BANCA D'ITALIA
EUROSISTEMA

Statistics

Survey on Inflation and Growth Expectations

10 July 2023

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www.bancaditalia.it/statistiche/index.html

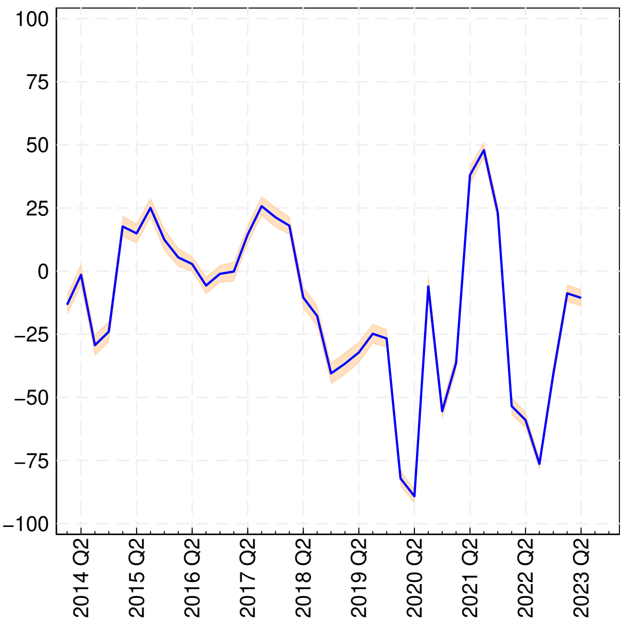
Main results

According to the survey conducted between 22 May and 12 June 2023 among Italian industrial and service firms with 50 or more employees, in the second quarter of this year opinions regarding the general state of the economy remained unfavourable overall. Firms' opinions generally deteriorated in industry excluding construction, while they remained somewhat positive in the service sector and were slightly better in construction.

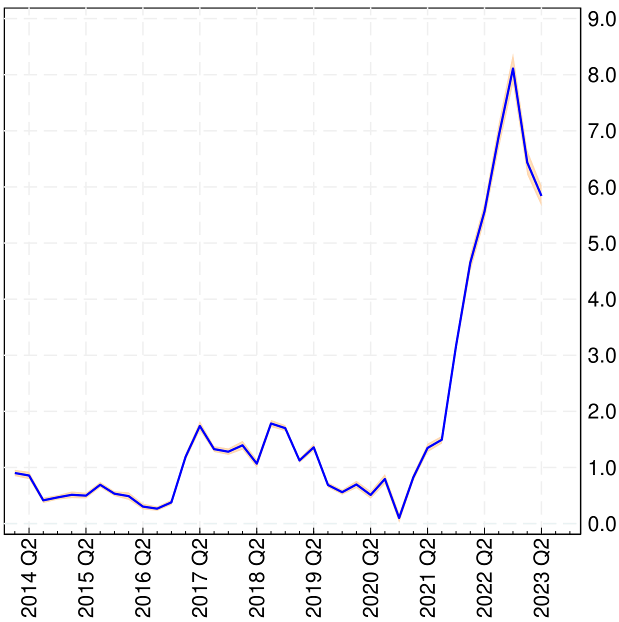
Firms' expectations of their own operating conditions over the next three months worsened in industry excluding construction but improved in the service and construction sectors. The boost from demand, which had supported economic activity in the first quarter of 2023, faltered; demand expectations for the coming months, both in total and foreign, also weakened. Although firms perceived investment conditions to be unfavourable, especially for those in industry excluding construction and in services, they continued to expect investment to grow this year. Employment prospects for the next three months remain on the upside.

Consumer price inflation expectations decreased across all time horizons, to 5.8 per cent over a twelve-month horizon and to 5.0 and 4.5 per cent over the two-year and three-to-five-year horizons respectively. Growth in firms' selling prices is expected to remain strong over the next twelve months, though slackening overall.

