

Survey on Inflation and Growth Expectations

15 January 2024

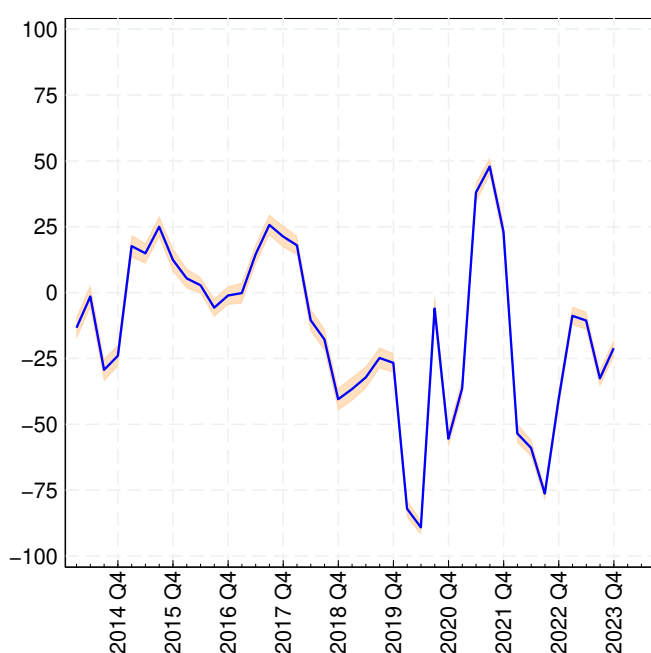
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Main results

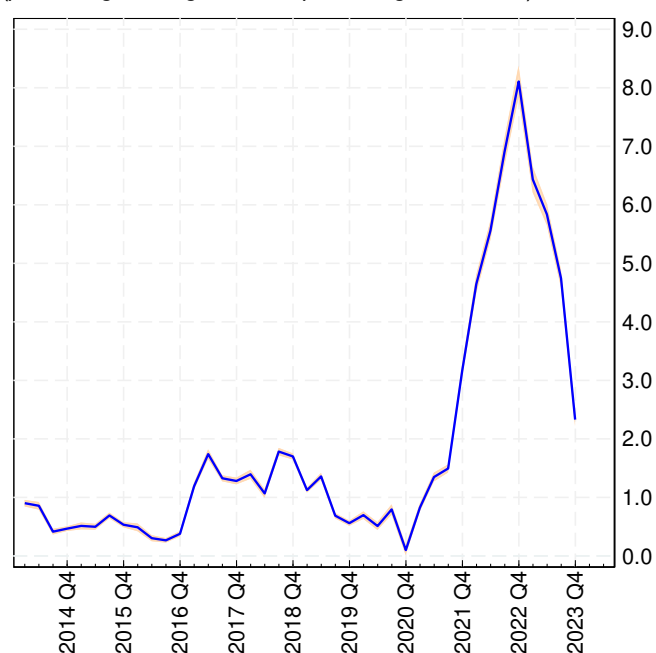
According to the survey conducted between 22 November and 14 December 2023 among Italian industrial and service firms with 50 or more employees, opinions regarding the general state of the economy and expectations for business conditions over the next three months remain unfavourable overall. However, they have slightly improved compared with the previous survey, in the wake of a moderate recovery in domestic demand and less negative investment conditions, especially in services, with expected investment spending remaining resilient. Towards the end of the year, the deterioration in the assessments of access to credit eased across all sectors, and nine out of ten firms reported that their liquidity conditions were at least sufficient. For the first quarter of 2024, firms expect employment to continue to rise.

Growth in firms' selling prices kept slowing and it is expected to weaken further over the next 12 months. Around two thirds of firms forecast an increase in hourly wages for their employees over the next 12 months, and almost a third said their 2023 price lists already factored in any future salary raises. Consumer price inflation expectations fell sharply across all time horizons, to just below 2.5 per cent on short-term horizons and just above 2 per cent on long-term horizons.

