

# Survey on Inflation and Growth Expectations

10 October 2023

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[www.bancaditalia.it/statistiche/index.html](http://www.bancaditalia.it/statistiche/index.html)

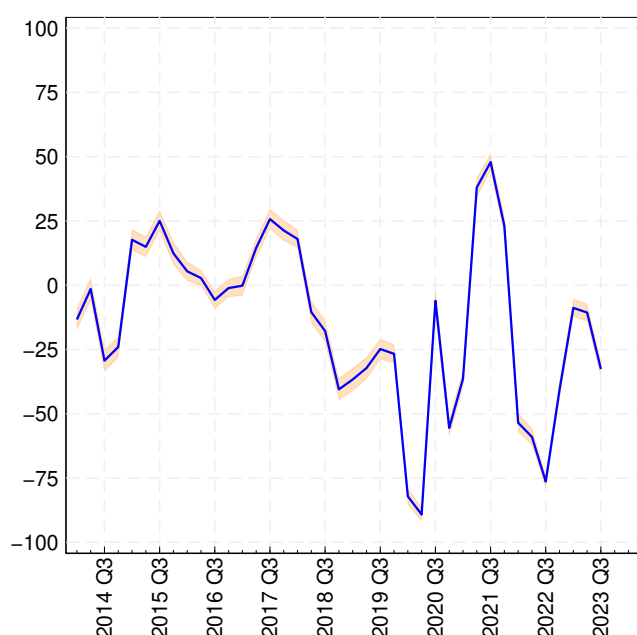
## Main results

According to the survey conducted between 23 August and 13 September 2023 among Italian industrial and service firms with 50 or more employees, in the third quarter of this year opinions regarding the general state of the economy and expectations for business conditions over the next three months deteriorated significantly compared with the previous quarter, though the impact of high energy prices eased further. Overall demand growth slowed, reflecting a decline in foreign orders for the first time since end-2020. Likewise, the outlook for sales weakened, while remaining broadly favourable.

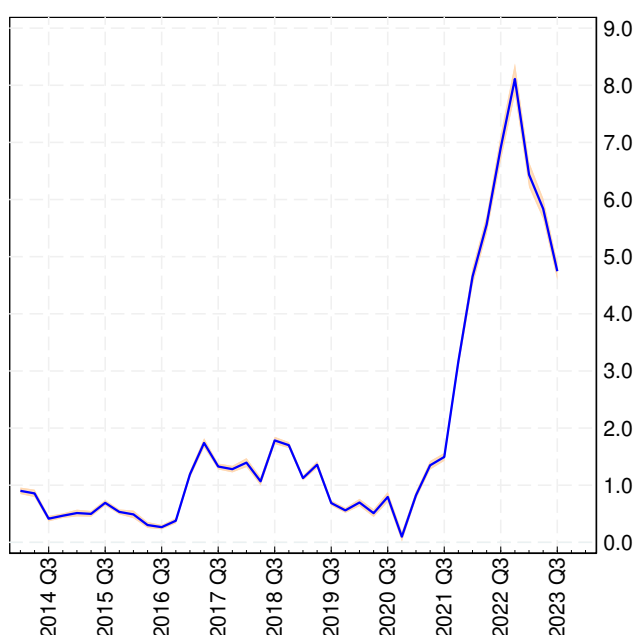
Assessments of investment conditions worsened, in line with a trend that started in early 2022. However, firms still expect investment to grow in 2023 as a whole, albeit at a slower pace than in the previous survey. The outlook for employment has become less positive.

Firms' selling prices have been decelerating over the past year, a trend which looks set to continue over the next twelve months. Consumer price inflation expectations fell further across all time horizons, to 4.7 per cent over a twelve-month horizon (from 8.1 per cent in Q4 2022, the highest level since the beginning of the time series) and to 4.2 and 3.8 per cent over the two-year and three-to-five-year horizons, respectively.

**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.

## Survey on Inflation and Growth Expectations<sup>1</sup>

### **Firms' assessments of the general state of the economy and expectations for business conditions deteriorate sharply**

In the third quarter of 2023, the share of Italian industrial and service firms with 50 or more employees reporting a deterioration in the general state of the national economy rose to 37 per cent, from 23 per cent in the previous round of the survey, while the portion of firms giving positive assessments shrank from 13 to 4 per cent (Table 1). Moreover, 41 per cent of respondents saw no likelihood of a cyclical upturn in the next three months, up by 12 percentage points from the last survey.

