Survey on Inflation and Growth Expectations

6 April 2023

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

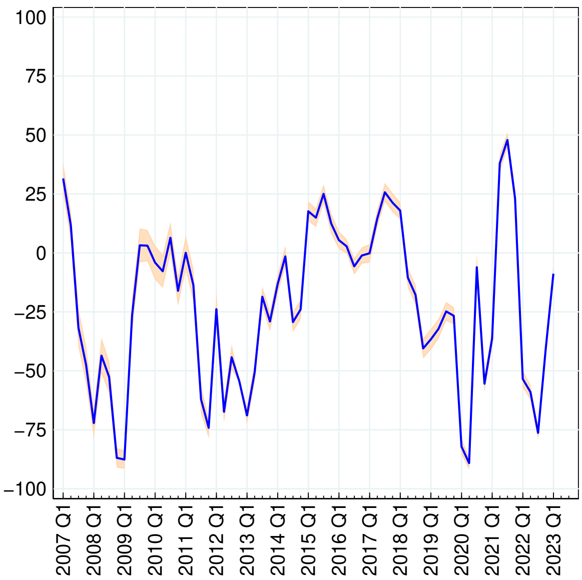
Main results

According to the survey conducted between 24 February and 17 March 2023 among Italian industrial and service firms with 50 or more employees, in the first quarter opinions regarding a worsening of the general economic situation became less widespread than in the previous quarter. Firms' expectations of their own operating conditions over the next three months improved as well, driven by the recovery in demand and the easing of the difficulties linked to high energy prices and the sourcing of commodities and intermediate goods.

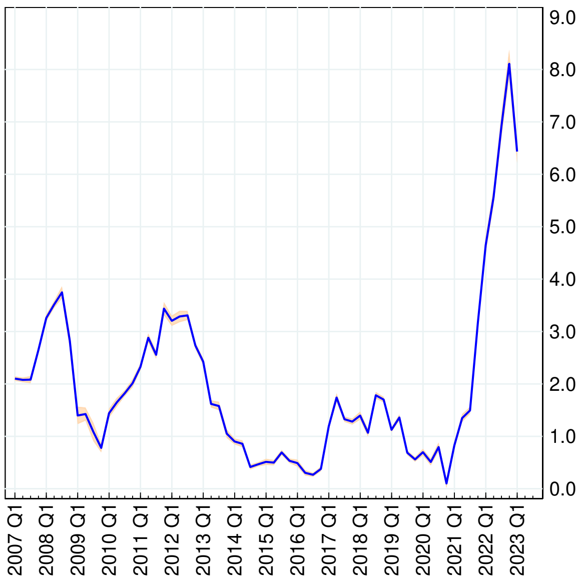
Assessments of investment conditions continue to be unfavorable overall, but the negative balance has narrowed considerably compared with the previous survey. Capital accumulation looks set to continue in 2023 and employment is expected to expand over the next three months.

Consumer price inflation expectations continued to decrease over all the time horizons considered, to 6.4 percent over a 12-month horizon and 5.3 and 4.8 per cent over the two-year and three-to-five-year horizons, respectively. While firms' selling prices have continued to grow at a fast pace in the last year, for the first time since the end of 2020 firms are pointing to a slowdown over the next 12 months across all sectors except residential housing.

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 2023

Survey on Inflation and Growth Expectations[1]

Assessments pointing to a worsening of the general state of the economy are less widespread …

In the first quarter of 2023, the share of firms believing that the general economic situation had worsened compared with three months earlier nearly halved (reaching 23.7 per cent), though it remained higher than the share of firms pointing to an improvement (14.9 per cent, compared with 6.3 per cent in the previous survey; Table 1).

... and firms' outlook for their own operating conditions improves

The balance between expectations of an improvement and of a worsening in firms' operating conditions over the next three months, which was in deep negative territory at the beginning of 2022, moved close to zero in all sectors (Figure 1). The improvement in firms' outlook appears to be ascribable above all to the boost provided by demand for their products and services and to the concurrent lessening of the difficulties connected with the energy price increases and with economic and political uncertainty, which last year were the main obstacles to firms' activity.