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 Expectations¹

Firms' assessments of the general state of the economy and expectations for business conditions improve but remain negative

In the fourth 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 declined to 29 per cent, from 37 per cent in the previous round of the survey, while the portion of firms giving positive assessments picked up from 4 to 8 per cent (Table 1). An overwhelming portion of respondents still saw a small or no likelihood of a cyclical upturn over the next three months, broadly in line with the previous quarter.

The negative gap between expectations of an improvement and of a worsening in firms' business conditions over the next three months narrowed considerably in services (from -13 to -6 percentage points; Figure 1), while it widened slightly in industry excluding construction (from -15 to -18 percentage points). Although the balance remains negative across all Italian macro-regions, the outlook has improved for firms in the North-West, South and Islands, while it remains particularly unfavourable in the North-East. Economic and political uncertainty and energy price trends continue to weigh on business activity.

Domestic demand remains weak, but shows signs of recovery

The balance of firms reporting higher and lower sales in the fourth quarter of 2023 improved across the board, to -12 percentage points in industry excluding construction (from -17 in Q3, Figure 2.1), to 5 percentage points in services (from 1, Figure 2.2) and to 31 percentage points in construction (from 17, Figure 2.3). The balances remain more negative for firms located in the North-East (-10 percentage points). The improvement in sales was driven by domestic demand, while foreign demand remained weak. The balance for the latter remained at -7 percentage points, as in the previous quarter, when

reports of a deterioration outnumbered positive assessments for the first time since end-2020. Expectations for total and foreign demand in the first quarter of 2024 are favourable and have slightly improved since the previous survey.

The deterioration in access to credit eases and investment conditions are less unfavourable

The balance between reports of better and of worse credit conditions in Q4 2023 inched down from -18 to -13 percentage points. Assessments have improved across all sectors, but remain more negative for construction firms. The share of firms that consider their liquidity conditions to be at least sufficient remains above 90 per cent.

The balance of assessments of investment conditions, albeit still negative, has improved, reflecting a reduction in less favourable assessments (by 8 percentage points, to 27 per cent) and an increase in more positive assessments (by around 2 percentage points, to 6 per cent; Figure 3). Excluding construction, the gap between the share of firms expecting an increase and those expecting a reduction in capital expenditure in the first half of 2024 compared with the second half of 2023 was positive and slightly higher than in the previous survey, reflecting expectations of an increase in services and a broadly unchanged situation in industry. The balance remains positive for the whole of 2024.

Construction firms revised their capex forecasts for 2024 slightly downwards (the balance of expectations dropped from 21 to 16 percentage points). Expectations remain more favourable for residential construction firms. Among these, 55 per cent of respondents expected to use 'Superbonus' incentives for part of their building projects, compared with 64 per cent in the previous survey.

¹ The survey report was prepared by Jacopo Tozzo and Lucia Modugno.

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 1,559 firms with 50 or more employees (of which 679 in industry excluding construction, 683 in services and 197 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_IV_trim_2023.pdf?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2023-indagine-inflazione/12/dati_2023_12_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

The outlook for employment remains favourable

The gap between firms planning to hire and those expecting to reduce their staff widened slightly from the previous survey (from 8 to 11 percentage points). Expectations remained more upbeat in construction, with a balance of 23 percentage points, unchanged from the third quarter.

Sales prices slow down; current price lists reflect expected wage increases for around one-third of firms

Over the past 12 months, firms' selling prices slowed down across all sectors, with an average rate of change of 3.4 per cent in industry excluding construction and in services as a whole (compared with 4.6 per cent in the previous survey) and of 5.0 per cent in construction (compared with 5.6 per cent in the previous survey). Over the next 12 months, price growth is expected to decelerate further across the board, to 2.0 per cent in industry excluding construction, 2.4 per cent in services and 4.4 per cent in construction. Around two-thirds of firms expect an increase in hourly wages for their employees over the next 12 months. According to 36 per cent of firms, past increases in hourly wages were incorporated into selling prices in 2023, and 31 per cent of firms have factored in expected salary raises as well.

