	—	—	19.3	-0.0
Investment conditions	-40.9	-64.0	-40.2	-56.9	-48.1	-54.8	-40.9	-60.0
	Forecast 3 months ahead							
Total demand	17.1	-9.6	20.6	-0.3	25.7	15.0	19.3	-3.7
Foreing demand	21.7	-3.7	15.0	6.1	—	—	19.8	-0.7
Firms' economic conditions	-27.1	-54.0	-12.0	-45.3	-25.9	-44.8	-19.6	-49.2
Employment	14.3	8.5	16.9	3.0	10.8	11.7	15.4	6.0
	Forecast of investment expenditure							
H2 2022 on H1 2022	21.1	8.9	28.0	19.5	21.5	23.4	24.6	14.9
2022 on 2021	20.8	12.8	19.1	14.6	14.8	18.4	19.7	14.0

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2022-indagine-inflazione/09/dati_2022.09.eng.zip?language_id=1

Figure 1

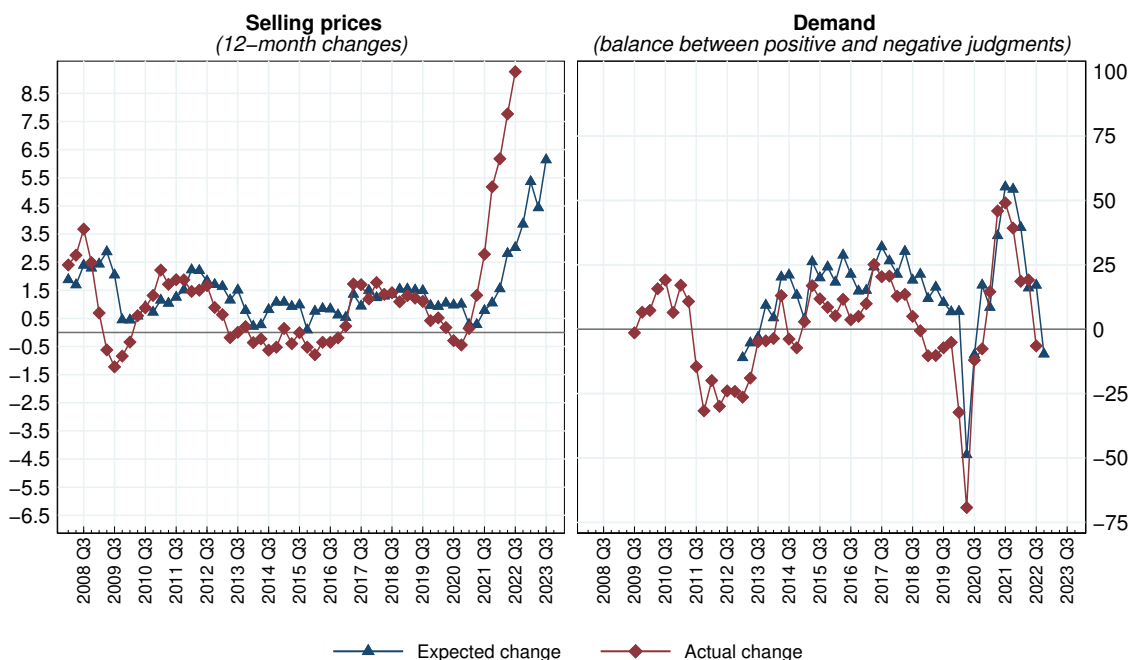
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

