



Survey on Inflation and Growth Expectations

8 July 2024

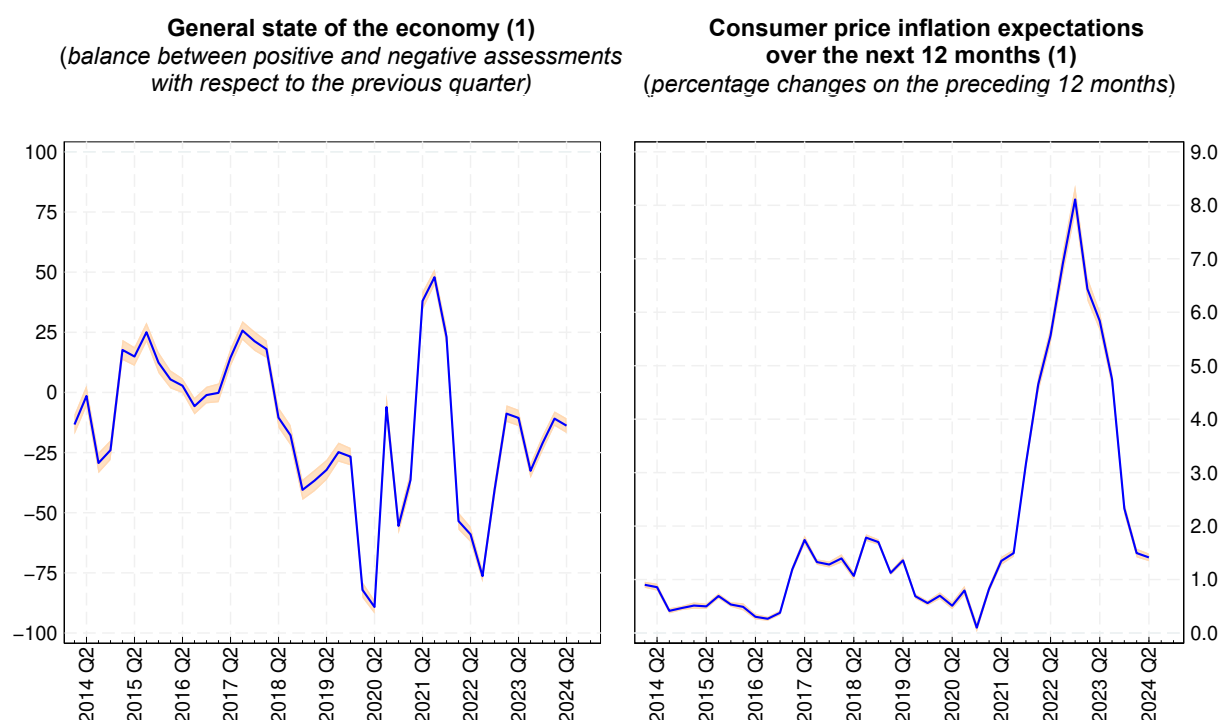
For further information: statistiche@bancaditalia.it
www.bancaditalia.it/statistiche/index.html

Main results

According to the survey conducted between 20 May and 10 June 2024 among Italian industrial and service firms with 50 or more employees, the balance between positive and negative opinions regarding the general state of the economy worsened slightly in the second quarter of this year (see the left-hand panel of the figure), though more than two thirds of firms still believe that economic conditions remained stable. Demand is still positive in services and construction, but continues to be negative in industry excluding construction. The outlook for sales in the third quarter is positive, especially in services and construction; employment is expected to grow across all sectors.

Assessments of credit access conditions point to overall stability, thus signalling that the tightening underway since 2021 has come to a halt, while those of investment conditions are still negative as in the previous survey. The balance between expectations of an increase and those of a decrease in investment spending in 2024 remained nevertheless positive, though it narrowed considerably in manufacturing.