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. See Tables s1 and s4 of the statistical appendix.

Reference period: Q2 2023

Survey on Inflation and Growth Expectations[1]

Firms' assessments of the general state of the economy deteriorate in manufacturing ...

In the second quarter of 2023, the share of firms believing that the general state of the economy had improved compared with three months earlier shrank to 12.6 per cent from 14.9 per cent in the previous round of the survey, while that of firms reporting a deterioration was practically unchanged at 23.2 per cent (Table 1). Firms' opinions became more negative in industry excluding construction, while they improved in services and construction.

... as does the outlook for their own operating conditions ...

The balance between expectations of an improvement and of a worsening in firms' operating conditions over the next three months became more negative in industry excluding construction but turned positive in the service and construction sectors (Figure 1). The main factors dampening the growth outlook continue to be economic and political uncertainty and, albeit to a much lesser extent than in 2022, oil price developments.

… and current and expected demand

The boost from demand, which had supported economic activity in the first quarter, weakened. In this case too, the deterioration was concentrated in industry excluding construction (Figure 2.1), while the service sector remained stable (Figure 2.2) and the construction sector strengthened further (Figure 2.3); similar developments can be observed in firms' assessments of foreign demand. Expectations for total and foreign demand in the third quarter are favourable, albeit less so than in the previous quarter. Almost half of the firms active in the residential segment reported that part of their work benefited from the incentives connected with the 'Superbonus' (51 per cent in the previous survey).

The outlook on investment conditions remains pessimistic, yet firms expect an increase in investments in 2023

The share of firms that consider their credit access conditions to be unchanged increased to 78.4 per cent from 76.6 per cent in the previous quarter, mainly reflecting the decline in the proportion of respondents considering them to be deteriorating. The overall liquidity position for the next three months continues to be considered 'at least sufficient' by just over 90 per cent of firms. However, the assessment of investment conditions worsened (Figure 3), reflecting a deterioration for firms in industry excluding construction compared with the slight progress made by those in the construction and service sectors. Overall, the share of firms expecting investment expenditure to increase this year compared with last year is 16.5 percentage points higher than the share of firms anticipating a reduction, a figure that is in line with the previous round of the survey.

Employment will likely expand further

Compared with the previous survey, the balance between the share of firms that intend to increase the number of workers and those that expect to reduce it remains positive and practically unchanged. Looking at the different sectors, the outlook appears more favourable for firms with at least 1,000 employees and for those based in central Italy, in the service and construction sectors.

The difficulties associated with still high energy prices and intermediate goods shortages are subsiding

In the second quarter, the share of firms reporting difficulties associated with energy prices fell slightly (from 52 per cent in the first quarter to 47 per cent) and these difficulties were less severe than in the previous quarter for around two thirds of them. The share of firms that expect energy prices to exert upward pressure on list prices over the next three months practically halved compared with the previous round of the survey, from 39 to 20 per cent. The share of firms facing difficulties in sourcing raw materials and intermediate inputs continued to decline as well, albeit

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[1] The survey report was prepared by Cristina Conflitti 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 1,521 firms with 50 or more employees (of which 680 in industry excluding construction, 651 in services and 190 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_II_trim_2023.pdf
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2023-indagine-inflazione/06/dati_2023_06_eng.zip
https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2022/IAI_metodi_e_fonti.pdf

at a slower pace, from 37 to 32 per cent in industry excluding construction and in services, and from 65 to 52 per cent in construction.

Inflation expectations decline across all forecasting horizons but remain high

Consumer price inflation expectations declined further across all forecasting horizons, while remaining at historically high levels (Figure 4). On balance, firms expect the average annual inflation rate to be 6.9 per cent six months from now (compared with 7.8 per cent in the previous survey), 5.8 per cent at twelve months (from 6.4 per cent), 5.0 per cent at two years (from 5.3 per cent) and 4.5 per cent over the three-to-five-year horizon (from 4.8 per cent).