Fewer firms expect to raise prices due to energy costs

In the fourth quarter, the share of firms reporting difficulties associated with energy prices held stable in industry excluding construction and in services (at 41 and 32 per cent, respectively, versus 65 and 46 per cent in the fourth quarter of 2022). However, the portion of firms planning to raise selling prices in the following quarter in response to high energy costs fell from the last survey, with a significant decline year-on-year (from almost two-thirds to less than one-fifth).

Inflation expectations are down across all time horizons

Consumer price inflation expectations fell sharply across all time horizons, returning to the same levels as in the second half of 2021 and just above 2 per cent. The average consumer price inflation rate is expected to be 2.4 per cent six months from now (down from 5.1 per cent in the previous survey), 2.3 per cent in 12 months (from 4.7 per cent), 2.1 per cent in two years (from 4.2 per cent) and 2.1 per cent over the three- to five-year horizon (from 3.8 per cent); Figure 4).

Table 1

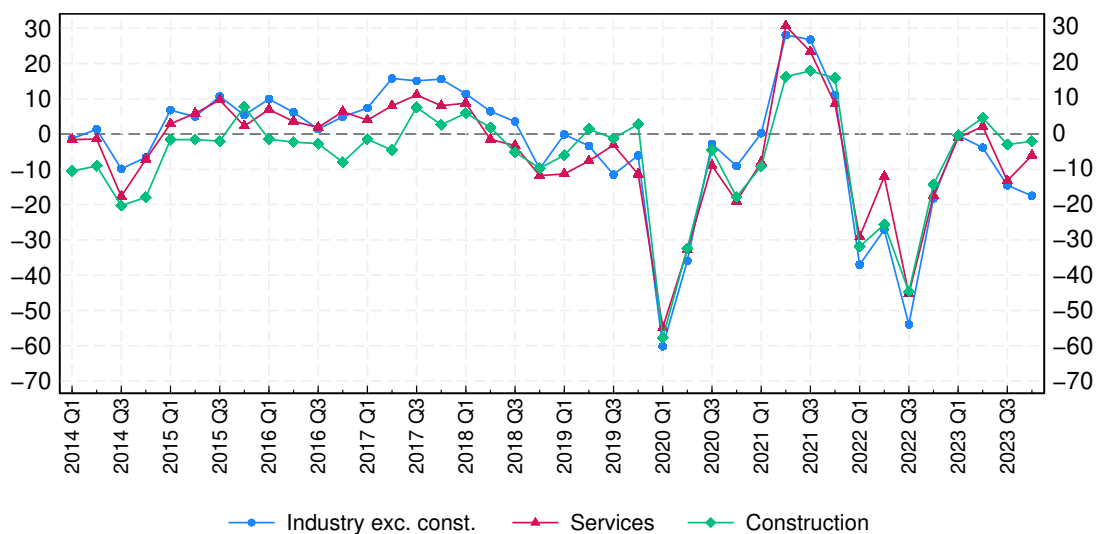
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2023 Q3	2023 Q4	2023 Q3	2023 Q4	2023 Q3	2023 Q4	2023 Q3	2023 Q4
	per cent							
Inflation expectation 6 months ahead	5.2	2.3	5.0	2.4	5.1	2.5	5.1	2.4
Inflation expectation 12 months ahead	4.8	2.3	4.7	2.3	4.8	2.5	4.7	2.3
Change in own prices 12 months ahead	2.6	2.0	2.9	2.4	4.9	4.4	2.8	2.3
	Balance between reports of improvement and deterioration (percentage points)							
	Judgments on the previous quarter							
General economic situation	-34.7	-23.7	-30.9	-19.7	-29.8	-13.1	-32.6	-21.1
Total demand	-17.4	-12.4	0.7	4.6	17.2	31.1	-6.7	-1.5
Foreing demand	-9.6	-9.3	-1.3	-3.0	—	—	-7.0	-7.2
Investment conditions	-33.0	-25.2	-29.2	-17.0	-32.1	-17.5	-31.1	-20.7
	Forecast 3 months ahead							
Total demand	6.6	9.7	13.2	19.2	35.0	31.2	11.4	15.6
Foreing demand	8.3	12.9	10.2	9.9	—	—	8.9	11.9
Firms' economic conditions	-14.5	-17.5	-13.2	-6.1	-3.4	-2.5	-13.3	-11.0
Employment	5.8	8.4	7.6	11.1	20.9	23.3	7.5	10.6
	Forecast of investment expenditure							
H1 2024 on H2 2023	8.6	9.8	13.6	21.7	19.3	18.4	11.6	16.1
2024 on 2023	8.9	8.3	15.4	20.9	20.8	16.3	12.7	14.9