Demand is recovering and is expected to strengthen further in the coming months

Almost one in three firms in manufacturing and services reported an increase in sales since the start of the year, compared with one in four pointing to a decrease (both shares were around 27 per cent in the previous survey; Figures 2.1 and 2.2). The growth in demand was especially strong in the construction sector (Figure 2.3), with about half of the firms active in the residential segment reporting that part of their work benefited from the incentives connected with the 'superbonus'. Demand is expected to strengthen further across all sectors over the next three months: 45.9 per cent of firms expect sales to grow while only 13.2 per cent expect them to fall (compared with 31.5 and 20.4 per cent, respectively, in the previous survey).

Liquidity continues to be seen as adequate

Credit access conditions in the first quarter were considered stable by over three fourths of firms and to have worsened by almost all the remaining respondents (in line with the findings of the two previous quarters), while the overall liquidity position continued to be seen as sufficient or more than sufficient by 91.0 per cent of firms in industry excluding construction and in services and by 83.5 per cent of those in construction.

Assessments of investment conditions become less pessimistic

As regards investment conditions, the balance between the opinions indicating an improvement and those indicating a deterioration remained negative but less so than in the previous quarter, mainly thanks to an increase in the opinions pointing to stability. The improvement was more pronounced for manufacturing firms than for service and construction firms (Figure 3). The share of firms expecting fixed investment expenditure to grow in 2023 compared with 2022 continues to exceed that anticipating a reduction (by 14.6 percentage points), as was the case in the last survey. The gap was especially wide among large firms in industry excluding construction and in services (33.8 percentage points) and among construction firms mainly operating in the residential segment (22.7 per cent).

The outlook for employment improves further

Employment expectations for the second quarter remain positive across all sectors: the share of firms anticipating an increase in their staff numbers was 17.8 percentage points higher than the share expecting a decrease – a historically high figure and up from 11.1 per cent in the previous survey. Looking at the different sectors, the outlook appears more favourable for firms with at least 1,000 employees and for those based in the Centre and North of the country.

---

[1] The survey report was prepared by Tullia Padellini and Tiziano Ropele.

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 1,554 firms with 50 or more employees (of which 673 in industry excluding construction, 690 in services and 191 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_I_trim_2023.pdf
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2023-indagine-inflazione/03/dati_2023_03_eng.zip
https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2022/IAI_metodi_e_fonti.pdf

The difficulties connected with the still high levels of energy prices and the shortages of intermediate

In the first quarter, just over 50 per cent of firms experienced difficulties connected with the still high energy prices. For half of them, these difficulties were less significant than in the previous quarter, while only 9.0 per cent of the firms reported them becoming more pronounced. In response to the high energy prices, 38.0 per cent of firms in industry excluding construction and in services and 48.4 per cent of those in construction plan to raise their selling prices over the next three months. These shares are at least 20 percentage points below those recorded at the end of 2022. The difficulties connected with sourcing commodities and intermediate inputs have abated further. They had affected one in three firms in industry excluding construction and in services and two in three firms in construction in the first quarter (compared with 51.5 and 72.7 per cent in the previous survey).

While still high, inflation expectations decrease across all time horizons

After reaching their maximum levels since the inception of the survey in 1999, consumer price inflation expectations decreased across all the forecasting horizons, though they remain at very high levels (Figure 4). On average, the consumer price inflation rate is expected to be 7.8 per cent six months from now (compared with 8.9 per cent in the previous survey), 6.4 per cent in twelve months (from 8.1 per cent), 5.3 per cent in two years (from 6.7 per cent) and 4.8 per cent over the three- to five-year horizon (from 5.7 per cent). The dynamics of expectations have likely been affected by the marked slowdown in the harmonized index of consumer prices recorded at the beginning of the year.

