

Survey on Inflation and Growth Expectations

10 April 2024

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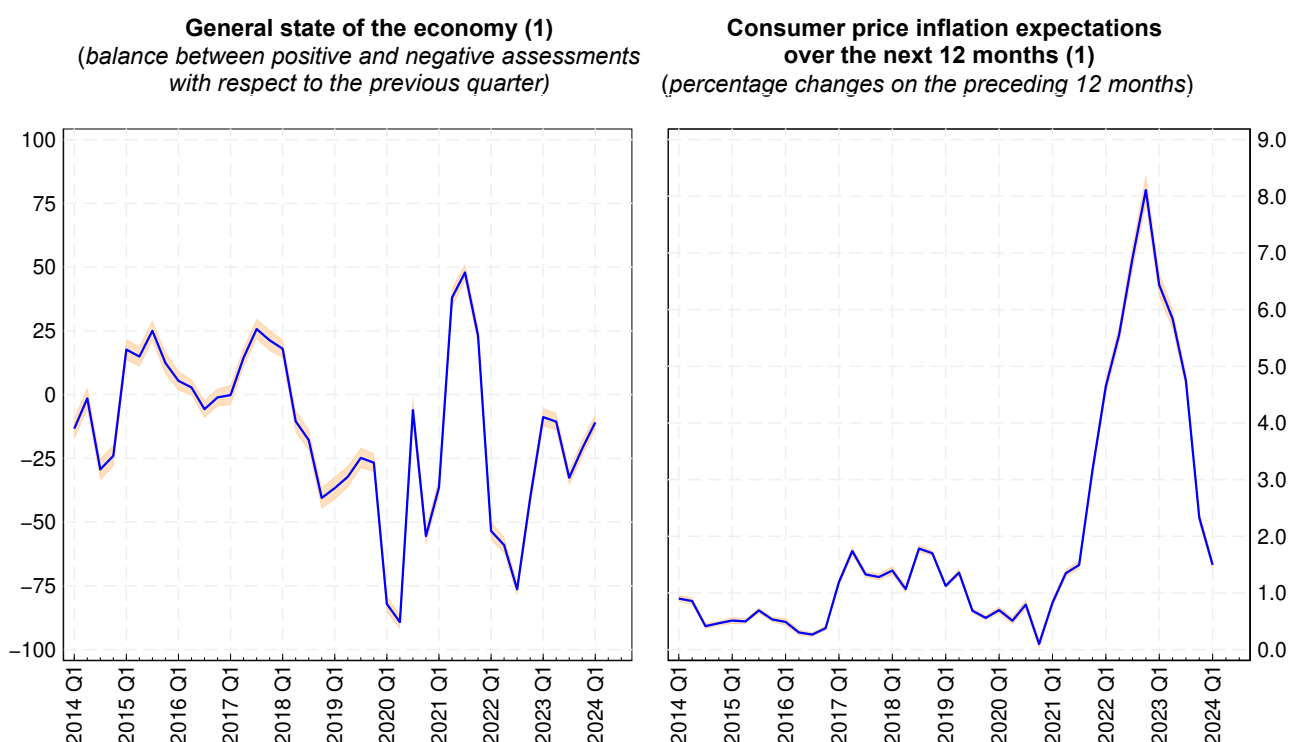
Main results

According to the survey conducted between 23 February and 18 March 2024 among Italian industrial and service firms with 50 or more employees, in the first quarter of this year opinions regarding the general state of the economy and firms' own business conditions were less negative than in the previous period. However, around one-third of manufacturing firms experienced delays or price increases in input procurement as a result of tensions in the Red Sea.

Demand was still weak but improving overall, with positive trends in services and in construction and less negative developments in industry excluding construction. Foreign sales too provided a boost, following two quarters of contraction. The outlook for the second quarter is for a recovery in sales, buoyed by both domestic and foreign demand.

Assessments of investment conditions and access to credit were significantly less downbeat than in the previous survey round. The balance between expectations of an increase and those of a reduction in investment spending in 2024 remained positive. Employment is expected to continue to grow in the second quarter.

Over the last 12 months, firms' selling prices have continued to slow, with changes well below 2023 peaks. Consumer price inflation expectations fell to 1.5 per cent across all time horizons, hitting their lowest levels since 2021 in all sectors.