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/22023-indagine-inflazione/12/dati_2023_12.zip?language_id=1

Figure 1

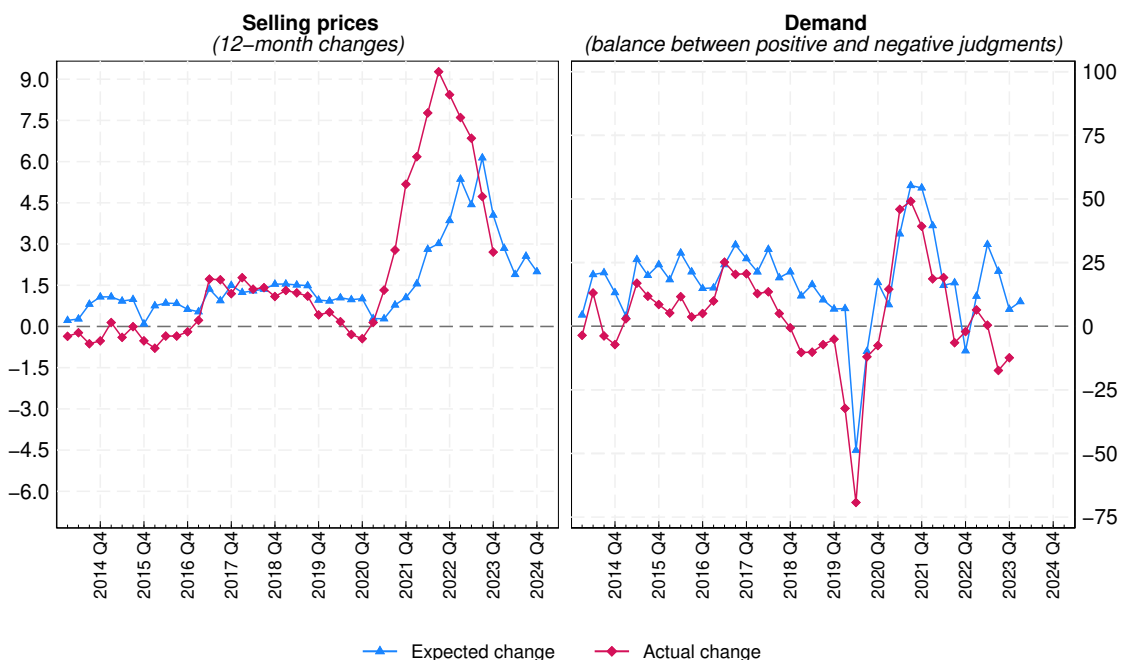
Three-month forecast of the firm's business conditions (1)
(percentage points)



(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)

