



Survey on Inflation and Growth Expectations

16 January 2023

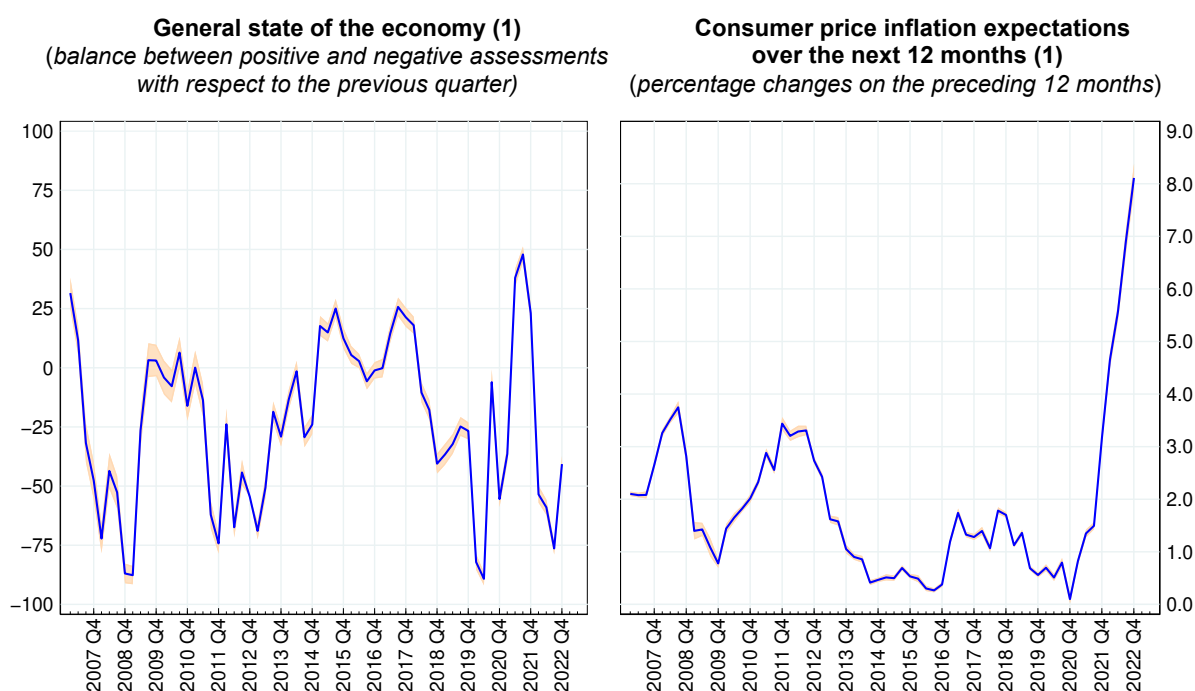
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Main results

According to the survey conducted between 22 November and 14 December 2022 among Italian industrial and services firms with 50 or more employees, opinions regarding the general economic situation and firms' own operating conditions in the fourth quarter of 2022 have become less negative than in the previous quarter. Expectations for total and foreign demand in the coming months have improved, although firms continue to report difficulties linked to the economic and political uncertainty and the high energy prices.

Capital accumulation is expected to continue in 2023: assessments of a worsening in investment conditions remain much higher than those of an improvement, but the negative balance has halved compared with the previous survey. Employment is expected to continue growing in the first quarter of 2023.

Expectations for consumer price inflation increased further, reaching 8.1 per cent over twelve months and standing at 6.7 and 5.7 per cent over the two-year and three- to five-year horizons respectively. The dynamics of firms' selling prices will likely remain strong over the next twelve months, though slackening in construction and above all in industry excluding construction. They will still be mainly driven by the increase in the prices of production inputs and by the higher inflation expectations.



(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: Q4 2022

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Assessments of the current situation become less negative in the fourth quarter ...

In late 2022, the share of firms that reported a worsening in the general economic situation compared with the previous quarter fell from 77.9 to 47.0 per cent, largely in favour of assessments of it being stationary. The balance between assessments of an improvement and those of a deterioration rose to -40.7 percentage points (Table 1). Nevertheless, the prospect of a weak economy remains: the vast majority of firms (86.1 per cent) assign a probability of zero or of less than 25 per cent to the possibility of a positive change in the general economic situation in the first quarter of 2023.