Consumer price inflation expectations are virtually unchanged from the previous quarter, standing at 1.4 per cent over time horizons of up to three years (see the right-hand panel of the figure). Firms' selling prices slowed further and so did their expected rate of change over the next twelve 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 2024

Survey on Inflation and Growth Expectations¹

Firms' assessments of the general state of the economy worsen slightly	In the second quarter of 2024, a clear majority of firms (70 per cent) with 50 or more employees continued to believe that the general state of the Italian economy was unchanged; the share of firms reporting a deterioration increased slightly. The balance between favourable and unfavourable assessments, which is still negative across all sectors, fell in particular for construction and industrial firms (Table 1). Some 84.6 per cent of firms saw a low probability of the economy improving over the next three months.
Overall demand dynamics stabilize	<p>The gap between reports of higher and of lower sales in the second quarter of 2024 remained barely positive (3 percentage points). It was markedly positive for firms in construction and services (by 31 and 10 percentage points respectively) and negative in industry excluding construction (-8 percentage points). Firms' outlook concerning demand for their own products or services in the third quarter of the year remained optimistic across sectors, though in industry the balance between the share of firms expecting an increase in demand and those anticipating a contraction shrank by nearly 5 percentage points from three months earlier. Exports are expected to increase in the third quarter.</p>
The short-term outlook varies across sectors, macro-areas and size classes	<p>The three-month outlook for firms' own business conditions was broadly unchanged overall (Figure 1). The balance between expectations of an improvement and those of a deterioration remained negative in industry excluding construction and barely positive in services and construction; it was positive for firms with more than 200 employees and negative for smaller firms. Assessments of a deterioration were more widespread among firms in the Centre and North-East of Italy. Energy commodity prices and economic and political uncertainty continued to weigh on the outlook as heavily as they did in the previous round of the survey.</p>
Employment expectations remain favourable	The share of firms planning to expand their staff over the next three months (27 per cent) and that of firms expecting to reduce it (8 per cent) both remained stable. In line with the previous survey rounds, about two thirds of firms planned to raise their employees' hourly wages over the next 12 months, by less than 2 percentage points for 61 per cent of these firms and by 2 to 4 percentage points for 25 per cent of them.
Investment conditions remain negative	<p>The balance between assessments of an improvement and those of a deterioration of investment conditions remained negative (-6.5 percentage points, from -7.5). Assessments of credit access conditions were broadly unchanged, thus pointing to an interruption in the worsening cycle underway since 2021. The balance of expectations of an improvement in credit access conditions for the next quarter turned negative by about 5 percentage points (from zero), though the vast majority of assessments continued to point to unchanged conditions (80 per cent). The share of firms that expected investment spending to grow in 2024 compared with the previous year exceeded that anticipating a reduction by 13 percentage points, in line with the previous round of the survey. The balance became almost nil for industrial firms (from 7.5 percentage points).</p>
Firms' selling prices continue to slow	Firms' selling prices continued to slow over the past 12 months, growing at a rate of 1.5 per cent in industry excluding construction (down from 1.8 per cent in the previous survey), of 2.6 per cent in services (down from 3.1 per cent) and of 3.4 per cent in construction (from 4.3 per cent). The 12-month outlook also points to a further

¹ The survey report was prepared by Luigi Palumbo and Marco Bottone.

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 1,549 firms with 50 or more employees (of which 679 in industry excluding construction, 680 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/questionarioinflazione/documenti/en_quest_II_trim_2024.pdf?language_id=1

http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2024-indagine-inflazione/06/dati_2024_06_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

slowdown compared with the previous survey round. The main factors affecting the expected change in prices are commodity prices and labour costs.

**Inflation
expectations
remain low**

Consumer price inflation expectations have remained stable at 1.4 per cent across all time horizons (Figure 4); they are slightly above average for construction firms (1.7 per cent twelve months ahead and 1.8 per cent over longer horizons). In general, inflation expectations have returned to low levels, similar to those observed in the first half of 2021 and well below the peaks recorded in 2022.