Growth in selling prices remains strong, though slackening

Compared with a year earlier, selling prices were revised upwards by 6.9 per cent on average in industry excluding construction (as against 7.6 per cent in the previous survey), by 5.0 per cent in services (as against 4.3 per cent) and by 5.9 per cent in construction (as against 6.4 per cent). Firms expect growth in selling prices to moderate over the next twelve months in industry excluding construction (from 2.8 to 1.9 per cent) and in construction (from 5.5 to 5.2 per cent) and to remain broadly stable in the service sector (from 2.9 to 3.0 per cent). Commodity prices are expected to continue to push up selling prices, albeit less markedly than in the previous quarter. Higher labour and intermediate input costs will also likely contribute to price increases. Over the next twelve months, 60 per cent of manufacturing and service firms do not plan to change their mark-ups, while 29 per cent intend to revise them upwards and 11 per cent downwards.

Table 1

Main findings (1)

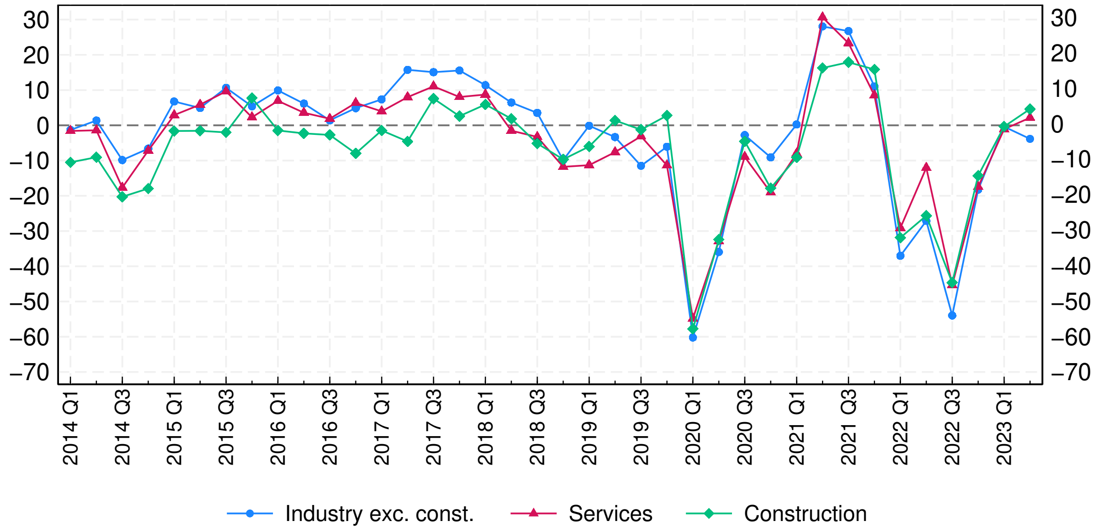
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2023 Q1	2023 Q2	*2023 Q1*	2023 Q2	*2023 Q1*	2023 Q2	*2023 Q1*	2023 Q2
	per cent							
Inflation expectation 6 months ahead	*8.1*	7.0	*7.6*	6.8	*7.6*	6.9	*7.8*	6.9
Inflation expectation 12 months ahead	*6.5*	5.8	*6.4*	5.9	*6.2*	5.9	*6.4*	5.8
Change in own prices 12 months ahead	*2.8*	1.9	*2.9*	3.0	*5.5*	5.2	*3.0*	2.6
	Balance between reports of improvement and deterioration (percentage points)							
Judgments on the previous quarter								
General economic situation	*-3.8*	-11.8	*-13.1*	-10.2	*-12.6*	-4.4	*-8.8*	-10.6
Total demand	*6.4*	0.4	*9.9*	9.8	*25.6*	30.7	*9.2*	6.7
Foreing demand	*13.7*	5.3	*6.3*	12.0	—	—	*11.4*	7.4
Investment conditions	*-15.3*	-23.6	*-19.8*	-18.0	*-26.4*	-15.0	*-18.1*	-20.4
Forecast 3 months ahead								
Total demand	*32.1*	21.6	*32.9*	25.8	*35.1*	41.6	*32.7*	24.8
Foreing demand	*34.2*	20.6	*21.4*	16.7	—	—	*30.3*	19.3
Firms' economic conditions	*-0.4*	-3.8	*-1.1*	2.2	*-0.8*	4.2	*-0.7*	-0.5
Employment	*19.8*	13.7	*15.8*	21.5	*19.7*	20.7	*17.8*	17.8
Forecast of investment expediture								
H2 2023 on H1 2023	*8.6*	17.8	*20.5*	22.8	*18.1*	21.3	*14.9*	20.4
2023 on 2022	*11.0*	12.3	*18.1*	20.9	*13.2*	12.9	*14.6*	16.5