The negative gap between expectations of an improvement and of a worsening in firms' business conditions over the next three months widened further in industry excluding construction, from -4 to -15 percentage points (Figure 1). In services and construction, the gap went from 2 and 4 percentage points to -13 and -3 points, respectively. This gloomy outlook primarily reflects the ongoing economic and political uncertainty and energy price trends.

The balance of firms reporting higher and lower sales in Q3 2023 decreased across the board, particularly in industry excluding construction, where it turned negative (-17 percentage points, from virtually nil; Figure 2.1). The gap almost closed in services (down from 10 percentage points; Figure 2.2), while it remained positive in construction, albeit sliding from 31 to 17 points (Figure 2.3). Overall demand patterns reflected a decline in foreign orders, where reports of a deterioration outnumbered positive assessments for the first time since end-2020 (by 7 percentage points). Firms' expectations for overall and foreign demand in the next quarter remain favourable, though at much lower levels than in the last survey.

### **Planned investment for 2023 is revised downwards**

According to almost four in five firms in industry excluding construction and in services, credit conditions held stable in the third quarter, whereas they worsened for 20 per cent of respondents, in line with the findings for the past five quarters. Assessments were more negative for non-residential construction firms. Views of investment conditions deteriorated further compared with the previous survey, in keeping with a trend that started in early 2022. The share of negative assessments increased by 7 percentage points from the previous quarter (to 35 per cent), while positive assessments slipped by just over 3 points (to 4 per cent; Figure 3). In industry excluding construction and in services, the balance of firms expecting higher and lower capital expenditure remained positive, though it fell from the last survey, by 5 percentage points for the full year and by 9 points for the second half of 2023. On the other hand, construction firms revised their annual capital expenditure forecasts upward (the balance of expectations rose from 13 to 21 percentage points). This increase was more pronounced in non-residential construction, where expectations nevertheless remained less favourable than for residential developers. Among the latter, 58 per cent reported that some of their projects in 2023 were funded by government incentives ('Superbonus'), compared with 48 per cent in the second quarter.

### **Investment expectations for 2023 are revised downwards but remain positive**

The gap between firms planning to hire and those expecting to reduce their staff narrowed by 11 percentage points from the previous survey (to 7 points). Expectations remained more upbeat in construction, with a positive balance of 21 percentage points, unchanged from the previous survey.

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<sup>1</sup> The survey report was prepared by Lucia Modugno and Luigi Palumbo.

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 1,588 firms with 50 or more employees (of which 695 in industry excluding construction, 684 in services and 209 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/questionarioinflazione/documenti/en\\_quest\\_III\\_trim\\_2023.pdf?language\\_id=1](http://www.bancaditalia.it/statistiche/basi-dati/bird/inflazione-e-crescita/questionarioinflazione/documenti/en_quest_III_trim_2023.pdf?language_id=1)

[http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2023-indagine-inflazione/09/dati\\_2023\\_09\\_eng.zip?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2023-indagine-inflazione/09/dati_2023_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](https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2022/IAI_methods_and_sources.pdf?language_id=1)

**In industry excluding construction and in services, the difficulties associated with high energy prices continue to subside**

In the third quarter, the share of firms reporting difficulties associated with energy prices fell further in industry excluding construction and in services (to 43 and 35 per cent, respectively, from 55 and 38 per cent), while it grew slightly in construction (from 51 to 55 per cent). Overall, these hurdles were less severe than in the previous quarter according to three in five respondents. The portion of firms planning to raise prices in the following quarter in response to high energy costs remained stable from the last survey (at 21 per cent) and declined significantly year-on-year (from around 60 per cent).

**Growth in firms' selling prices shows signs of a slowdown**

Over the past twelve months, firms' selling prices rose across all sectors, though with signs of deceleration: the average change was 4.6 per cent overall in industry excluding construction and in services (from 5.7 in the previous survey) and 5.6 per cent in construction (from 5.9 per cent), with a still larger contribution from the residential segment, albeit declining at a faster pace (to 7.7 per cent, from 9.3). Over the next 12 months, firms expect the growth in selling prices to slow down across the board, to an average of 2.7 per cent in industry excluding construction and in services and of 4.9 per cent in construction.