Table 1

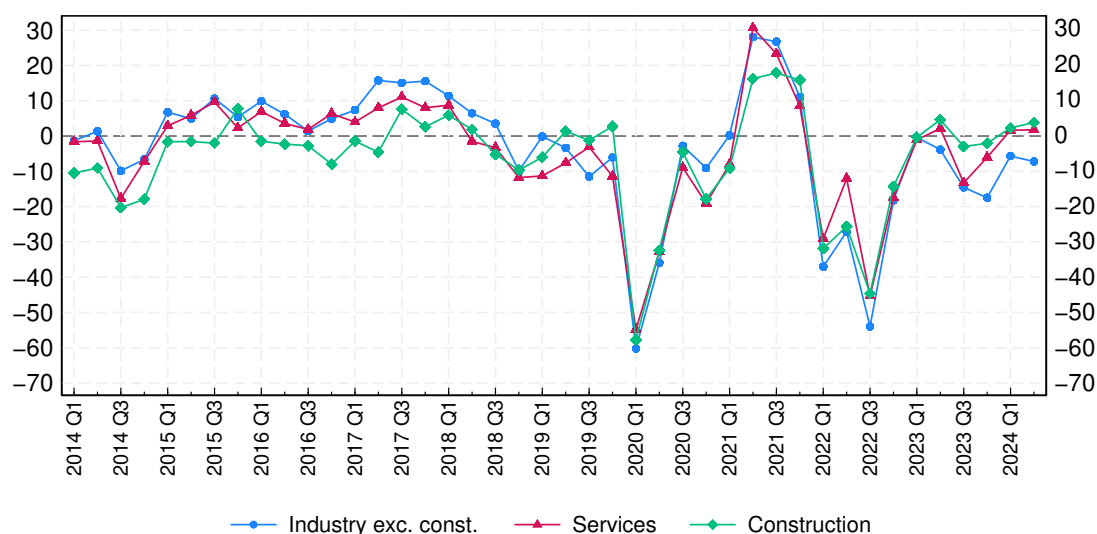
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2024 Q1	2024 Q2	2024 Q1	2024 Q2	2024 Q1	2024 Q2	2024 Q1	2024 Q2
	per cent							
Inflation expectation 6 months ahead	1.6	1.4	1.5	1.4	1.7	1.5	1.5	1.4
Inflation expectation 12 months ahead	1.5	1.4	1.5	1.4	1.8	1.7	1.5	1.4
Change in own prices 12 months ahead	2.2	1.8	2.6	2.2	4.1	3.8	2.5	2.1
Balance between reports of improvement and deterioration (percentage points)								
Judgments on the previous quarter								
General economic situation	-14.0	-17.7	-9.0	-11.0	-2.6	-7.7	-10.9	-13.8
Total demand	-5.7	-8.2	7.1	10.3	25.2	30.6	2.4	3.1
Foreing demand	3.2	-0.4	4.7	18.8	—	—	3.7	5.3
Investment conditions	-10.4	-10.3	-5.1	-3.1	-5.1	-4.9	-7.5	-6.5
Forecast 3 months ahead								
Total demand	20.8	16.3	29.9	30.7	39.4	39.9	26.4	24.8
Foreing demand	19.9	20.4	10.7	23.8	—	—	17.4	21.4
Firms' economic conditions	-5.7	-7.2	1.7	1.8	1.8	3.4	-1.6	-2.2
Employment	16.1	14.6	19.5	20.3	30.6	31.4	18.6	18.4
Forecast of investment expenditure								
H2 2024 on H1 2024	3.0	13.5	17.4	21.6	22.4	19.0	11.1	17.8
2024 on 2023	7.5	0.8	19.0	23.8	15.6	16.6	13.6	13.0

(1) The statistical appendix is available at
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2024-indagine-inflazione/06/dati_2024.06.zip?language_id=1