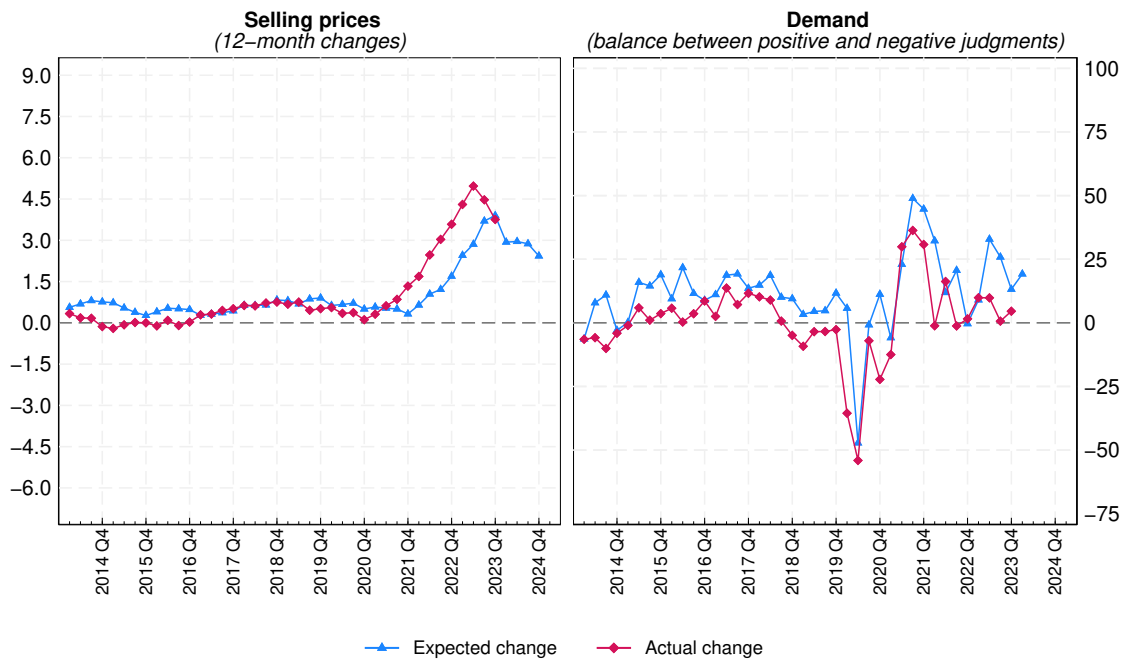
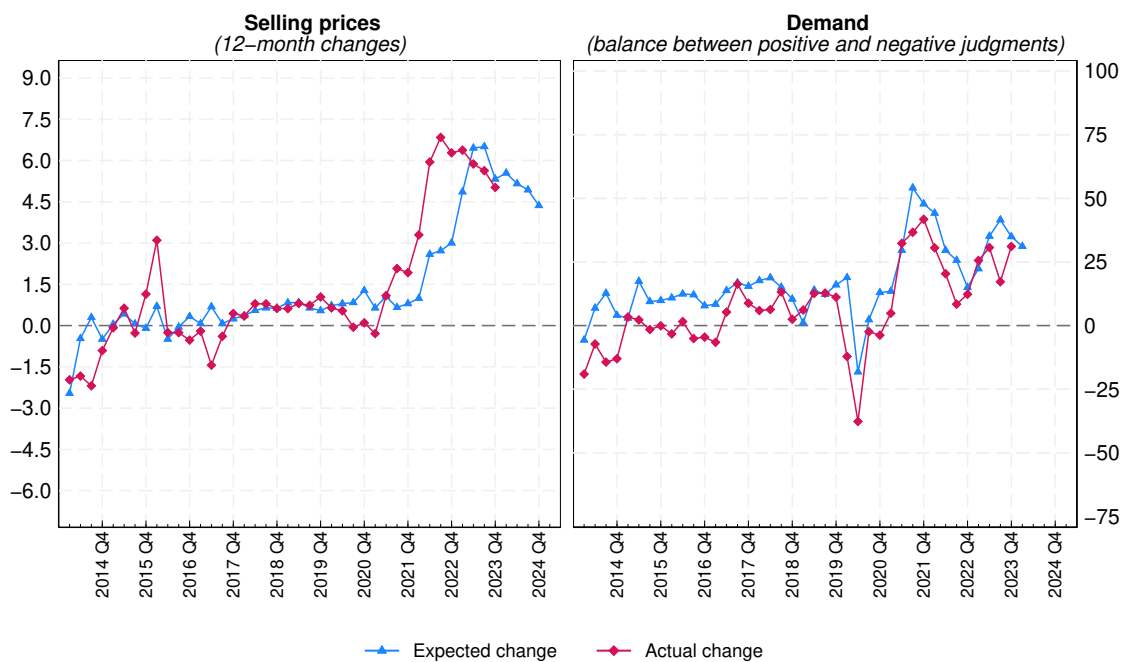