The dynamics of selling prices are expected to moderate, except in construction

In the last twelve months, firms' selling prices continued to grow at a fast pace across all sectors: the average increases were 7.6 per cent in industry excluding construction (compared with 8.4 per cent in the previous survey), 6.4 per cent in construction (up from 6.3 per cent) and 4.3 per cent in services (from 3.6 per cent). Over the next twelve months, selling prices are expected to slow considerably in industry excluding construction and in services for the first time since the end of 2020 (2.9 per cent, compared with 4.0 per cent) following the easing in commodity price increases and the reduction in inflation expectations. Prices in the construction sector will instead likely continue to grow slightly (5.5 per cent, from 5.3 per cent), driven by the residential segment.

Table 1

Main findings (1)

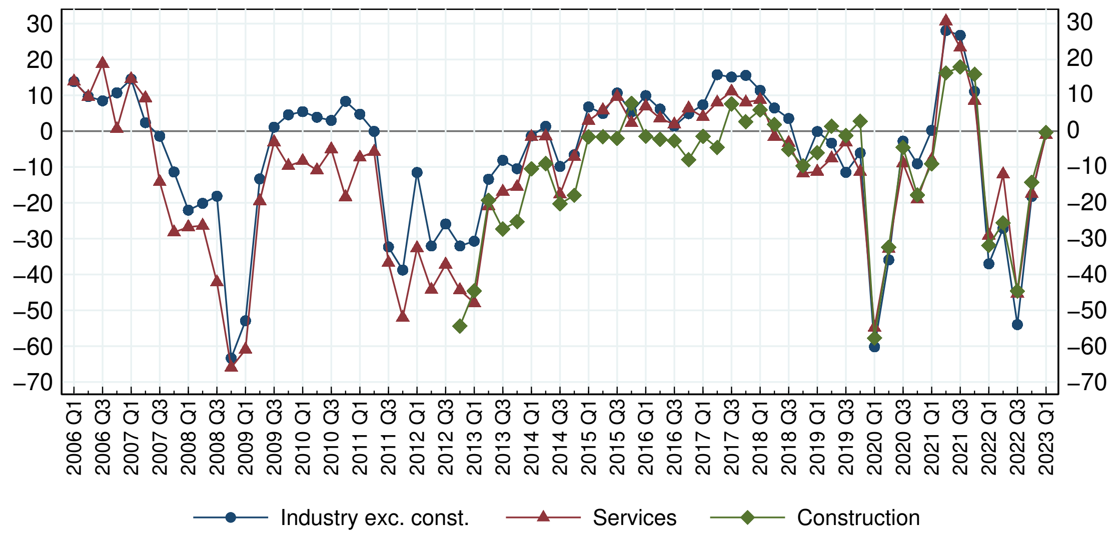
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2022 Q4	2023 Q1	*2022 Q4*	2023 Q1	*2022 Q4*	2023 Q1	*2022 Q4*	2023 Q1
	per cent							
Inflation expectation 6 months ahead	*9.0*	8.1	*8.7*	7.6	*9.0*	7.6	*8.9*	7.8
Inflation expectation 12 months ahead	*8.1*	6.5	*8.1*	6.4	*8.3*	6.2	*8.1*	6.4
Change in own prices 12 months ahead	*4.1*	2.8	*3.9*	2.9	*5.3*	5.5	*4.0*	3.0
	Balance between reports of improvement and deterioration (percentage points)							
Judgments on the previous quarter								
General economic situation	*-37.3*	-3.8	*-42.9*	-13.1	*-49.3*	-12.6	*-40.7*	-8.8
Total demand	*-2.1*	6.4	*1.6*	9.9	*12.3*	25.6	*0.5*	9.2
Foreing demand	*4.8*	13.7	*-1.0*	6.3	—	—	*3.0*	11.4
Investment conditions	*-29.2*	-15.3	*-30.5*	-19.8	*-36.1*	-26.4	*-30.2*	-18.1
Forecast 3 months ahead								
Total demand	*11.8*	32.1	*9.0*	32.9	*22.3*	35.1	*11.0*	32.7
Foreing demand	*18.0*	34.2	*8.9*	21.4	—	—	*14.9*	30.3
Firms' economic conditions	*-18.2*	-0.4	*-17.5*	-1.1	*-14.6*	-0.8	*-17.6*	-0.7
Employment	*11.2*	19.8	*10.8*	15.8	*11.8*	19.7	*11.1*	17.8
Forecast of investment expediture								
H1 2023 on H2 2022	*16.7*	8.6	*23.0*	20.5	*21.2*	18.1	*20.0*	14.9
2023 on 2022	*13.4*	11.0	*14.0*	18.1	*16.0*	13.2	*13.8*	14.6