**Inflation expectations are down across all time horizons**

Consumer price inflation expectations fell further across all forecast horizons, to early-2022 levels. The expected consumer price inflation rate averaged 5.1 per cent over a six-month horizon (versus 6.9 per cent in the previous survey; it was 8.9 per cent in Q4 2022, the highest level since the beginning of the time series), 4.7 over a twelve-month horizon (versus 5.8), 4.2 over a two-year horizon (versus 5.0) and 3.8 over a three-to-five-year horizon (versus 4.5; (Figure 4). The latter stood at 5.7 per cent in the fourth quarter of 2022.

Table 1

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

	Industry exc. const.		Services		Construction		Total	
	2023 Q2	2023 Q3	2023 Q2	2023 Q3	2023 Q2	2023 Q3	2023 Q2	2023 Q3
	<b>per cent</b>							
Inflation expectation 6 months ahead	7.0	5.2	6.8	5.0	6.9	5.1	6.9	5.1
Inflation expectation 12 months ahead	5.8	4.8	5.9	4.7	5.9	4.8	5.8	4.7
Change in own prices 12 months ahead	1.9	2.6	3.0	2.9	5.2	4.9	2.6	2.8
	<b>Balance between reports of improvement and deterioration (percentage points)</b>							
	<b>Judgments on the previous quarter</b>							
General economic situation	-11.8	-34.7	-10.2	-30.9	-4.4	-29.8	-10.6	-32.6
Total demand	0.4	-17.4	9.8	0.7	30.7	17.2	6.7	-6.7
Foreing demand	5.3	-9.6	12.0	-1.3	—	—	7.4	-7.0
Investment conditions	-23.6	-33.0	-18.0	-29.2	-15.0	-32.1	-20.4	-31.1
	<b>Forecast 3 months ahead</b>							
Total demand	21.6	6.6	25.8	13.2	41.6	35.0	24.8	11.4
Foreing demand	20.6	8.3	16.7	10.2	—	—	19.3	8.9
Firms' economic conditions	-3.8	-14.5	2.2	-13.2	4.2	-3.4	-0.5	-13.3
Employment	13.7	5.8	21.5	7.6	20.7	20.9	17.8	7.5
	<b>Forecast of investment expenditure</b>							
H2 2023 on H1 2023	17.8	8.6	22.8	13.6	21.3	19.3	20.4	11.6
2023 on 2022	12.3	8.9	20.9	15.4	12.9	20.8	16.5	12.7

(1) The statistical appendix is available at [http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/22023-indagine-inflazione/09/dati\\_2023\\_09.zip?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/22023-indagine-inflazione/09/dati_2023_09.zip?language_id=1)

Figure 1

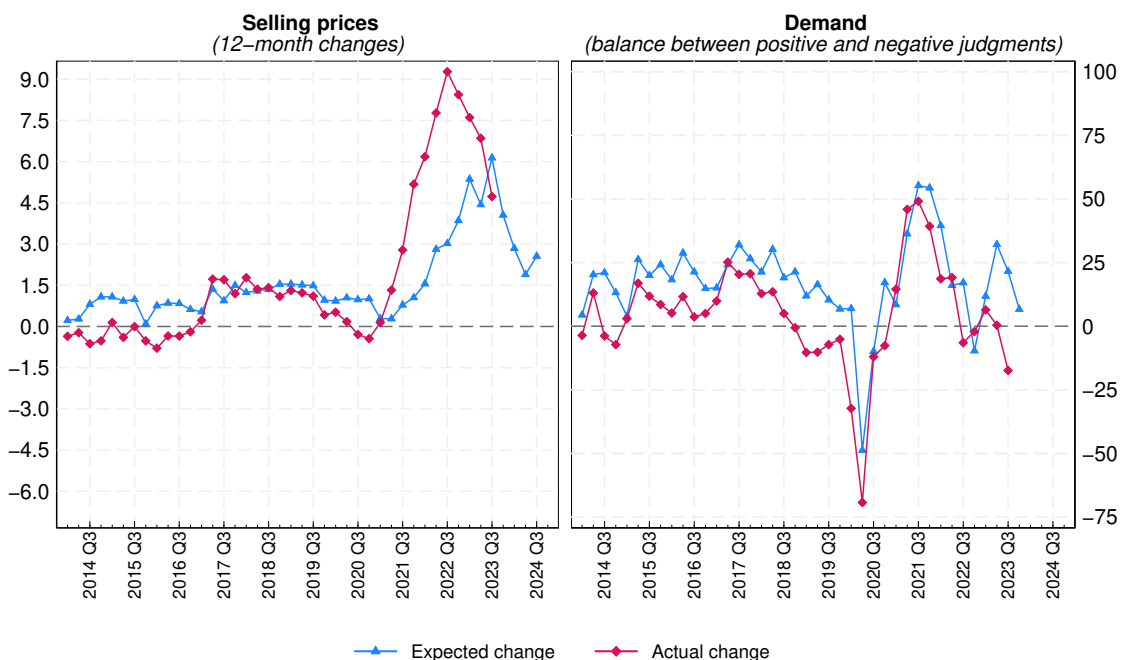
Three-month forecast of the firm's business conditions (1)  
(percentage points)