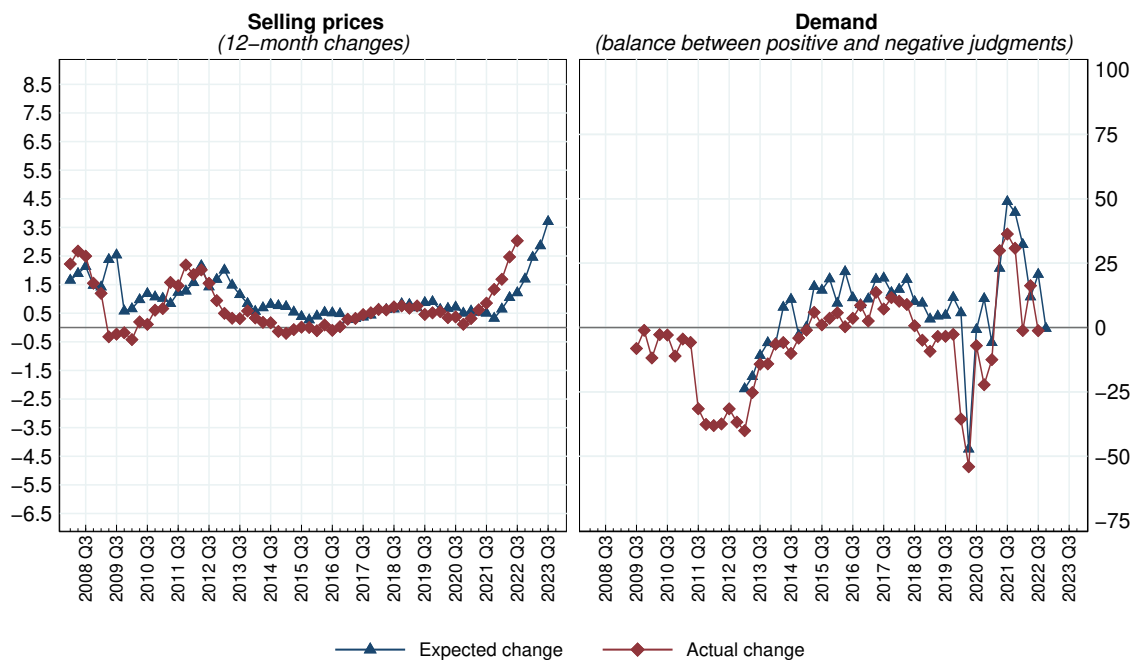
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles. 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 2.2

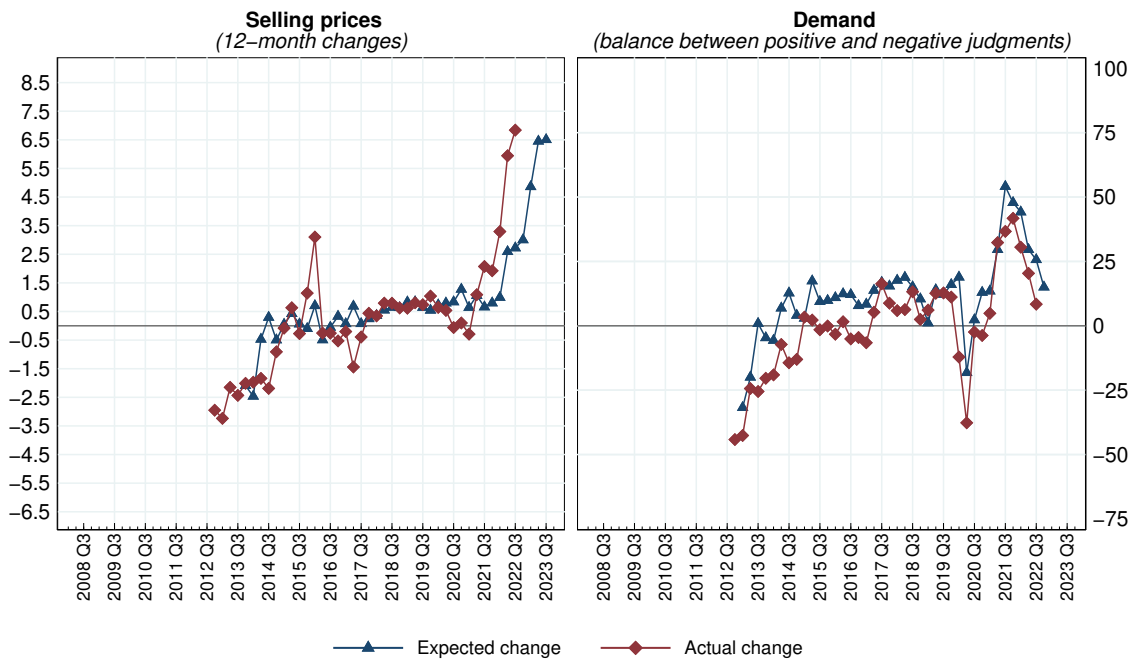
Expected and actual changes in selling prices and demand (1)
(services)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles. 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 2.3