(1) The statistical appendix is available at
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/22023-indagine-inflazione/03/dati_2023_03.zip?language_id=1

Figure 1

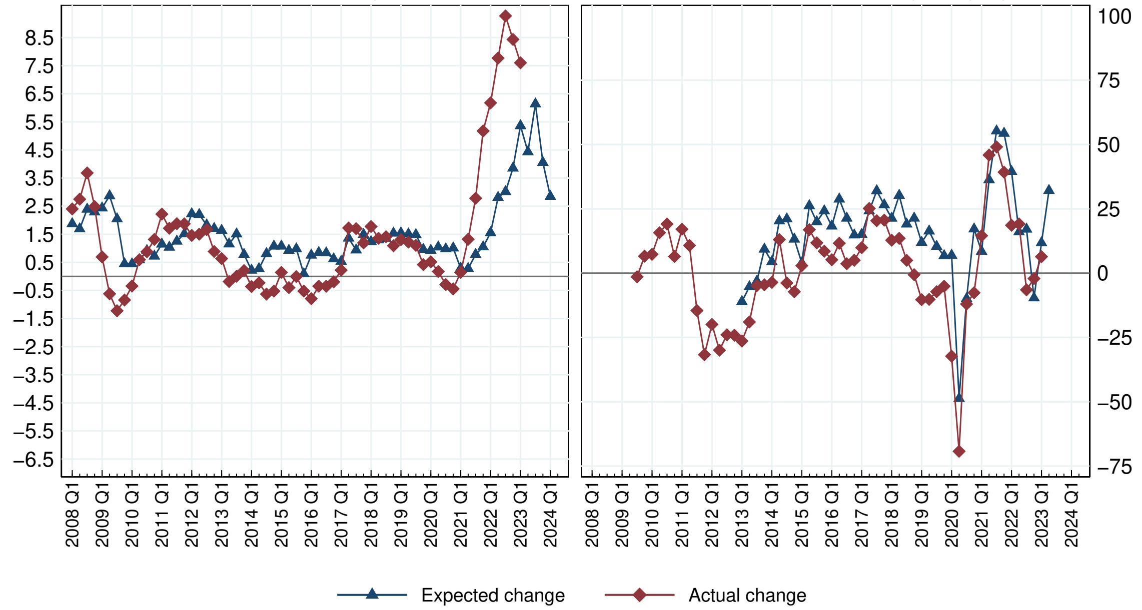
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

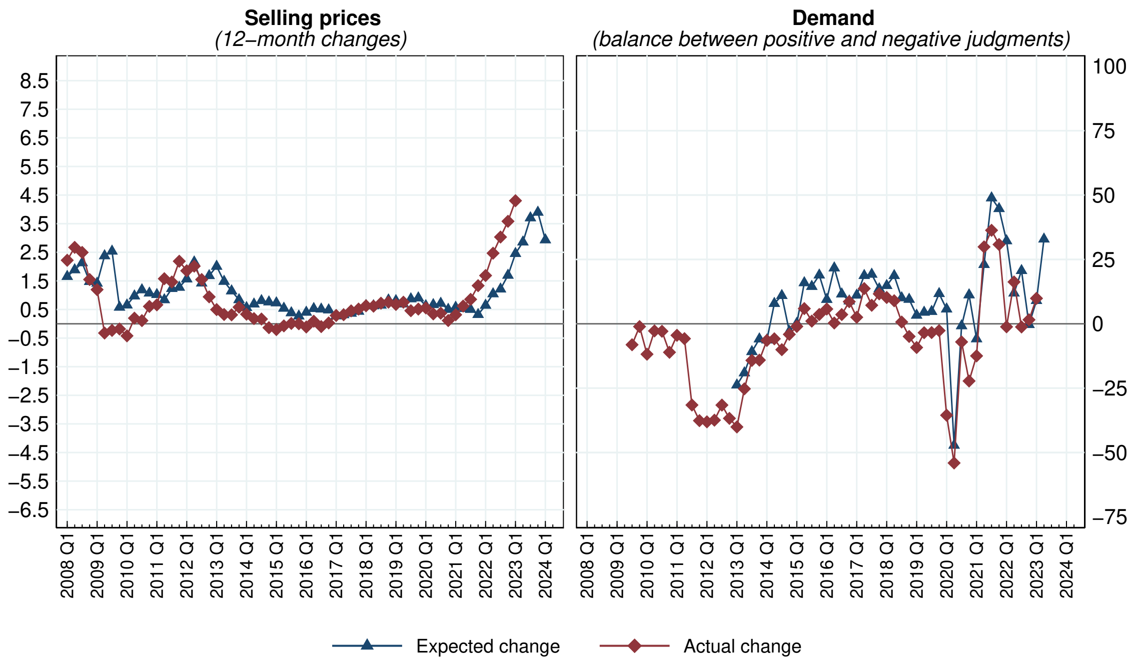
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