(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)

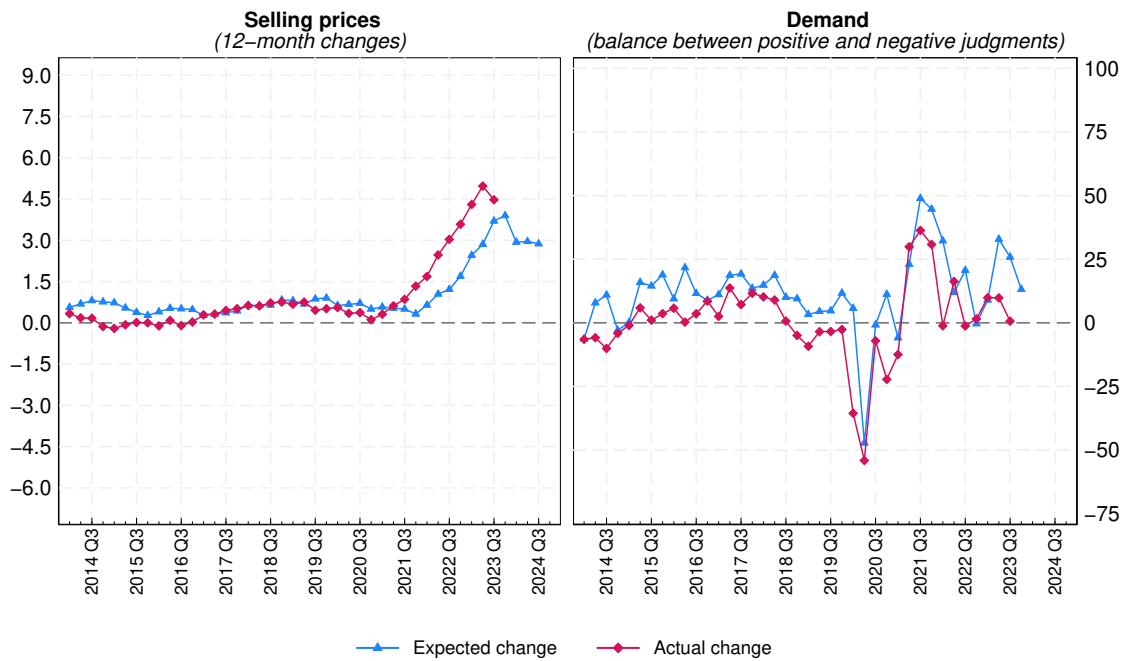
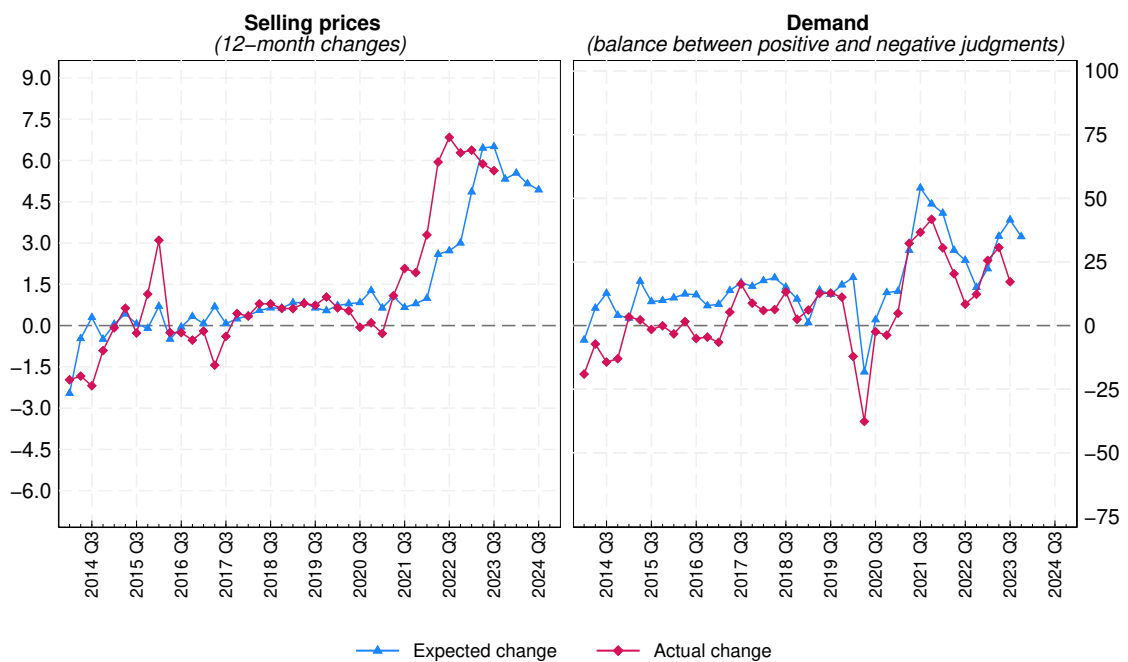