(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 are less downbeat

In the first quarter of 2024, the share of Italian service and industrial firms with 50 or more employees reporting a deterioration in the general state of the national economy fell further, to 21 per cent from 29 per cent in the previous round of the survey and 37 per cent in the summer of 2023. However, the portion of firms that considered the situation unchanged was still larger and rising (69 per cent, from 63 per cent at the end of last year). The balance between positive and negative assessments rose by around 10 percentage points across all sectors, although it remained negative (Table 1). In addition, the share of firms that saw a low probability of the economy improving over the next three months declined to 83 per cent, from 88 per cent in the previous survey round.

Demand dynamics are still weak but improving

The gap between reports of higher and of lower sales in the first quarter of 2024 is 2 percentage points (from -1 percentage point). It remained positive in services and especially in construction, while it was still negative in industry excluding construction, albeit improving compared with the previous quarter. After two quarters of contraction, foreign demand provided a positive boost to sales. In the second quarter of the year, demand is expected to grow across all sectors; the share of firms forecasting an increase

in total sales exceeds the portion anticipating a contraction by 26 percentage points. The corresponding balance for exports is 17 percentage points.

The short-term outlook is slightly brighter; the impact of the Red Sea crisis weighs more on manufacturing firms

The three-month outlook for firms' own business conditions improved across all sectors and macro-areas, albeit to varying degrees: the balance between expectations of an improvement and those of a deterioration turned positive after two quarters for services and construction, while it remained negative for industry excluding construction (Figure 1). Overall, these expectations were supported by more positive assessments of demand, while they were adversely affected by energy price trends and by economic and political uncertainty. As a result of Red Sea shipping routes being closed since the end of last year, around one in three firms in industry excluding construction experienced delays in input procurement or higher transport costs in the first quarter of the year. According to half of these, these difficulties will not be resolved before the end of 2024.

Investment conditions are much less unfavourable

The balance between assessments of an improvement and of a deterioration in investment conditions in the first quarter of the year rose considerably from the previous survey, although it remained negative (to -7 percentage points, from -21). Likewise, the balance of assessments of credit standards improved (to -5 percentage points, from -13), returning to early 2022 levels. Over 80 per cent of firms expected credit standards to remain unchanged over the second quarter. The share of firms that expected investment spending to grow in 2024 exceeded that anticipating a reduction by 14

percentage points. Investment intentions were more widespread in services and in construction than in industry excluding construction, with balances of 19, 16 and 7 percentage points respectively.

¹ The survey report was prepared by Lucia Modugno and Elisa Guglielminetti.

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 1,579 firms with 50 or more employees (of which 680 in industry excluding construction, 702 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_1_trim_2024.pdf?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2024-indagine-inflazione/03/dati_2024_03_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 share of firms planning to expand their staff in the second quarter of 2024 rose from 23 to 28 per cent, reaching high levels across all sectors, while the shares of those expecting to reduce or leave their workforces unchanged declined (to 9 and 63 per cent respectively). The outlook improved significantly in non-residential construction, with a balance of 37 percentage points (from 24 percentage points in the previous quarter), and remained positive in residential construction, albeit moderating (from 21 to 16 percentage points).

Selling prices continue to slow despite expectations of rising labour costs

Over the past 12 months, firms' selling prices were up by an average of 1.8 per cent in industry excluding construction, 3.1 per cent in services and 4.3 per cent in construction. For industry excluding construction, these changes are about 8 percentage points lower than the peak reached in the third quarter of 2022, while the slowdown in services and in construction has been more muted and has continued for three and four quarters respectively. Over the next 12 months, price growth is expected to decelerate further in services (to 2.6 per cent) and in construction (to 4.1 per cent), and to gather pace in industry excluding construction (to 2.2 per cent). The increases in commodity prices and in labour costs are the main factors contributing to the expected price dynamics for both industry and services: around two out of three firms plan to raise their employees' hourly wages over the next 12 months, in line with the figures for the previous quarter.

Inflation expectations are down to 1.5 per cent across all time horizons

Consumer price inflation expectations have fallen across all sectors and time horizons (Figure 4), to their lowest levels since the second half of 2021. The consumer price inflation rate for industry excluding construction and services as a whole is expected to be 1.5 per cent across all time horizons, compared with 2.4 per cent six months ahead, 2.3 per cent 12 months ahead and 2.1 per cent over the 24-month and three-to-five-year horizons in the previous survey. For construction firms, inflation expectations remain slightly higher (at 1.7 per cent six months ahead and 1.8 per cent across the other time horizons).

