



Survey on Inflation and Growth Expectations

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www.bancaditalia.it/statistiche/index.html

Main results

According to the survey conducted between 26 August and 16 September 2024 among Italian industrial and service firms with 50 or more employees, opinions on the general state of the economy remained cautious in the third quarter of this year. Assessments of both domestic and foreign current demand worsened overall, driven by the weak sales of firms in industry excluding construction. Expectations for the next quarter are also less positive compared with last spring across all sectors of activity. The outlook for firms' own business conditions in the short term remains weak; it is still mainly affected by economic and political uncertainty.

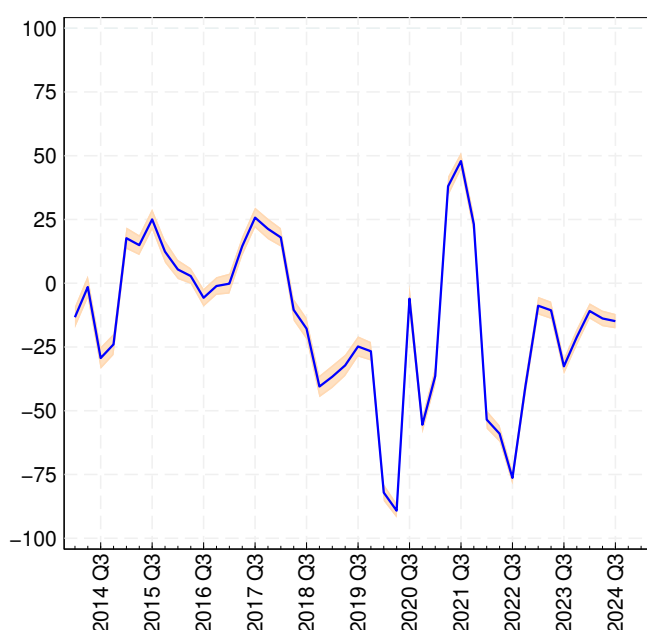
Firms continue to give negative assessments of investment conditions, while those for credit access remain stable. The overall liquidity position is still considered satisfactory. According to firms' expectations, total investment spending will slow this year.

The employment growth forecast for the next quarter is less favourable than in the previous survey, although it is still expected to rise, especially in construction.

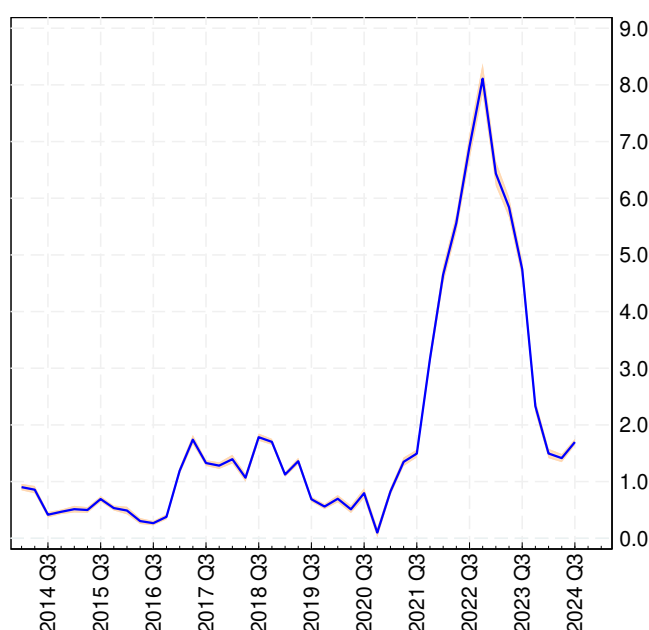
Firms' selling prices over the last 12 months have grown less sharply compared with the previous survey; for the next 12 months, firms in industry excluding construction and in services continue to expect moderate growth in their prices, while those in construction anticipate an acceleration. Firms' expectations for consumer price inflation rose slightly across all time horizons, though they remained at low levels.

A special focus section included in this survey showed that, within the next two years, artificial intelligence will be used by about one third of industrial firms and by two fifths of service firms, especially the largest ones.

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 remain very cautious

In the third quarter of 2024, a clear majority of firms (72 per cent) with 50 or more employees continued to believe that the general state of the Italian economy was stable. Among the remainder, the balance between favourable and unfavourable assessments remained negative (-15 percentage points, from -14 last June), especially among companies in industry excluding construction (-20 percentage points, from -18; Table 1).

Total demand weakens

Firms' assessments of total demand worsened slightly overall, reflecting more negative opinions on both the domestic and foreign component. The deterioration was especially marked for firms in industry excluding construction, where the balance between the share of firms that reported an expansion in sales and those that reported a contraction shrank by nearly 10 percentage points (to -17 percentage points). Conversely, demand continued to grow in services and construction, though less so than in the second quarter (the balance went from 10 and 31 percentage points to 8 and 19 percentage points respectively).

For the closing quarter of 2024, around half of the firms in industry excluding construction and in services and about 40 per cent of those in construction expect sales to be broadly stable. Among the remainder, the share of firms that expect sales to expand is smaller in industry and bigger in services and, above all, in construction, where more than half of them expect benefiting from measures adopted under the National Recovery and Resilience Plan (NRRP).

Firms' expectations for their own business conditions over the next three months have remained weak overall, with differences among sectors: in comparison with the previous round of the survey, the balance between assessments of an improvement and those of a deterioration has? declined further in industry excluding construction (to -14 percentage points, from -7), turned slightly negative in services (to -2 percentage points, from 2), while it continued to increase in construction (from 3 to 6 percentage points). The outlook is still primarily affected by economic and political uncertainty and, to a lesser extent, by fears over energy price trends; the demand for services continues to have a positive, albeit milder, impact on the outlook.