(1) The statistical appendix is available at
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/22023-indagine-inflazione/06/dati_2023_06.zip?language_id=1

Figure 1

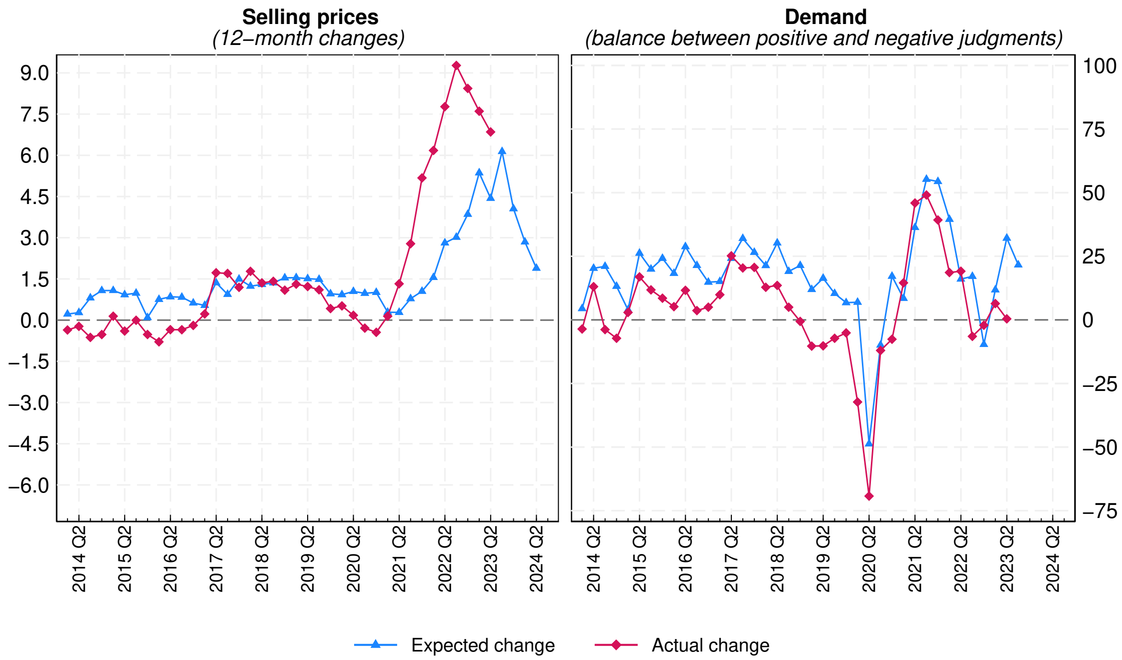
Three-month forecast of the firm's business conditions (1)
(percentage points)