Table 1

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

	Industry exc. const.		Services		Construction		Total	
	2023 Q4	2024 Q1	2023 Q4	2024 Q1	2023 Q4	2024 Q1	2023 Q4	2024 Q1
	per cent							
Inflation expectation 6 months ahead	2.3	1.6	2.4	1.5	2.5	1.7	2.4	1.5
Inflation expectation 12 months ahead	2.3	1.5	2.3	1.5	2.5	1.8	2.3	1.5
Change in own prices 12 months ahead	2.0	2.2	2.4	2.6	4.4	4.1	2.3	2.5
	Balance between reports of improvement and deterioration (percentage points)							
	Judgments on the previous quarter							
General economic situation	-23.7	-14.0	-19.7	-9.0	-13.1	-2.6	-21.1	-10.9
Total demand	-12.4	-5.7	4.6	7.1	31.1	25.2	-1.5	2.4
Foreing demand	-9.3	3.2	-3.0	4.7	—	—	-7.2	3.7
Investment conditions	-25.2	-10.4	-17.0	-5.1	-17.5	-5.1	-20.7	-7.5
	Forecast 3 months ahead							
Total demand	9.7	20.8	19.2	29.9	31.2	39.4	15.6	26.4
Foreing demand	12.9	19.9	9.9	10.7	—	—	11.9	17.4
Firms' economic conditions	-17.5	-5.7	-6.1	1.7	-2.5	1.8	-11.0	-1.6
Employment	8.4	16.1	11.1	19.5	23.3	30.6	10.6	18.6
	Forecast of investment expenditure							
H1 2024 on H2 2023	9.8	3.0	21.7	17.4	18.4	22.4	16.1	11.1
2024 on 2023	8.3	7.5	20.9	19.0	16.3	15.6	14.9	13.6

(1) The statistical appendix is available at http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2024-indagine-inflazione/03/dati_2024.03.zip?language_id=1

Figure 1

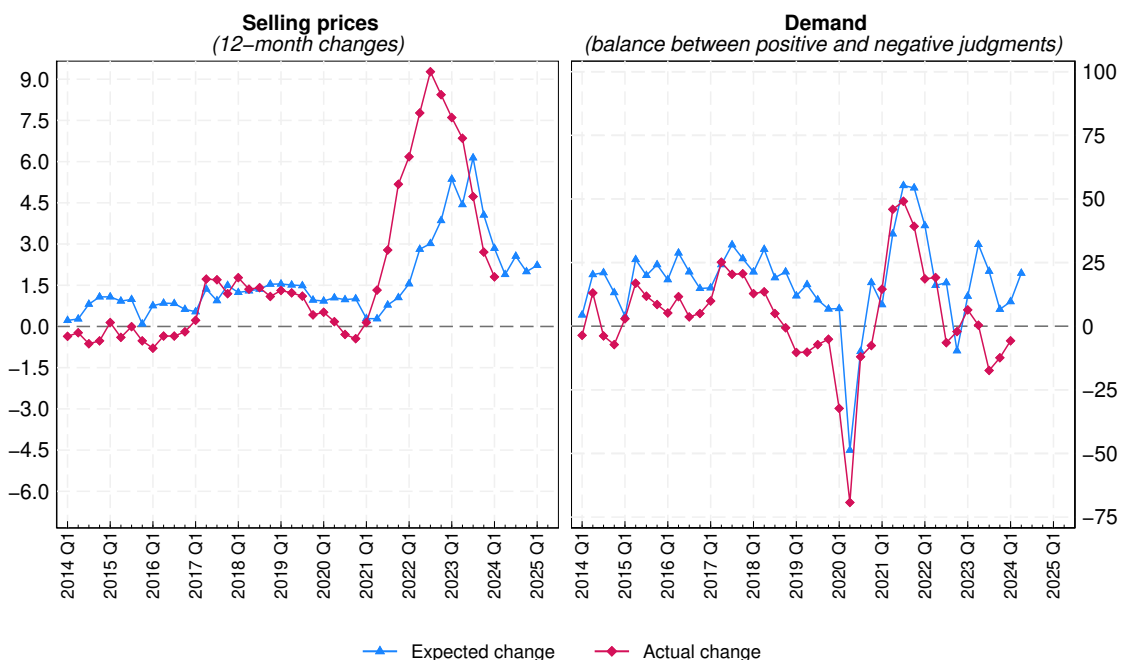
Three-month forecast of the firm's business conditions (1)
(percentage points)



(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)