... as do those of operating conditions in the next three months

The balance between expectations of an improvement and of a worsening in firms' operating conditions over the next three months stands at -17.6 percentage points, up from -49.2 percentage points in the previous survey (Figure 1). The improvement is widespread across geographical areas and sectors and is particularly marked among construction firms operating in the residential sector, for which the balance was essentially reduced to zero (from -37.8 to 0.9 percentage points). The uncertainty attributable to economic and political factors and the high energy prices continue to be the main obstacles to the growth outlook. The balance between the three-year forward expectations regarding their own operating conditions has increased considerably from the historically low levels of the previous survey (from 11.7 to 37.4 percentage points).

The difficulties connected with higher energy prices persist, though easing slightly

In the fourth quarter of 2022, the higher energy prices caused similar or greater problems compared with the three previous months for 41.6 per cent of firms (from 54.9 per cent in the previous survey). These problems remain more significant for construction firms (60.0 per cent) and industry excluding construction (44.9 per cent) compared with those for services (36.4 per cent). As a result of high energy prices, nearly two in three firms intend to raise their selling prices over the next three months. The increase will be marked for 10.2, 10.8 and 8.6 per cent respectively of firms in these three sectors (from 20.5, 26.5 and 14.9 per cent in the previous survey). Difficulties in sourcing commodities and

intermediate inputs have affected 52.6 per cent of firms; the share has fallen across all sectors compared with the previous quarter.

Current demand remains weak, while expectations for the coming months improve

For firms in industry and in services, the balance between positive and negative opinions on overall demand in the fourth quarter corresponded to -0.2 percentage points (from -3.7 percentage points; Figures 2.1 and 2.2); the balance rose slightly for foreign demand (from zero to 3.0 percentage points), though still remaining low. An increase in sales is expected in the first quarter of 2023: the number of firms expecting an increase in total and foreign demand is respectively 10.4 and 15.1 percentage points higher than those expecting a reduction (the balances were negative in the previous survey). The balances for demand expectations have instead improved, both for current demand (from 8.4 to 12.3 percentage points; Figure 2.3), and for expected demand (from 15.0 to 22.3 percentage points).

Investment conditions remain unfavourable overall ...

The balance between the opinions indicating an improvement in investment conditions in the fourth quarter and those indicating a deterioration remained deeply negative, but it has halved compared with the previous survey, standing at -30.2 percentage points (Figure 3). Credit access conditions are considered stable by about three quarters of firms, and 21 per cent say they have worsened (as in the previous quarter), while more than 90 per cent of the sample report that their overall liquidity position remains adequate or more than adequate.

¹ The survey report was prepared by Alex Tagliabracci, Marco Fruzzetti 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 1,564 firms with 50 or more employees (of which 706 in industry excluding construction, 675 in services and 183 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_IV_trim_2022.pdf

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2022-indagine-inflazione/12/dati_2022_12_eng.zip

https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2022/IAI_metodi_e_fonti.pdf

... but investment growth will likely continue in 2023.

Despite the unfavourable assessments of investment conditions, the balance between expectations of an increase and a decrease in spending on capital goods remained positive across all sectors, indicating that capital accumulation is continuing (13.8 percentage points, as in the last survey for 2022). In the first half of 2023, about 37 per cent of firms expect investment expenditure to grow compared with the previous quarter, more than double the share anticipating a reduction (16.8 per cent).

The employment outlook remains positive

The share of firms in industry excluding construction and in services that intend to increase the number of workers in the first quarter of 2023 was 11.0 percentage points bigger than the share that expect to reduce it, which is an improvement on the previous survey; the share remained essentially unchanged in the construction sector, at 11.8 percentage points.

Inflation expectations rise further

Consumer price inflation expectations rose sharply over the various forecasting horizons, reaching the highest levels across all sectors since the first edition of the survey in 1999. On average, the consumer price inflation rate is expected to be 8.9 per cent six months from now (up from 7.5 per cent in the previous survey), 8.1 per cent in twelve months (from 6.9 per cent), 6.7 per cent in two years (from 5.7 per cent) and 5.7 over the three- to five-year horizon (from 4.9 per cent). Expectations have probably been affected by the concomitant marked increase in the harmonized index of consumer prices in the final months of last year.