Figure 2.3

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

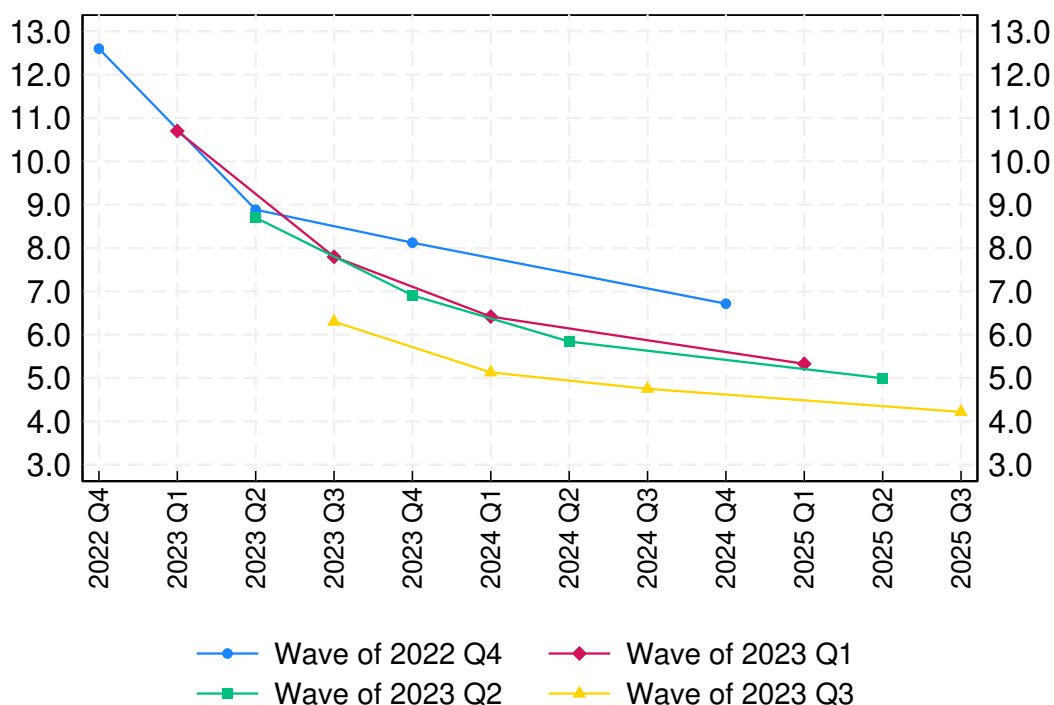
Conditions for investment with respect to previous quarter (1)  
(percentage points)