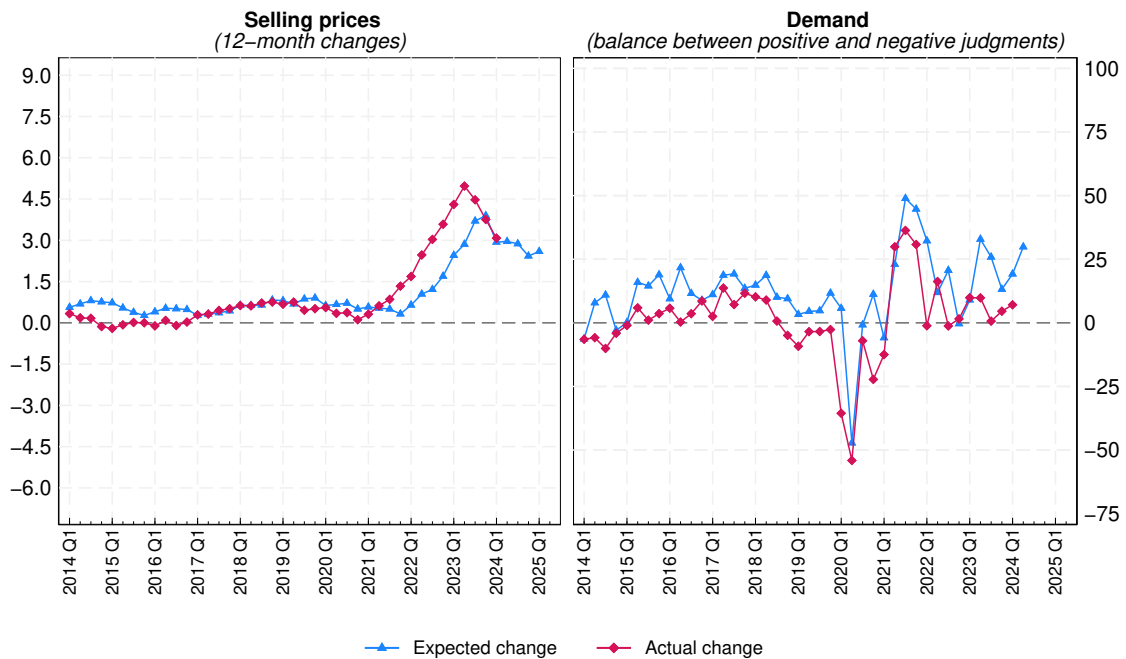
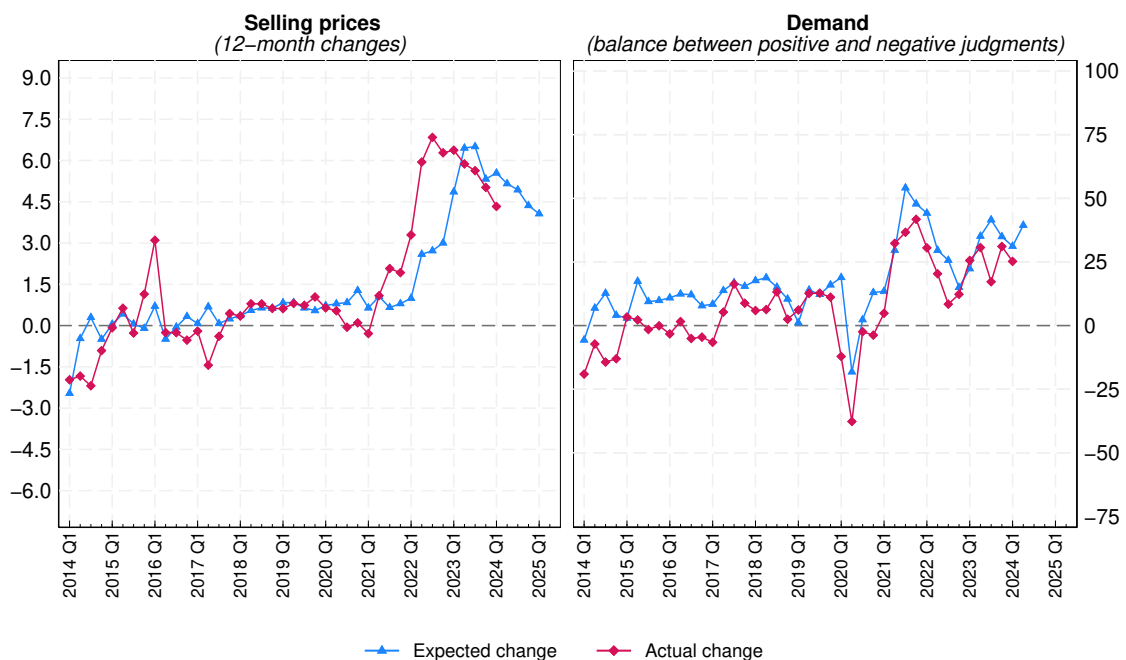