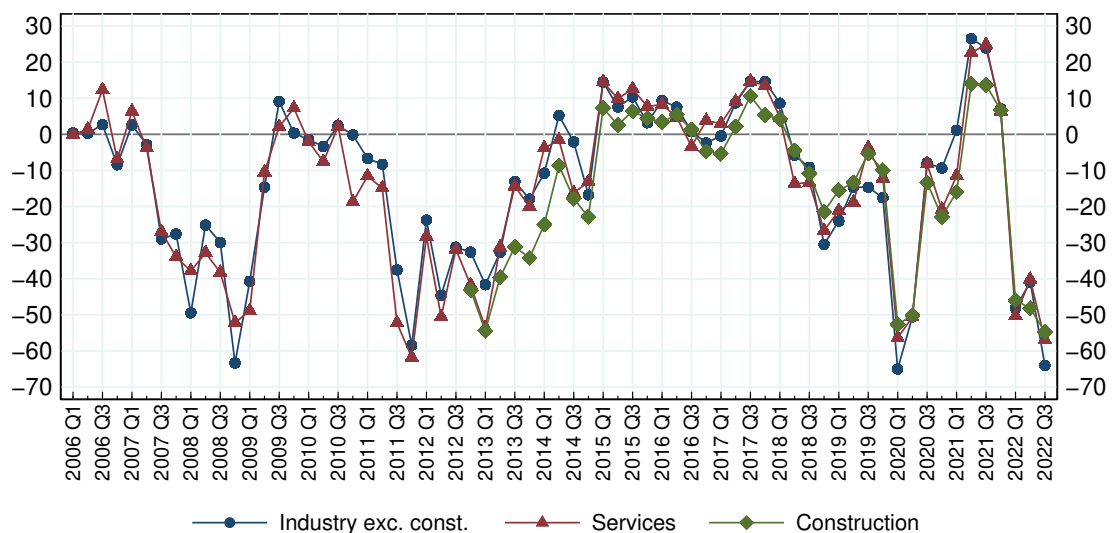
Expected and actual changes in selling prices and demand (1)
(Construction)