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

Figure 2.1

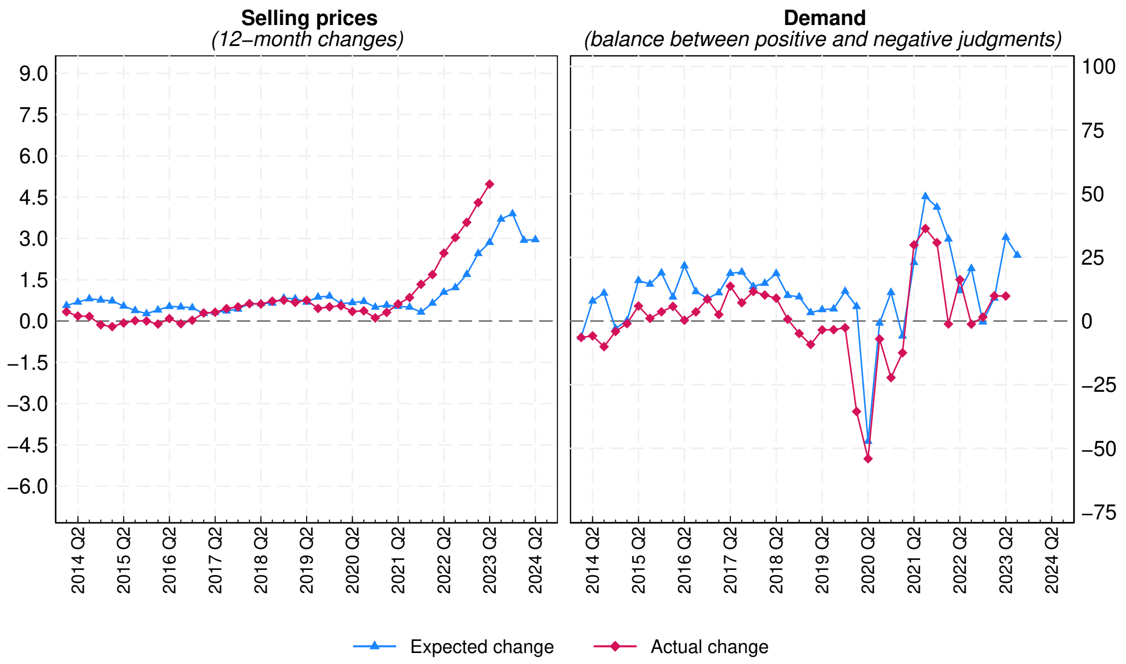
Expected and actual changes in selling prices and demand (1)
(industry excluding construction)



(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

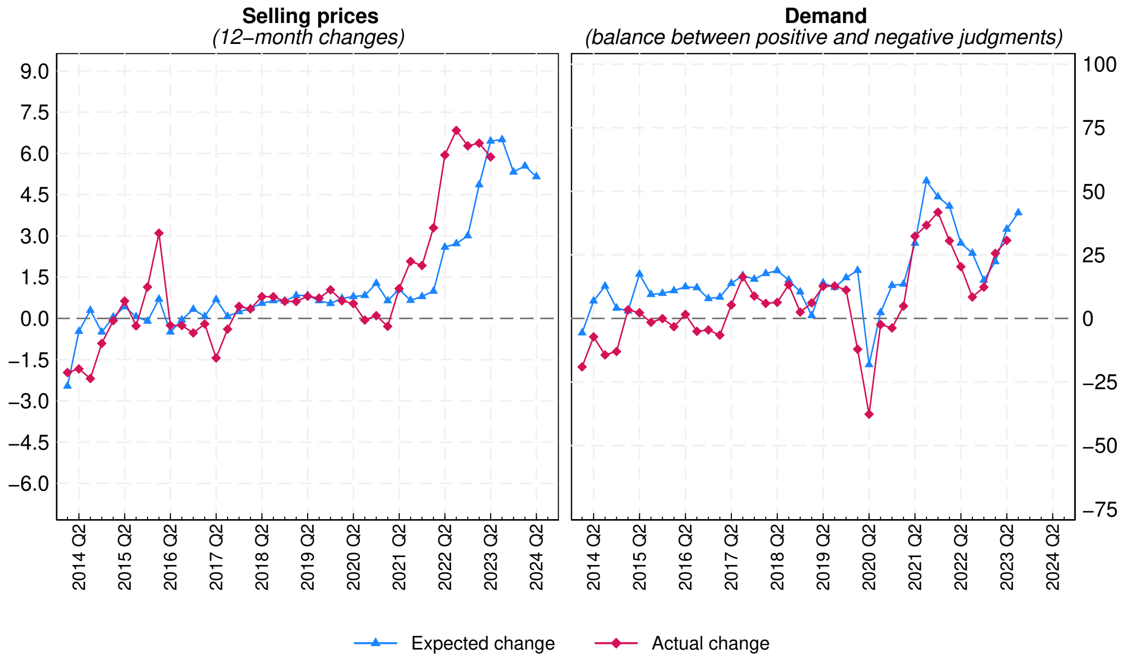
Expected and actual changes in selling prices and demand (1)
(services)