The dynamics of selling prices remain strong, though slackening in construction and above all in industry

Compared with a year earlier, selling prices have been revised upwards by 8.4 per cent on average in industry excluding construction (from 9.3 per cent in the previous survey), by 3.6 per cent in services (from 3.0 per cent) and by 6.3 per cent in construction (from 6.8 per cent). Firms expect growth in selling prices to slacken over the next twelve months in industry (from 6.1 to 4.1 per cent) and in construction (from 6.5 to 5.3 per cent), but to become more marked in services (from 3.7 to 3.9 per cent). The main contributory factors to these additional increases are the higher commodity prices and the dynamics of inflation expectations, followed by the greater cost of intermediate inputs and labour.

Table 1

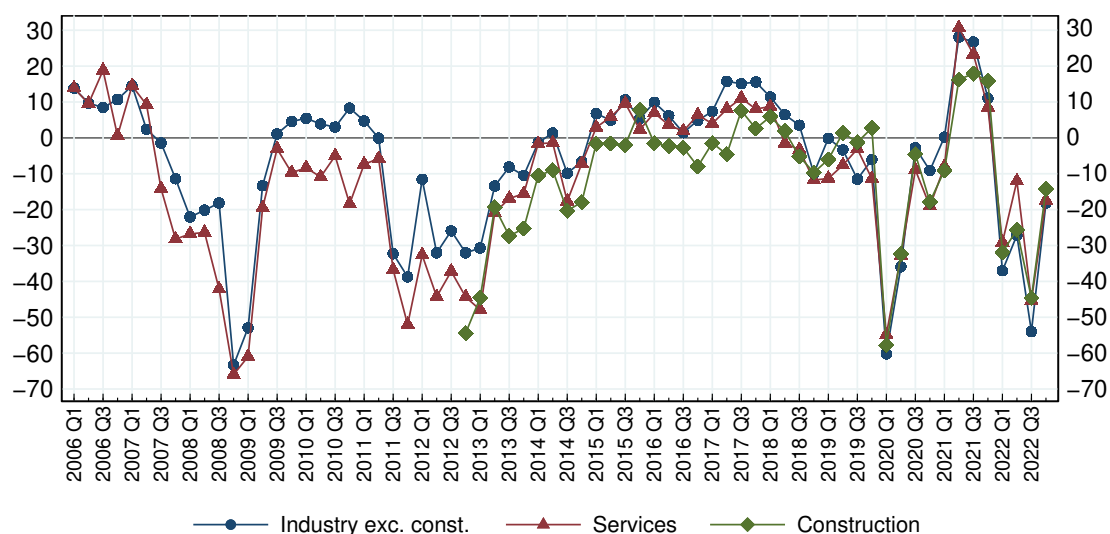
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4
	per cent							
Inflation expectation 6 months ahead	7.8	9.0	7.3	8.7	6.7	9.0	7.5	8.9
Inflation expectation 12 months ahead	7.1	8.1	6.8	8.1	6.2	8.3	6.9	8.1
Change in own prices 12 months ahead	6.1	4.1	3.7	3.9	6.5	5.3	4.6	4.0
Balance between reports of improvement and deterioration (percentage points)								
Judgments on the previous quarter								
General economic situation	-78.6	-37.3	-74.7	-42.9	-72.2	-49.3	-76.3	-40.7
Total demand	-6.5	-2.1	-1.2	1.6	8.4	12.3	-3.1	0.5
Foreing demand	-2.3	4.8	5.3	-1.0	—	—	-0.0	3.0
Investment conditions	-64.0	-29.2	-56.9	-30.5	-54.8	-36.1	-60.0	-30.2
Forecast 3 months ahead								
Total demand	-9.6	11.8	-0.3	9.0	15.0	22.3	-3.7	11.0
Foreing demand	-3.7	18.0	6.1	8.9	—	—	-0.7	14.9
Firms' economic conditions	-54.0	-18.2	-45.3	-17.5	-44.8	-14.6	-49.2	-17.6
Employment	8.5	11.2	3.0	10.8	11.7	11.8	6.0	11.1
Forecast of investment expenditure								
H1 2023 on H2 2022	—	16.7	—	23.0	—	21.2	—	20.0
2023 on 2022	—	13.4	—	14.0	—	16.0	—	13.8