Figure 2.3

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

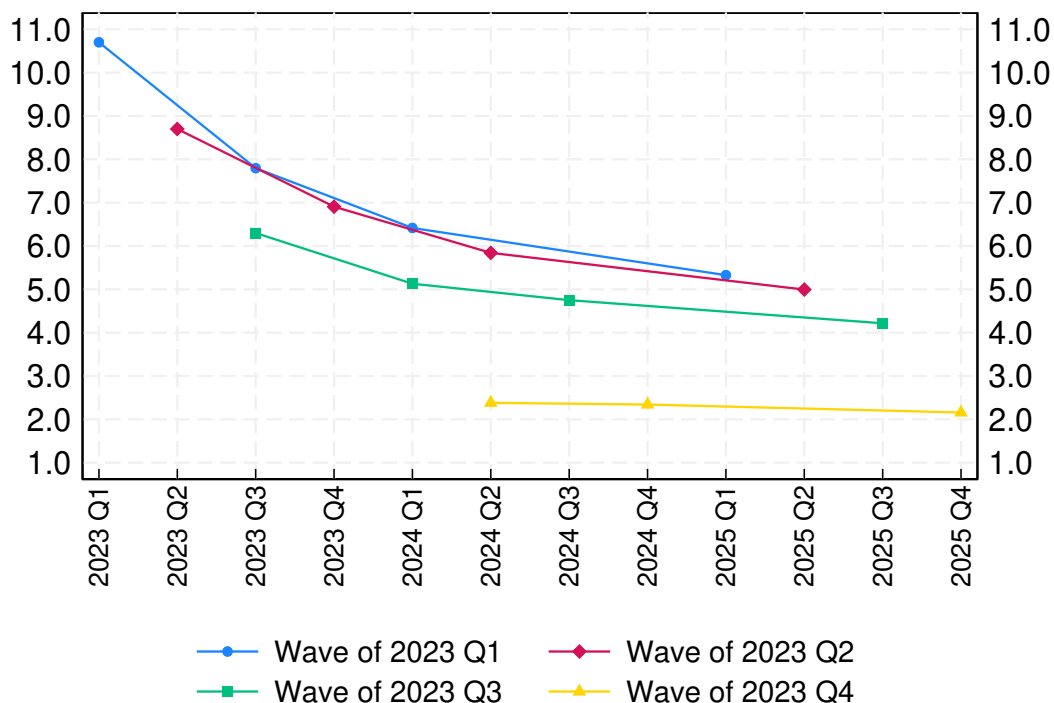
Conditions for investment with respect to previous quarter (1)
(percentage points)



(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)