(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).

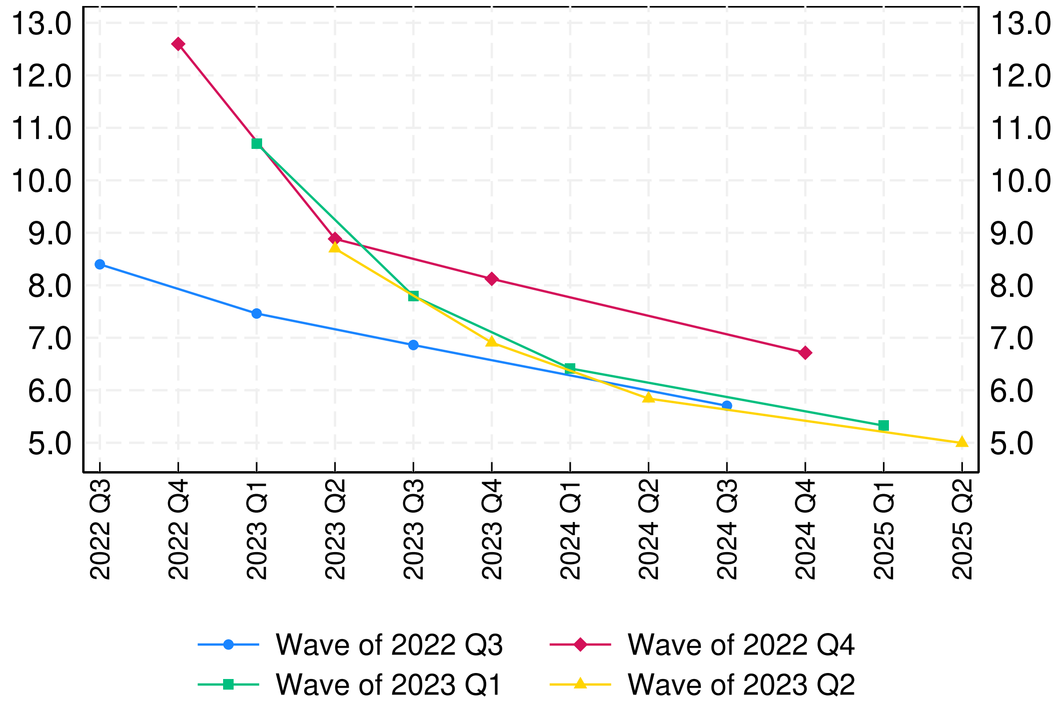
Figure 3

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

(1) Balance between positive and negative judgments.