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2022-indagine-inflazione/12/dati_2022_12_eng.zip?language_id=1

Figure 1

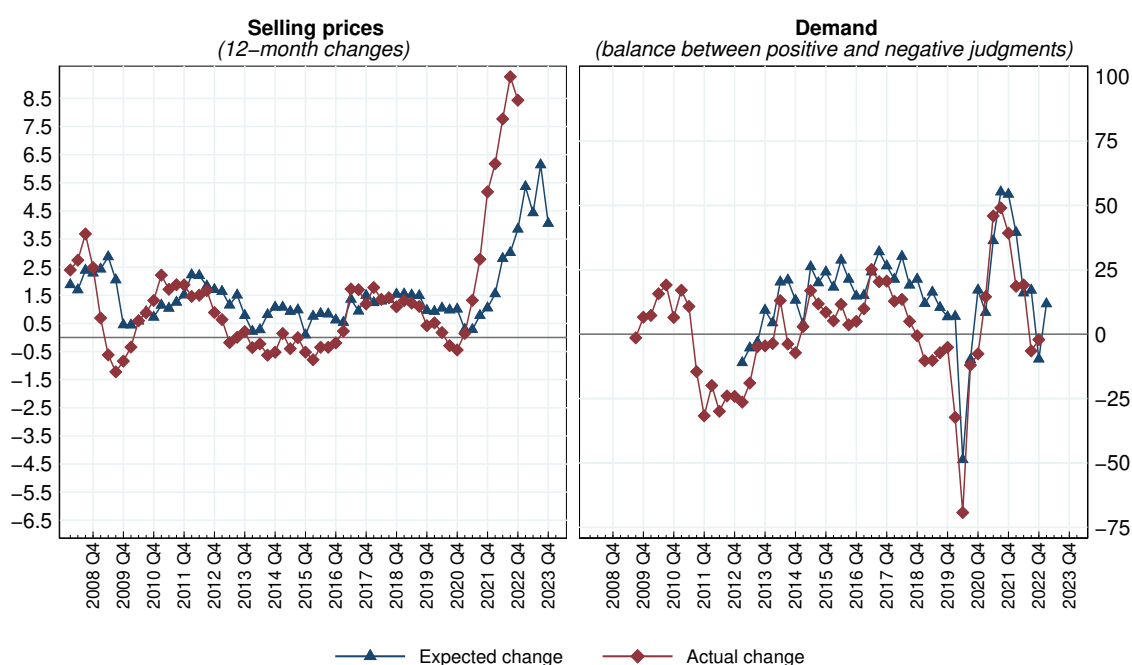
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

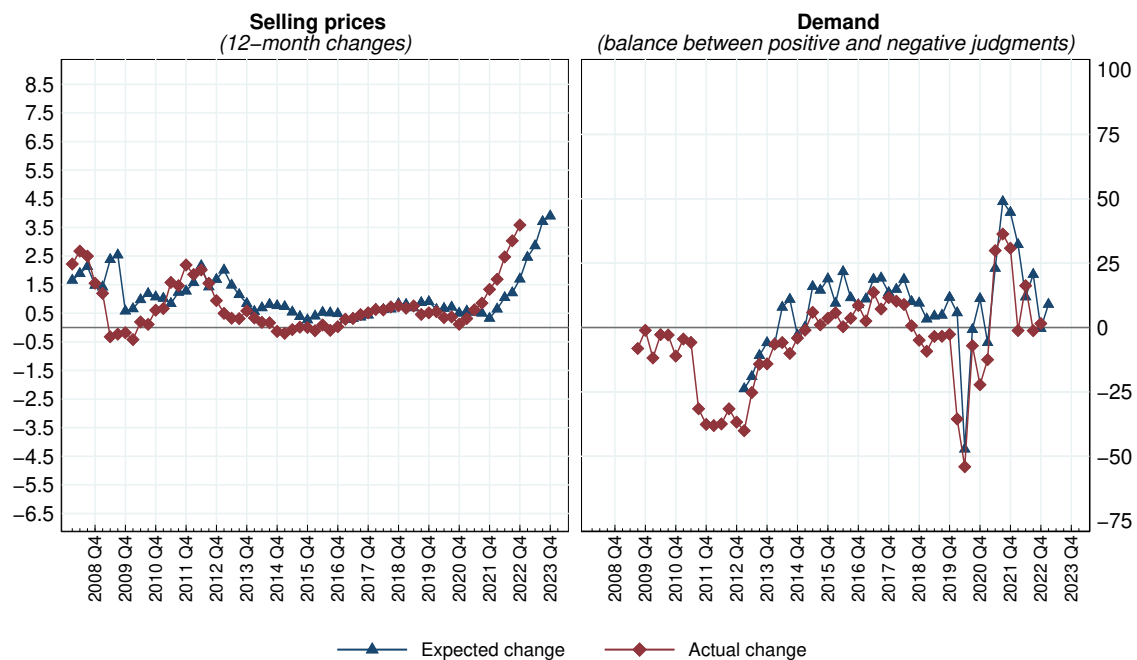
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