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

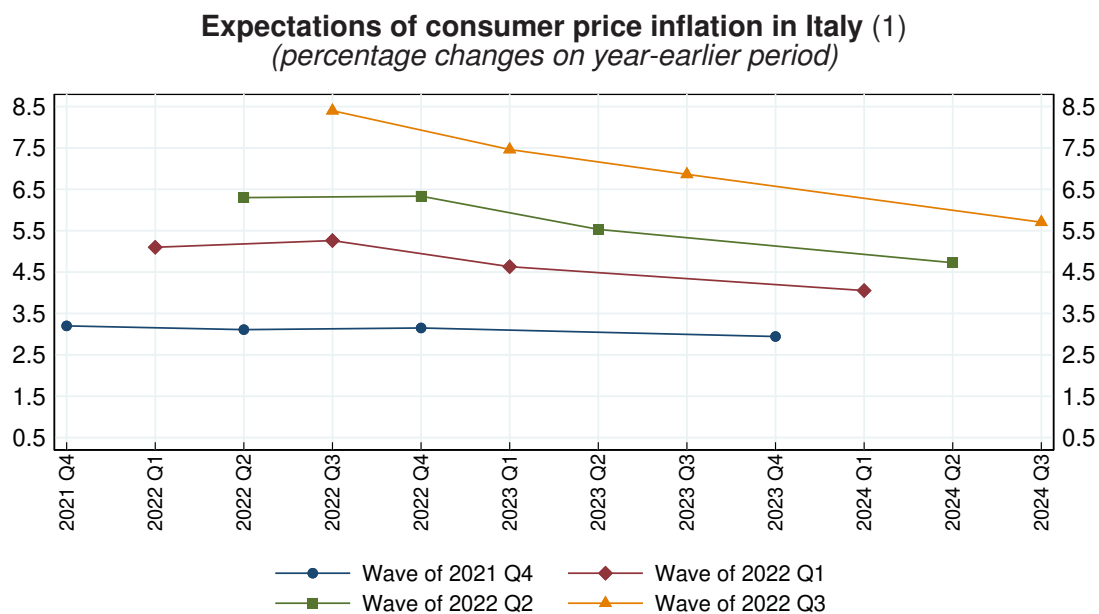
Figure 3

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



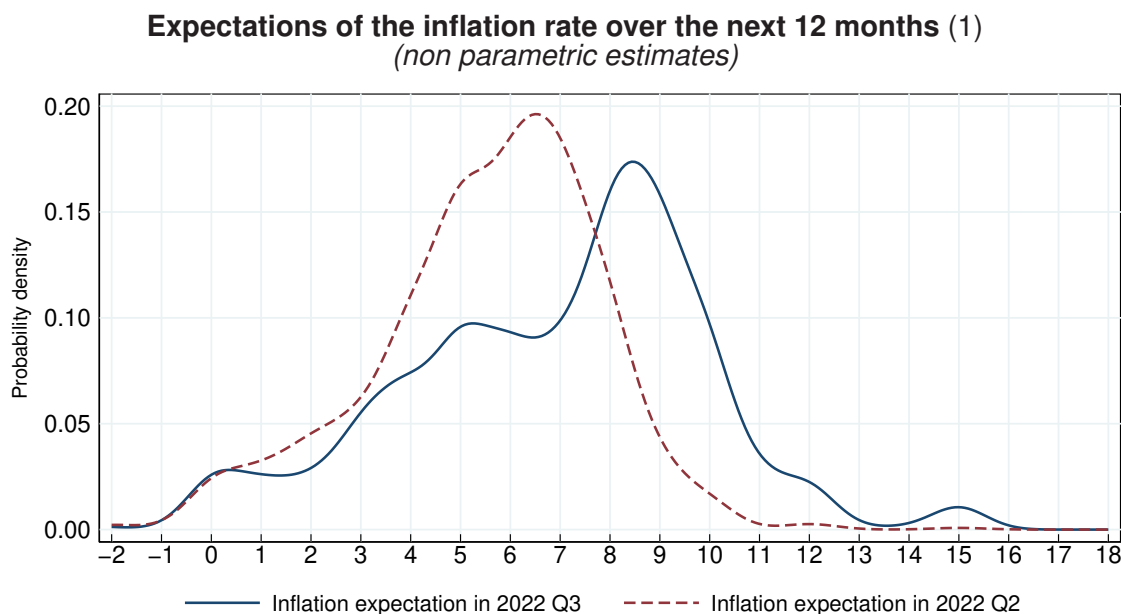
(1) Balance between positive and negative judgments.