Figure 4

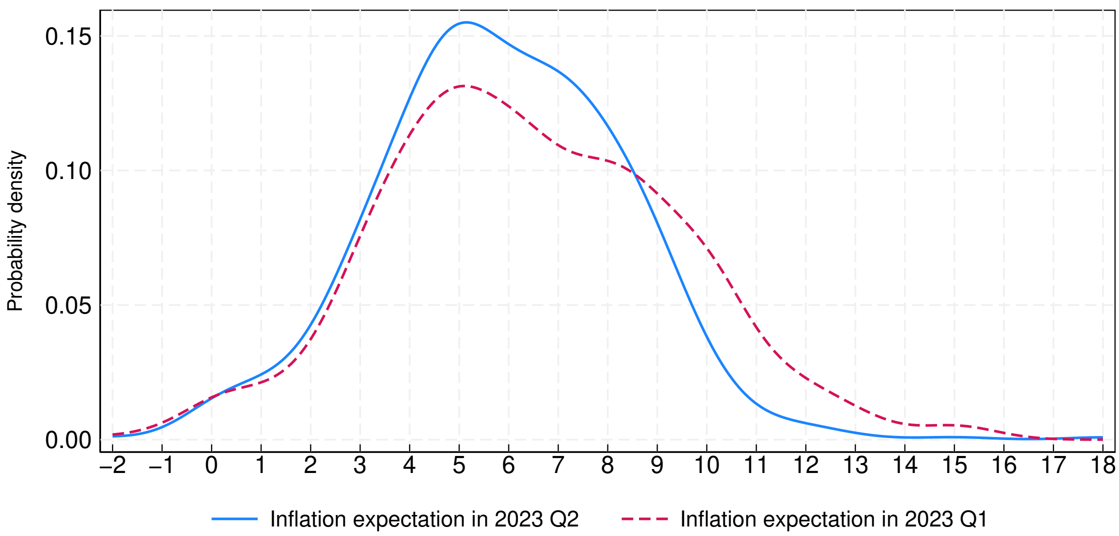
Expectations of consumer price inflation in Italy (1)
(percentage changes on year-earlier period)



(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

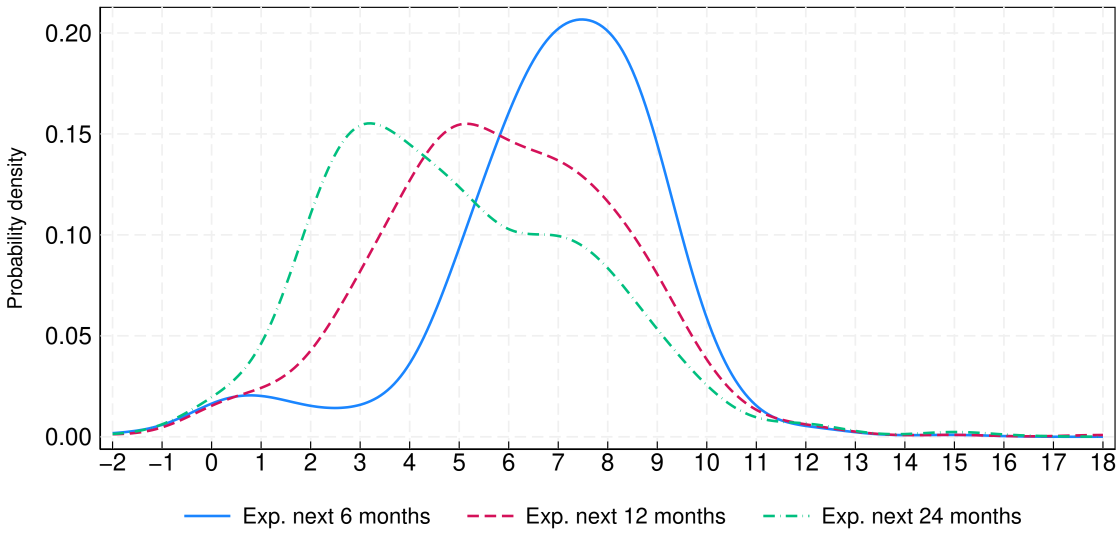
Expectations of the inflation rate over the next 12 months (1)
(non parametric estimates)



(1) The estimates are obtained using a Gaussian kernel density with a bandwith equal to 0.75.

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 0.75.

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