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

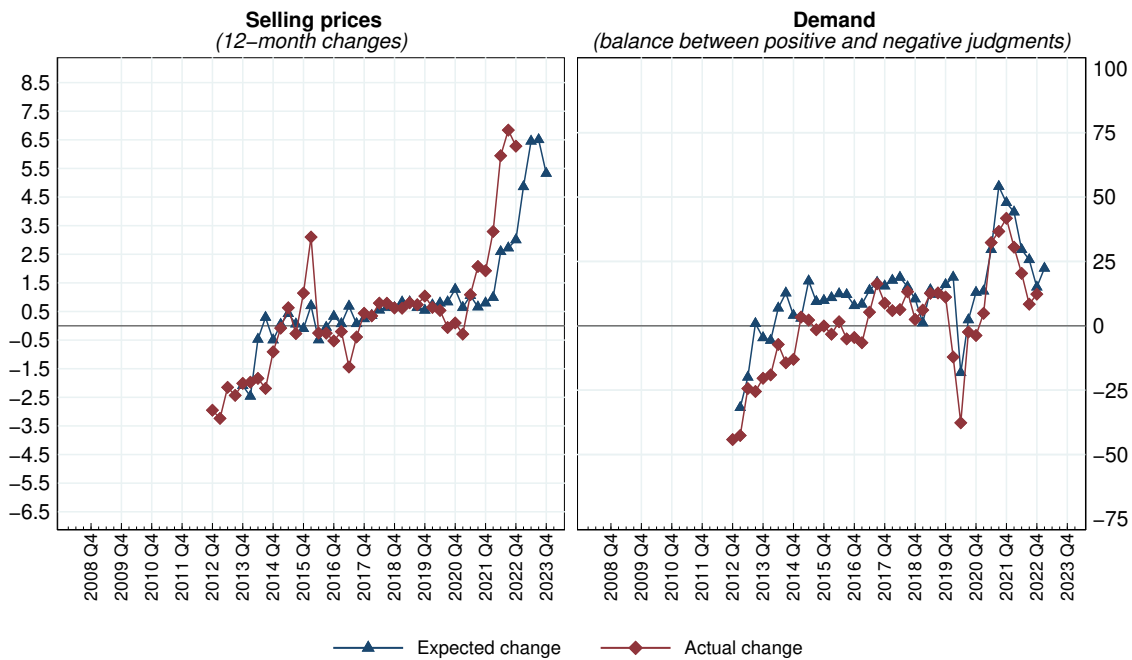
Expected and actual changes in selling prices and demand (1)
(services)