Figure 1

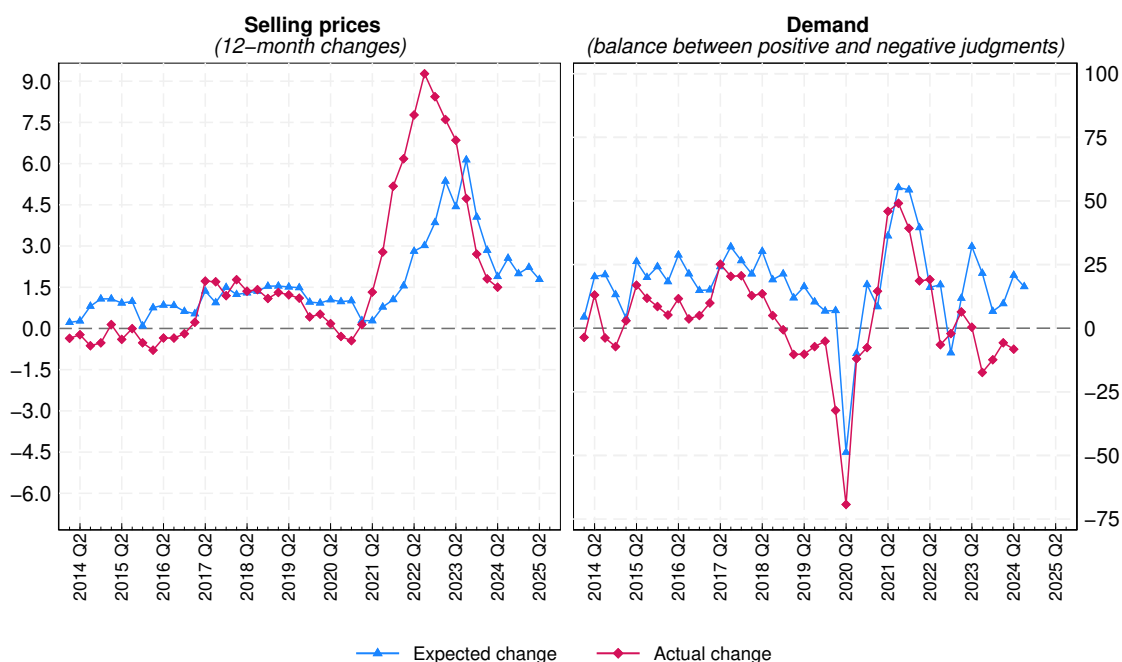
Three-month forecast of the firm's business conditions (1)
(percentage points)



(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)