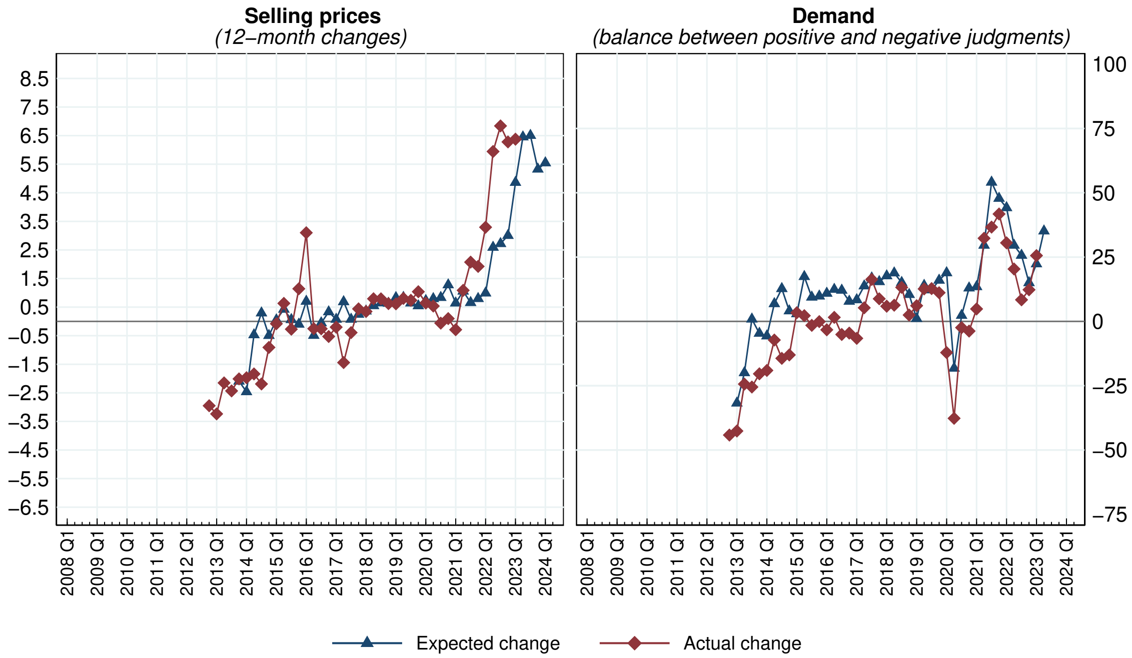
Expected and actual changes in selling prices and demand (1)
(services)