Figure 4



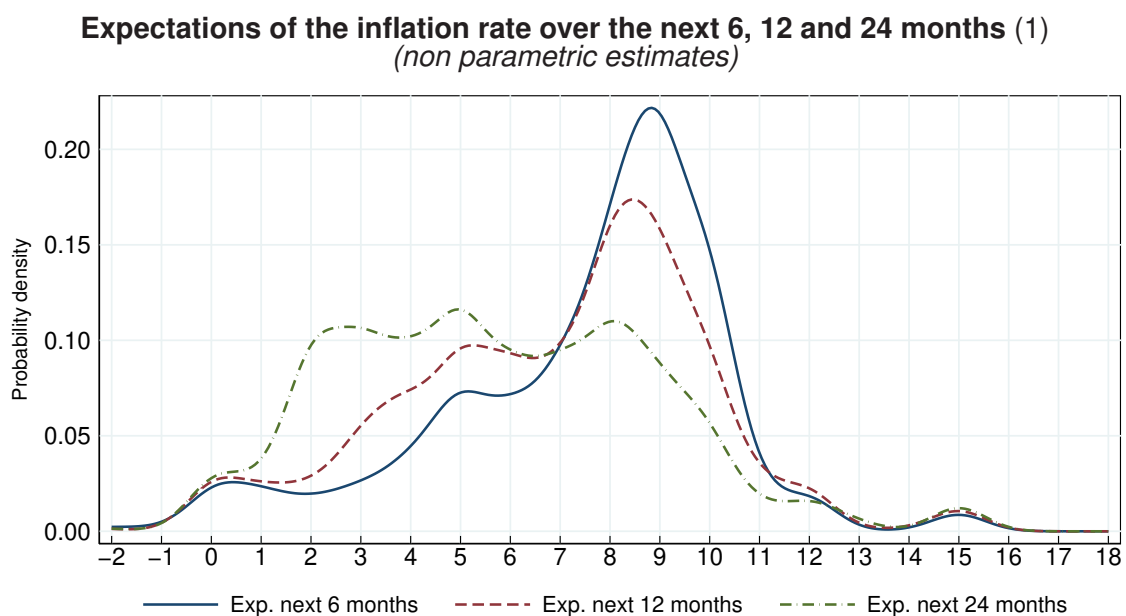
(1) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next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



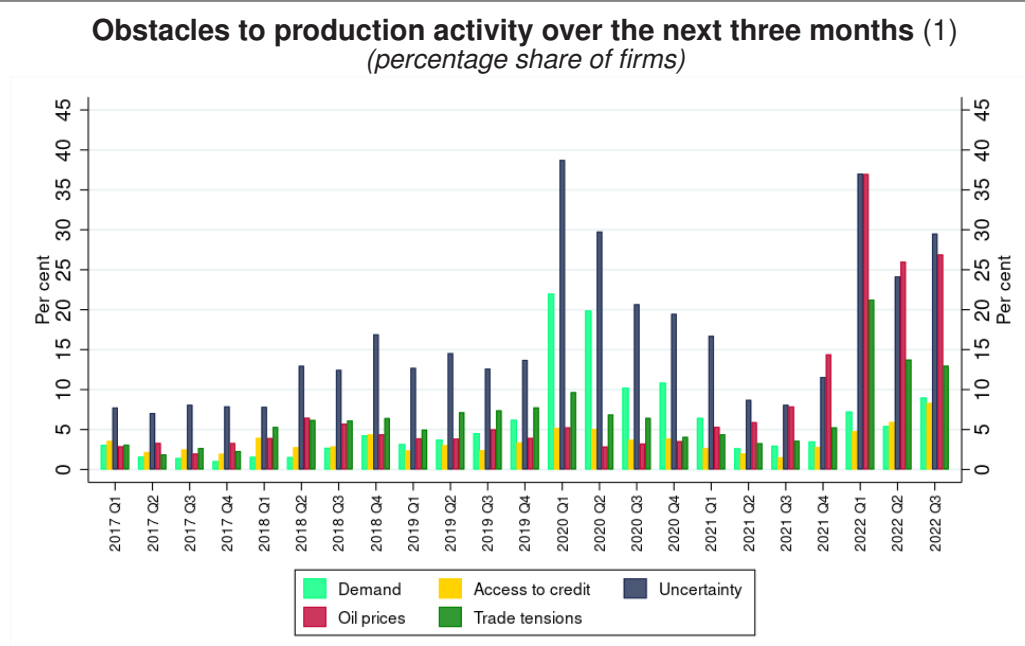
(1) The estimates are obtained using a Gaussian kernel density with a bandwidth equal to 0.55.

Figure 6



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

Figure 7



(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.

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

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