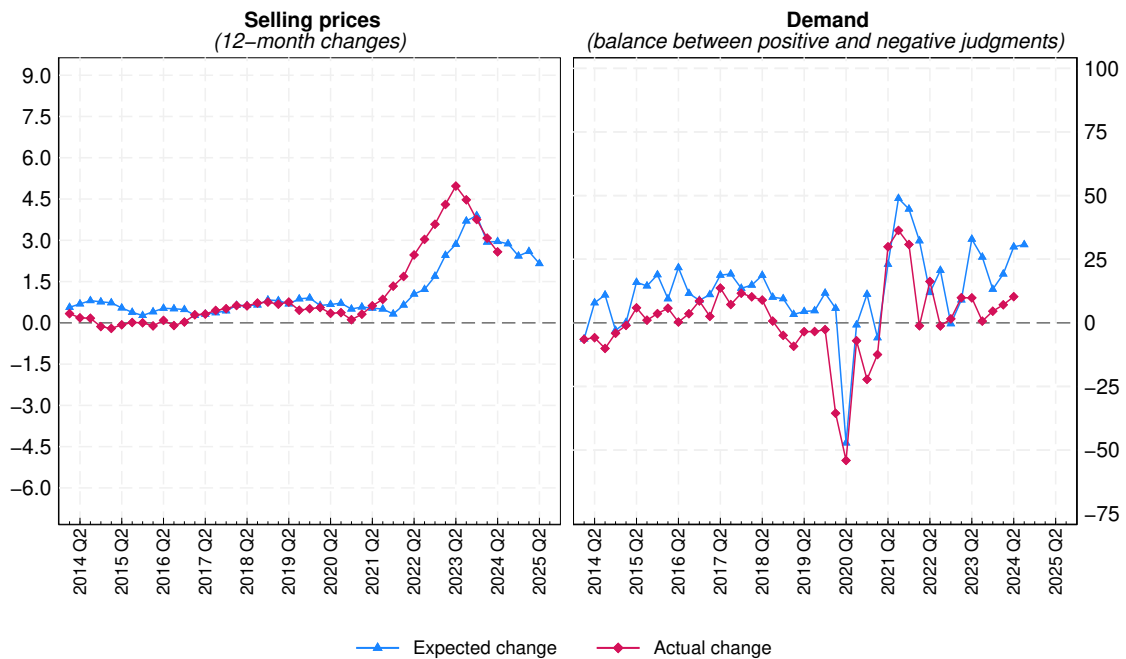
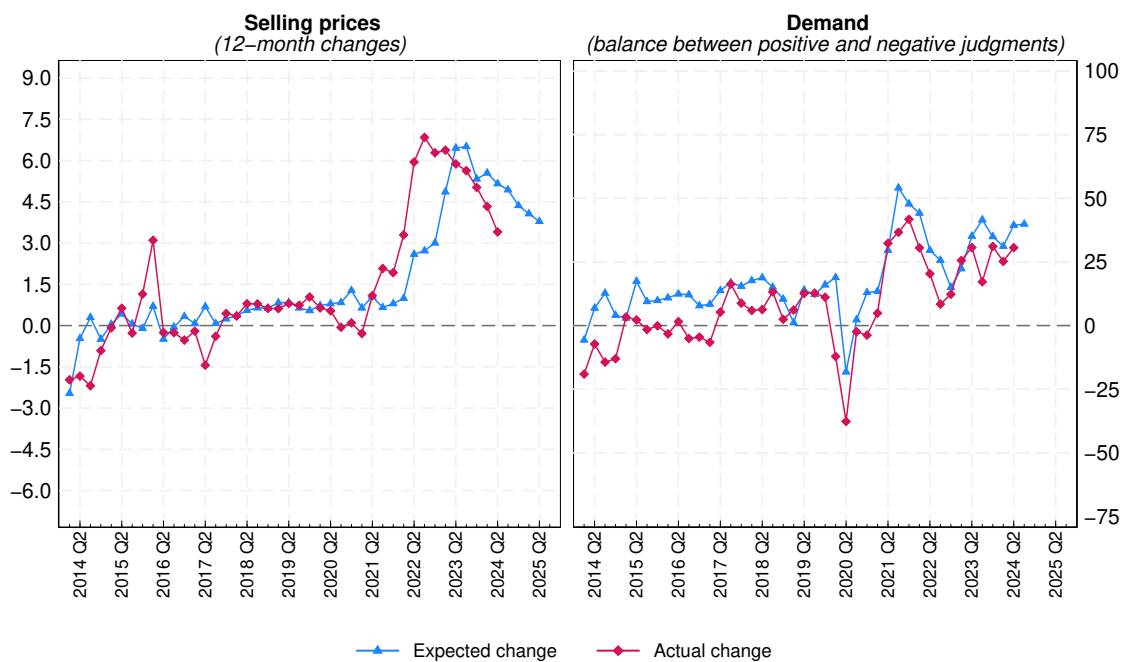