(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

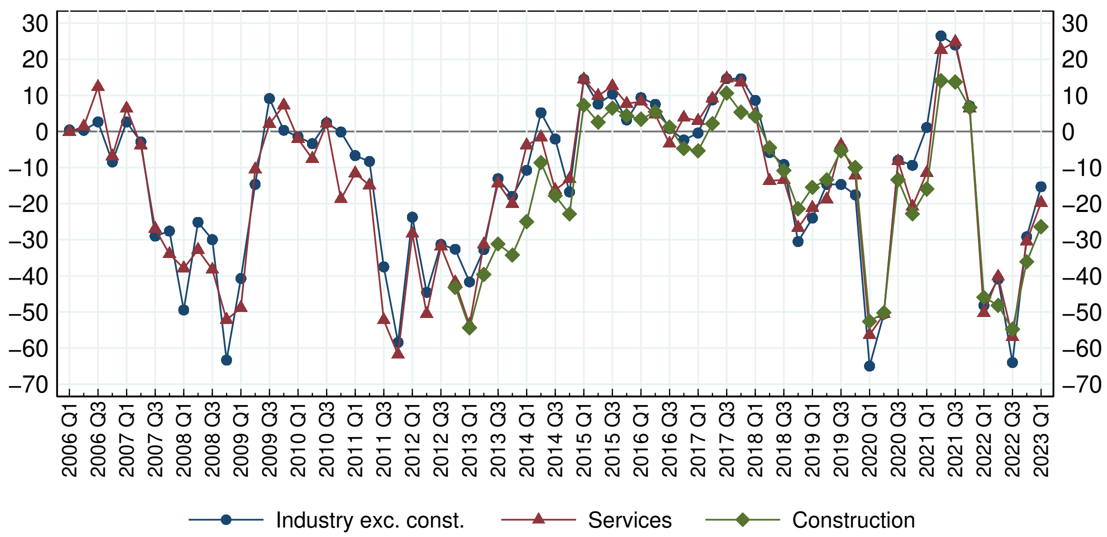
Expected and actual changes in selling prices and demand (1)
(Construction)



(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

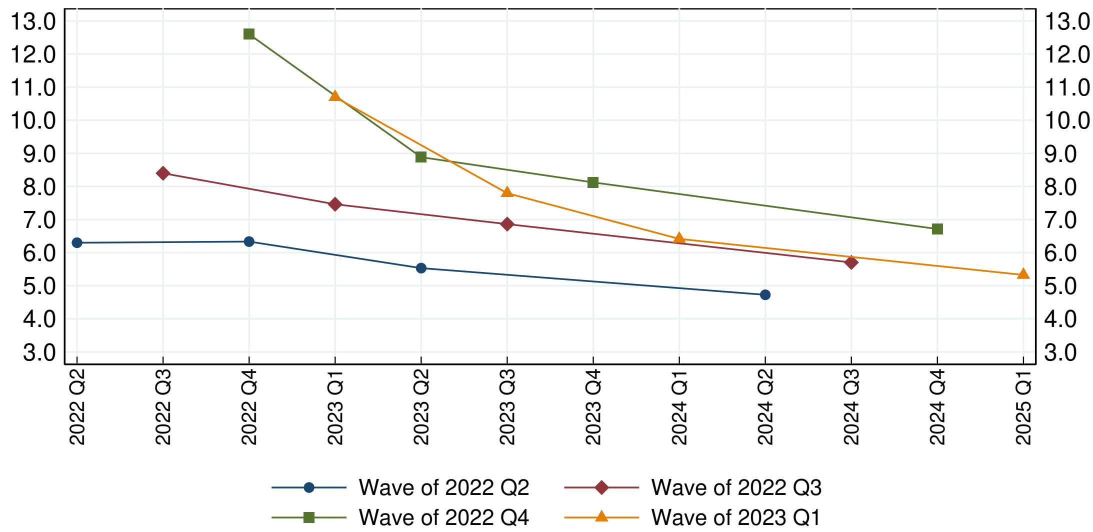
Conditions for investment with respect to previous quarter (1)
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