(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)

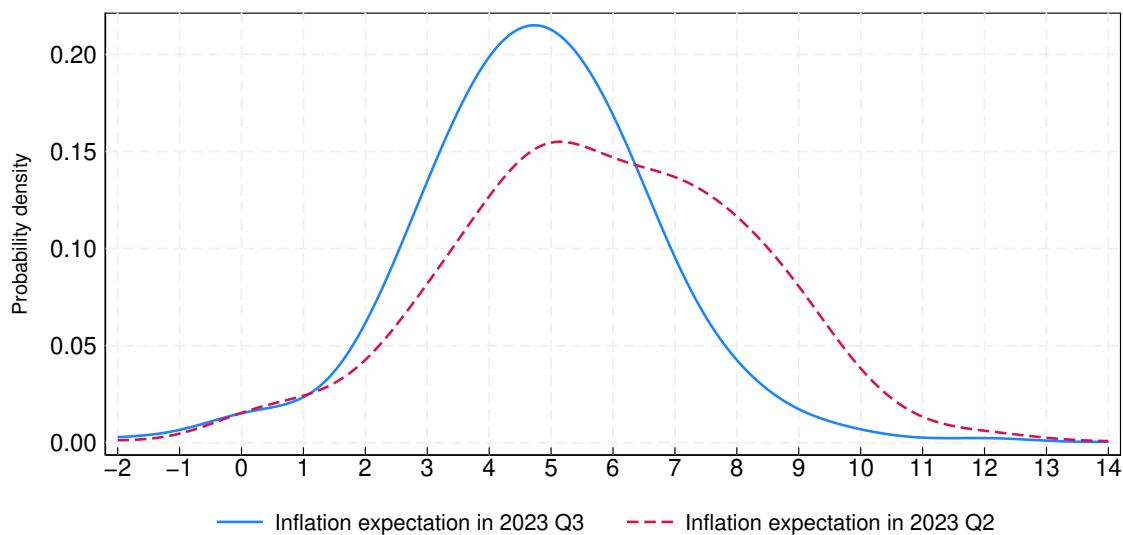
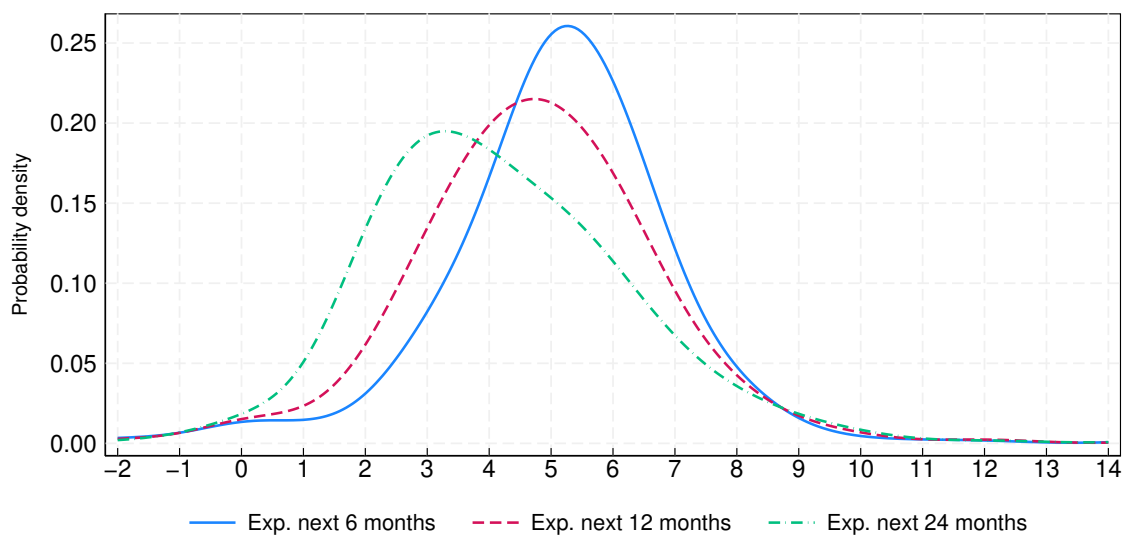


Figure 6

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 bandwidth equal to 0.75.



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