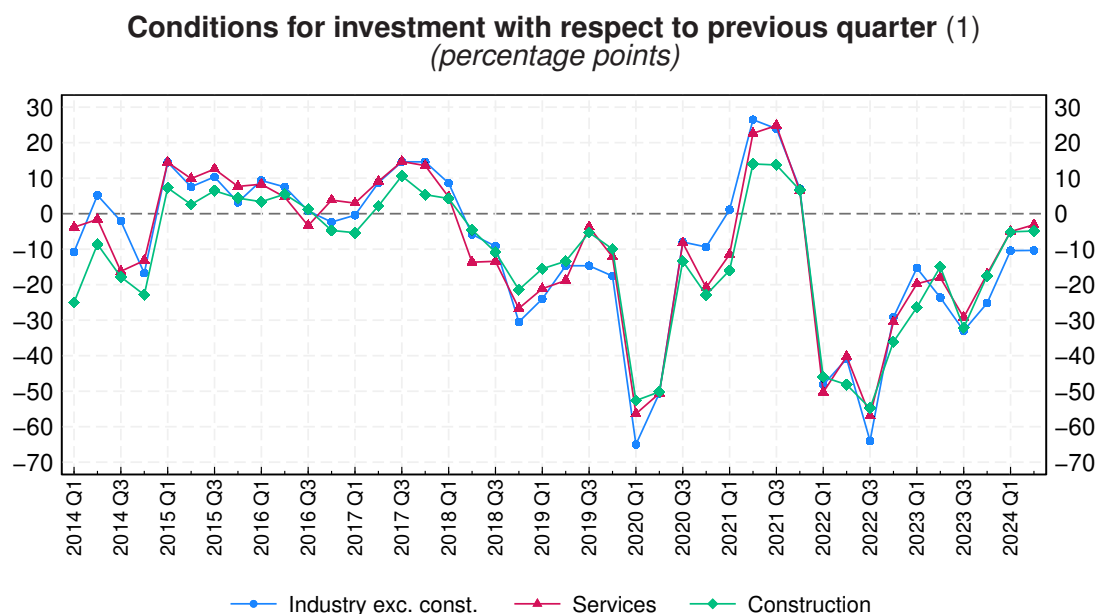
Figure 2.3

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



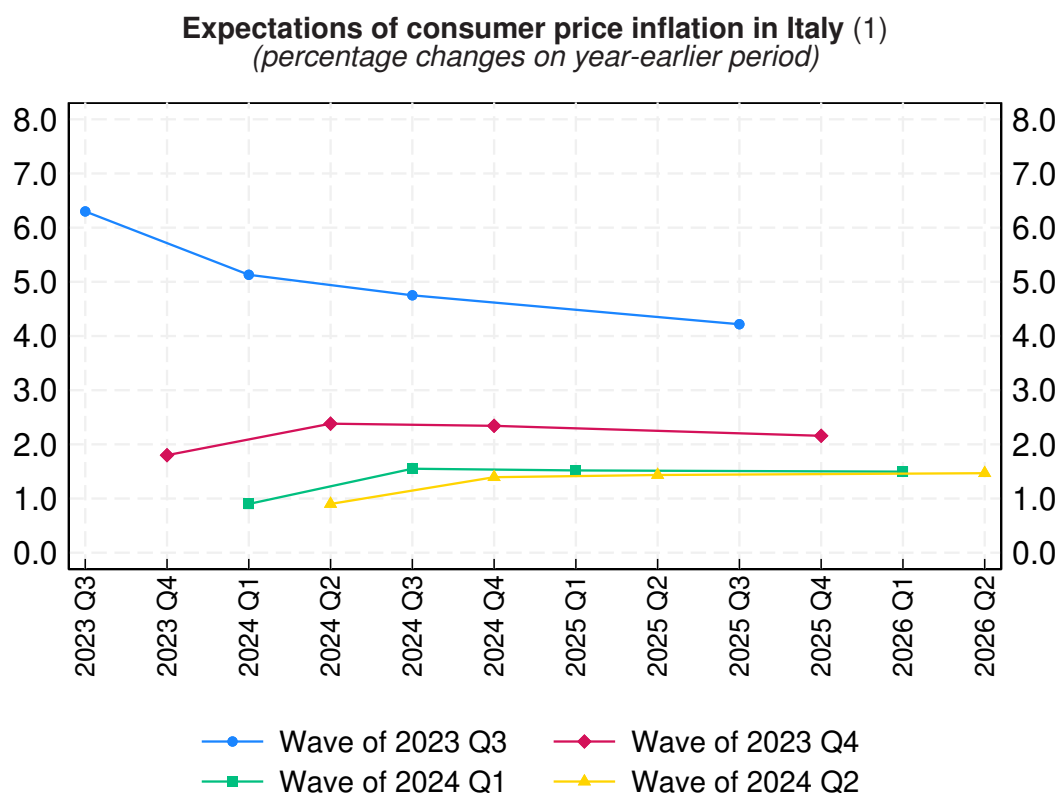
(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles. For selling prices, the actual change (red line) refers to price changes in the previous 12 months, while the expected change (blue line) refers to forecasts 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



(1) Balance between positive and negative judgments.