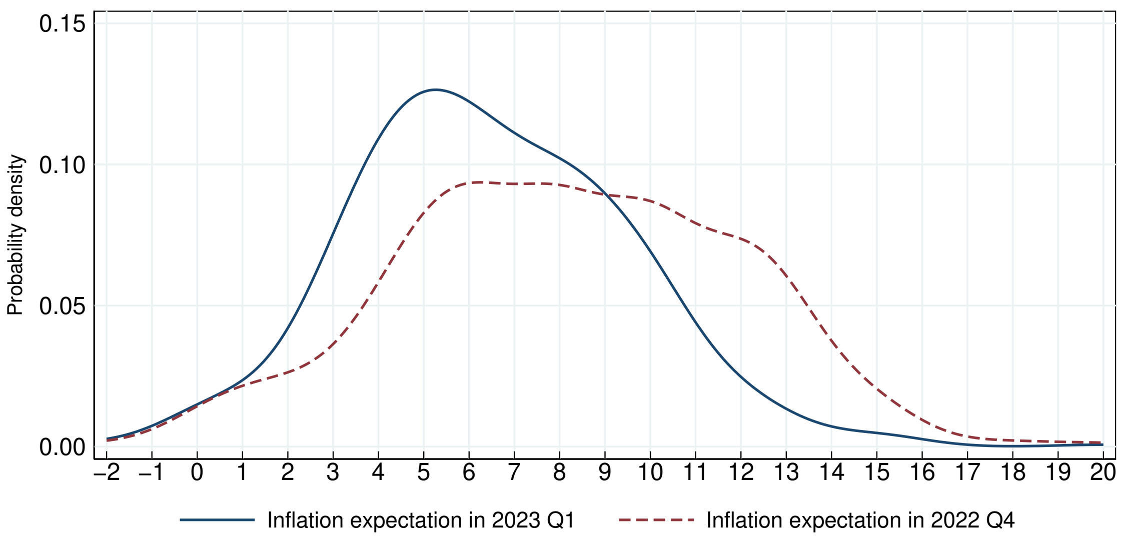
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

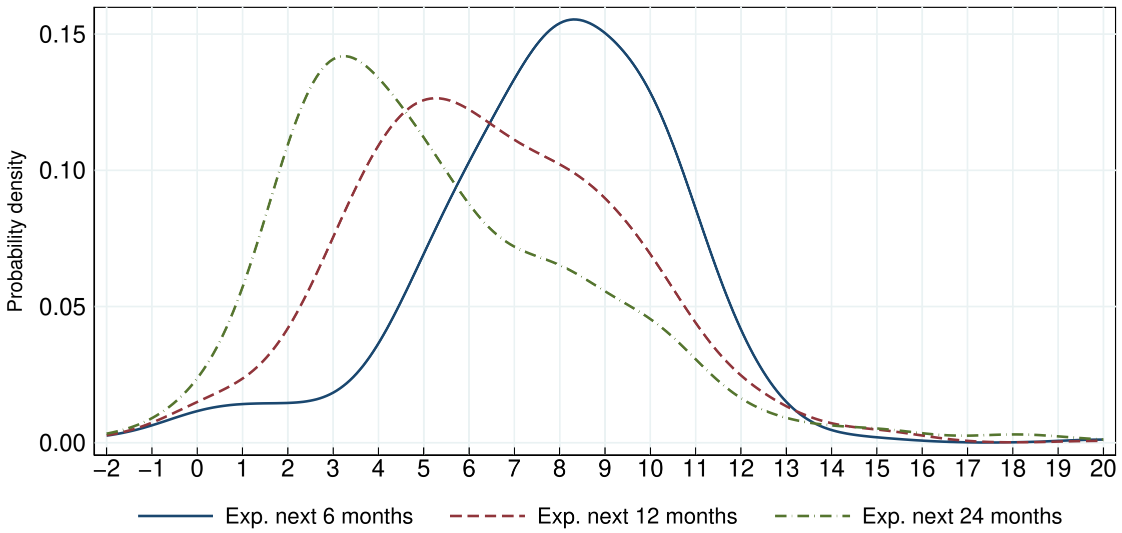
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



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

Figure 6

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 1.

‘Statistics’ series publications are available on the Bank of Italy’s site:
http://www.bancaditalia.it/statistiche/
Requests for clarifications concerning data contained in this publication can be sent by e-mail to *statistiche@bancaditalia.it*

Publication not subject to registration pursuant to Article 3 bis of Law 103/2012