Figure 2.3

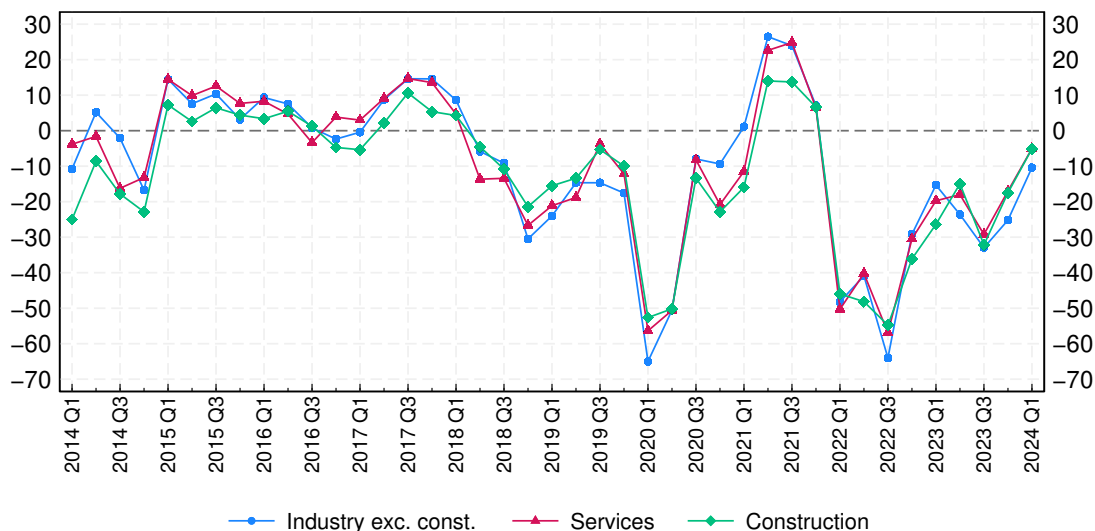
Expected and actual changes in selling prices and demand (1)
(Construction)



(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

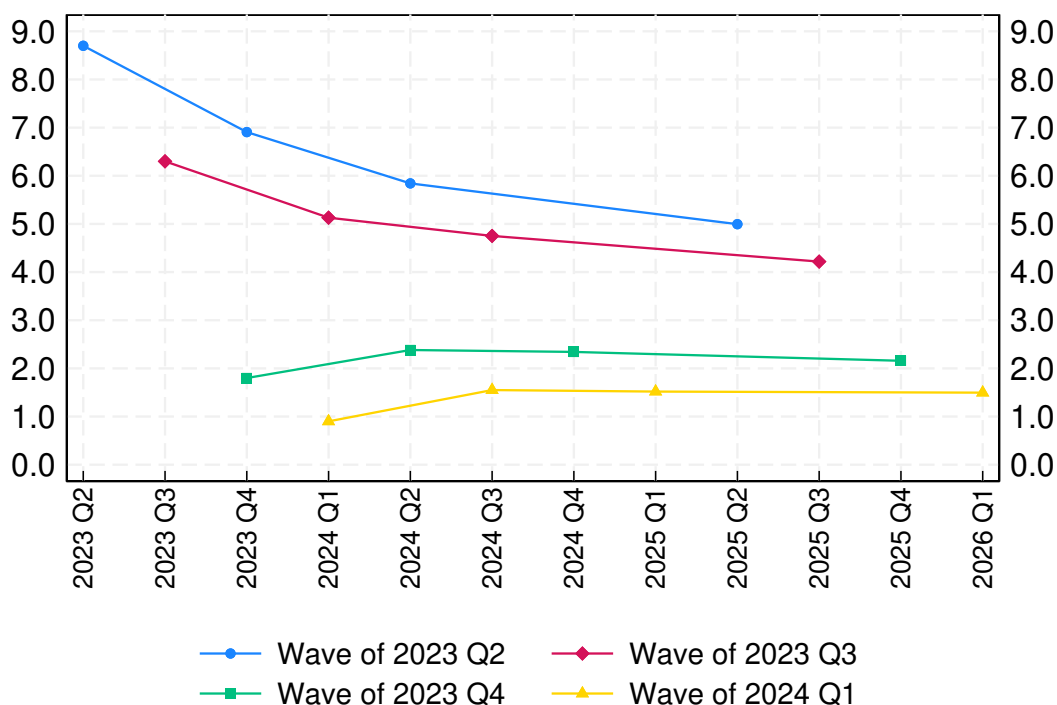
Conditions for investment with respect to previous quarter (1)
(percentage points)