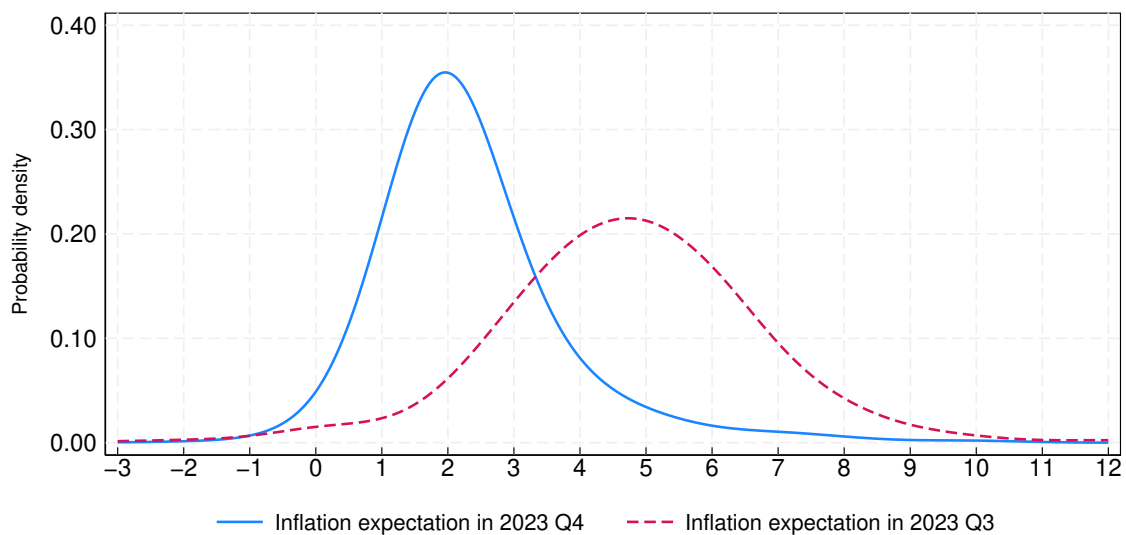
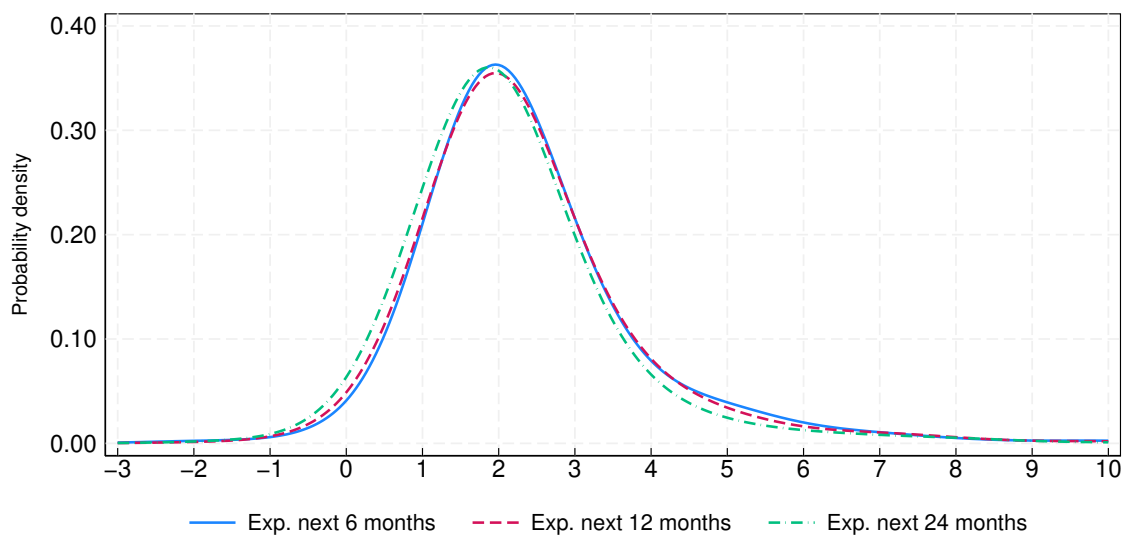


Figure 6

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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