(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

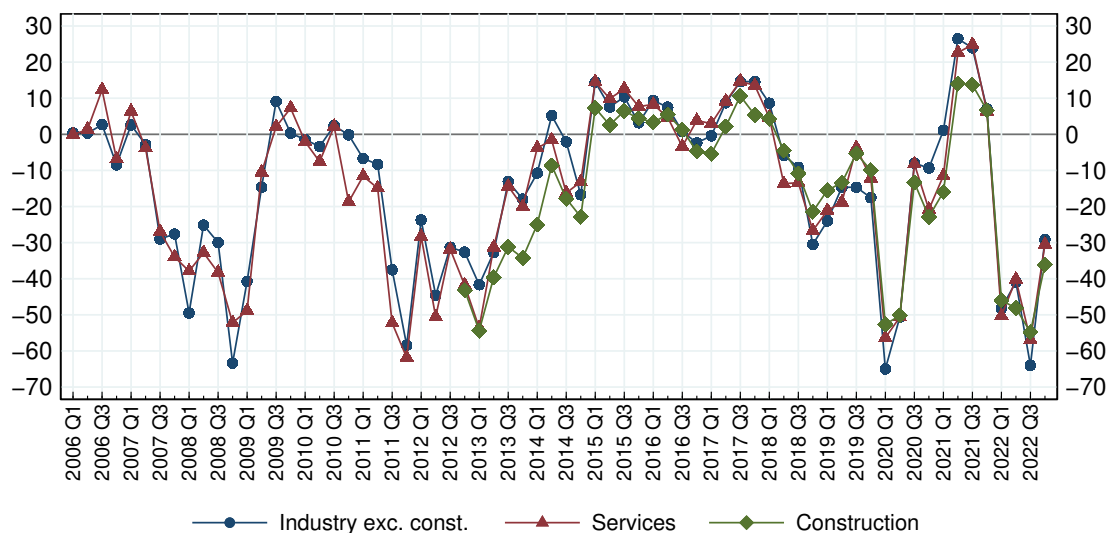
Expected and actual changes in selling prices and demand (1)
(Construction)



(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).