(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)

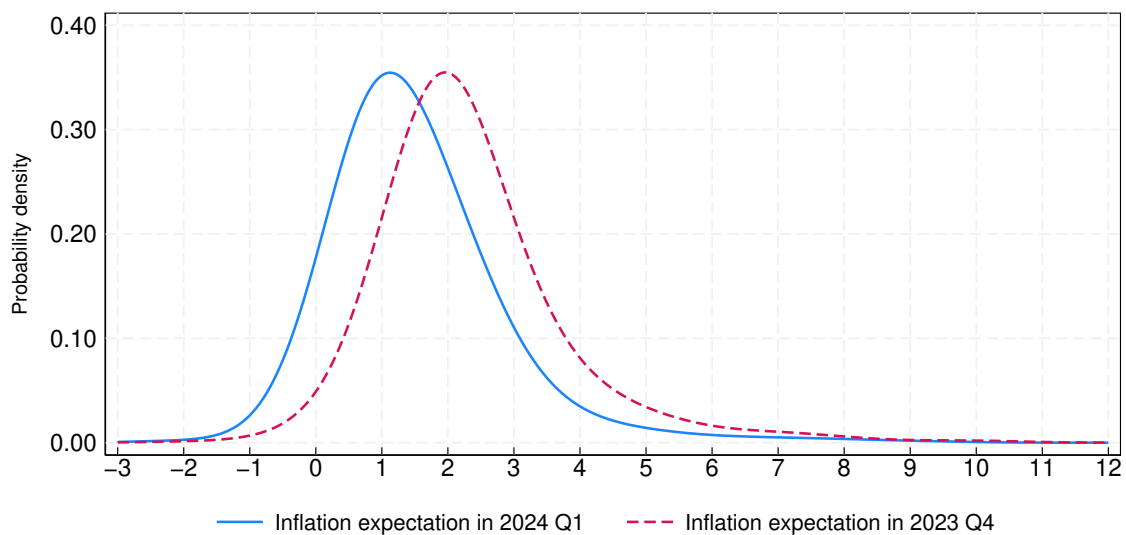
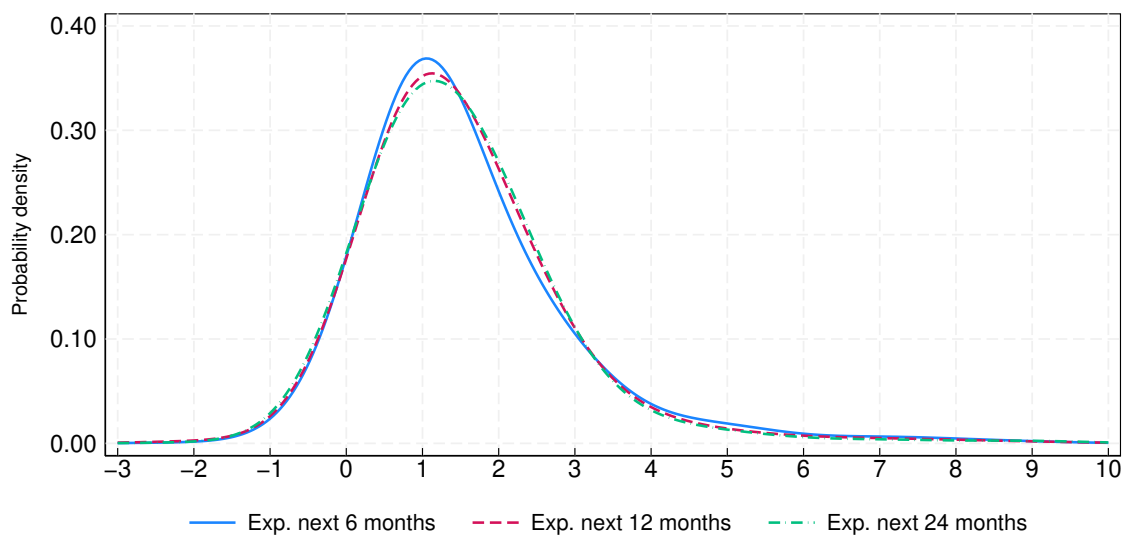


Figure 6

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

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