Figure 4



(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

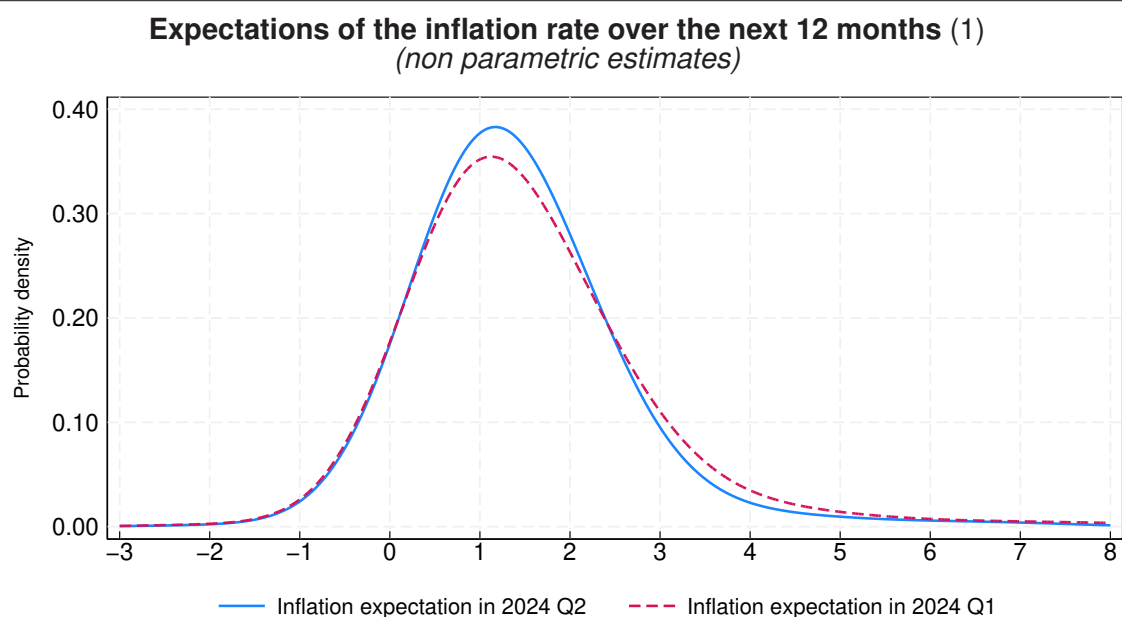
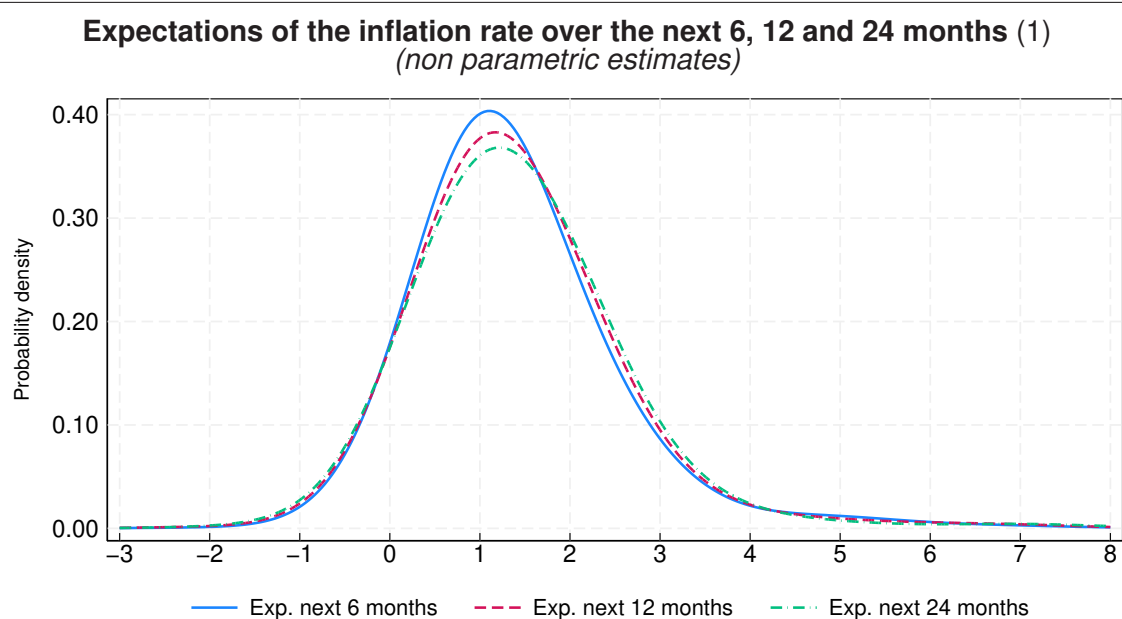


Figure 6



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

'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