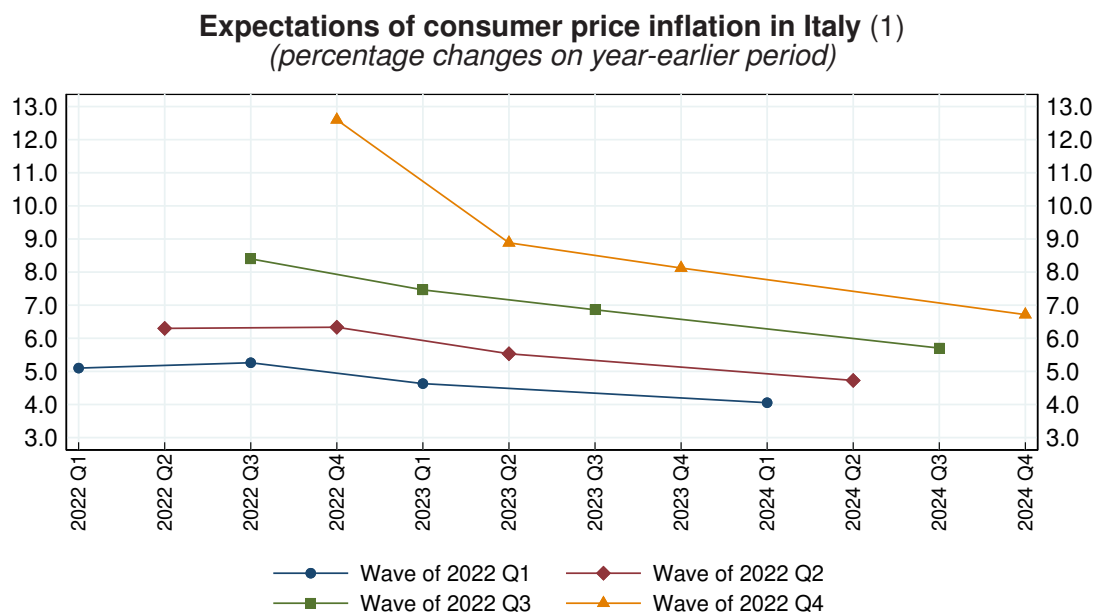
Figure 3

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



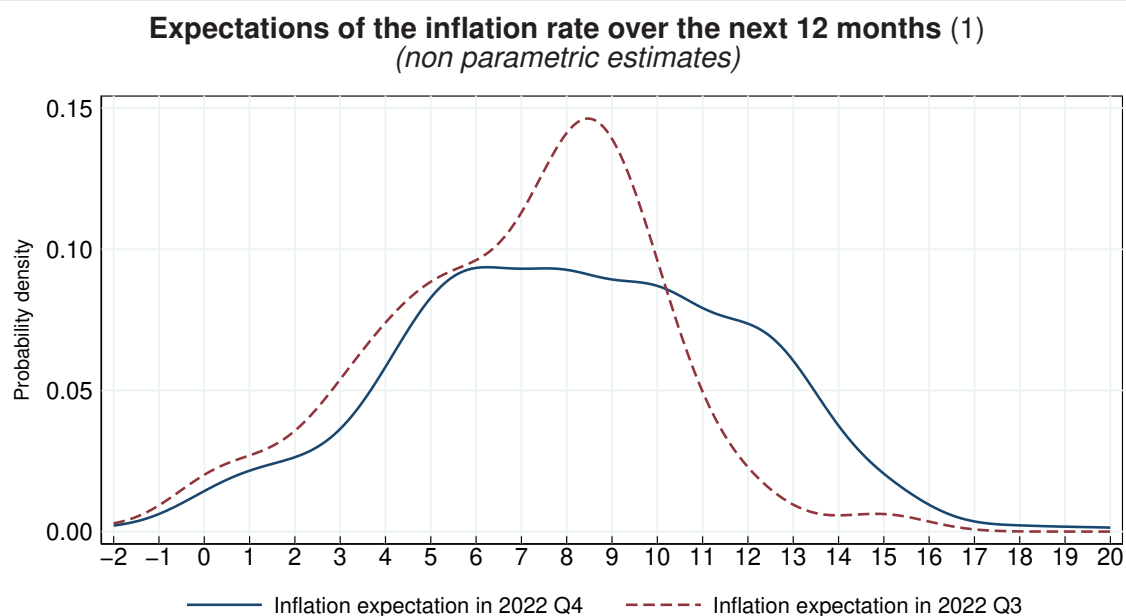
(1) Balance between positive and negative judgments.

Figure 4



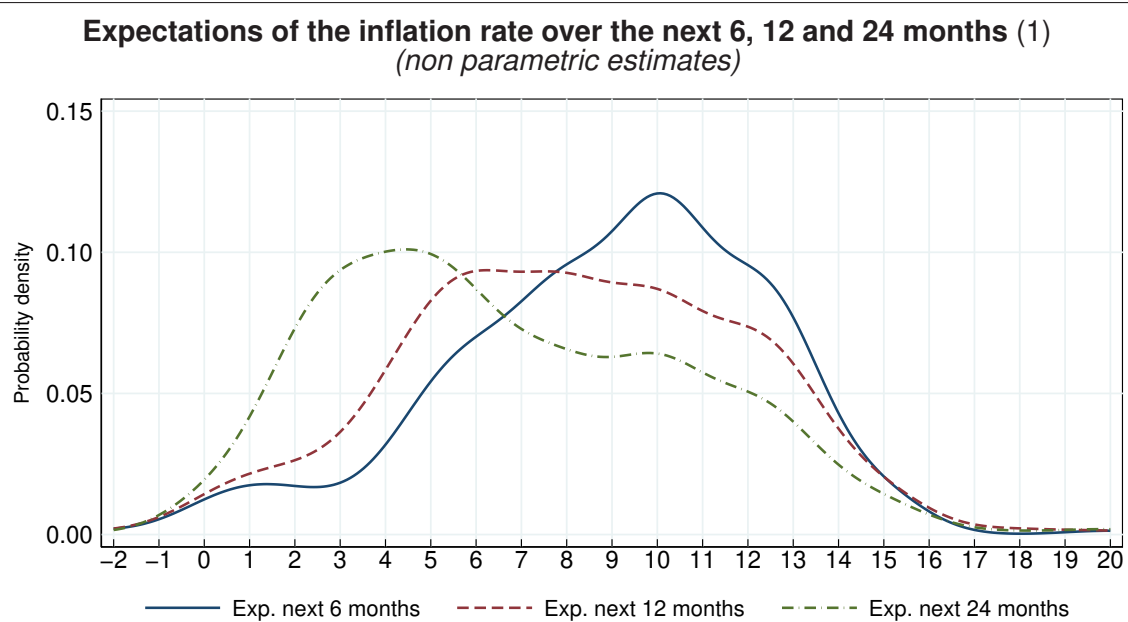
(1) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next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

Figure 6



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

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

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