Employment expectations are less favourable

In the third quarter, the share of firms planning to reduce their staff over the next three months grew (to around 15 per cent in industry and services and 6 per cent in construction), while that of firms expecting to expand it decreased, though they remain the majority. The balance between expectations of an increase and of a decrease in the number of employees dropped from 18 to 7 percentage points in industry and in services, and from 31 to 26 percentage points in construction.

The percentage of firms that plan to raise their employees' hourly wages over the next 12 months increased by around 15 percentage points in construction (to 65 per cent), while it held broadly stable in the other sectors (at 62 per cent on average). Nearly 90 per cent of these firms will raise wages by less than 4 per cent and, in 60 per cent of the cases, by 2 per cent or less.

Investment conditions remain negative

The balance between positive and negative assessments of investment conditions remained negative across all sectors (-8 percentage points, from -6), and even more markedly so in industry (-12 percentage points). Assessments of credit access conditions were broadly unchanged in services and worsened slightly in industry. However, there are no signs of difficulties regarding the overall liquidity position over the next three months, which is expected to be more than sufficient by over 20 per cent of firms, sufficient by nearly 70 per cent and less than sufficient by under 9 per cent (in line with the values observed in the previous round of the survey).

However, firms continue to expect their nominal expenditure on investment to grow in 2024 compared with the previous year, though at a slightly slower pace than they had anticipated in the previous quarter: the balance between firms that anticipate greater capital accumulation and those that expect a contraction is 11 percentage points (it was 13 in the previous survey). This is largely attributable to firms in services (21 percentage points,

¹ The survey report was prepared by Marco Bottone and Francesco Corsello.

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 1,602 firms with 50 or more employees (of which 699 in industry excluding construction, 695 in services and 208 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_2024.pdf?language_id=1
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2024-indagine-inflazione/09/dati_2024_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

against a balance of close to zero in industry excluding construction). Firms' assessments for 2024 as a whole reflected a worsening of expectations in the second half of the year, when the balance shrank by about 6 percentage points (to 11), mainly because of the slowdown in investment anticipated by firms in industry excluding construction (the balance for these firms went from 13 to 4 percentage points).

**Firms' selling
prices slow
overall**

Firms' selling prices slowed in industry excluding construction and in services compared with the previous survey: in these sectors, the average changes on the previous year were 1.2 and 2.2 per cent respectively (from 1.5 and 2.6 per cent in the second quarter). Selling prices instead accelerated at construction firms, growing by 4.4 per cent (from 3.4 per cent), a pace similar to that observed in the first quarter of 2024.

The 12-month outlook points to a slight growth in industry excluding construction, where firms plan to raise their prices by 1.8 per cent, and to broad stability in services and construction. The main factors affecting the expected increase in prices are labour costs and commodity prices.

**Inflation
expectations
rise slightly**

In comparison with the previous round of the survey, firms adjusted their expectations of consumer price inflation upwards by 0.3 percentage points across all time horizons (6, 12, and 24 months), which remained low (1.7 per cent). Across all time horizons, on average, expectations among firms belonging to different sectors, size classes and regions continued to be similar.

A special focus section was included in this edition of the survey that collected information on the use of artificial intelligence (AI) among Italian firms. Some 32 per cent of firms in industry excluding construction and 41 per cent of those in services believe that AI is important for their business and are either already using it or planning to do so in the next two years. The use of AI is much more widespread among larger firms in both sectors, while differences among geographical areas seem to be smaller.

Among the firms that have already adopted artificial intelligence or are planning to do so, AI is mainly used to improve their support or production processes (more than 50 per cent of firms) and for task automation (just under 25 per cent).

Table 1

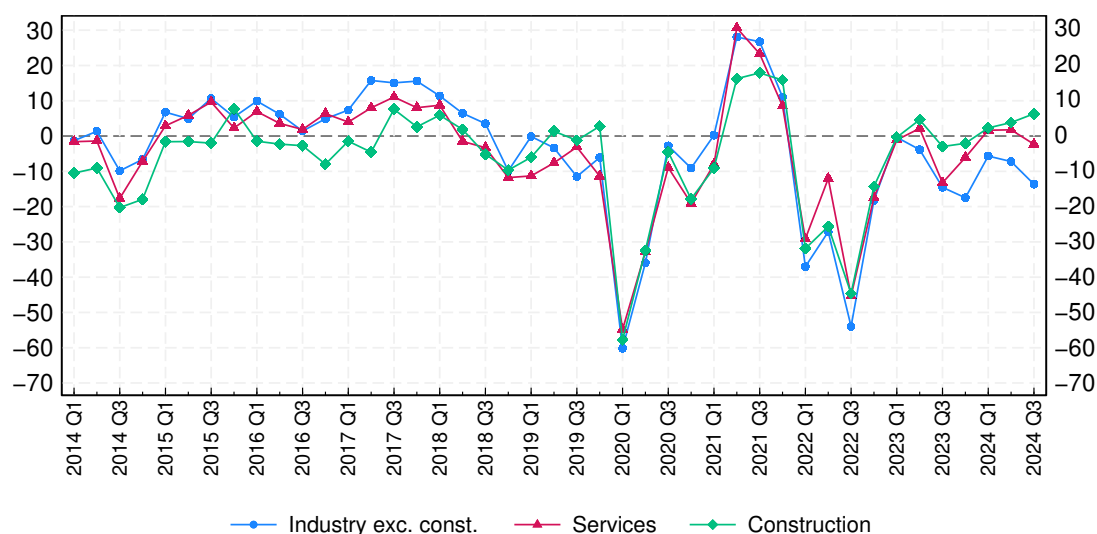
Main findings (1)
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2024 Q2	2024 Q3	2024 Q2	2024 Q3	2024 Q2	2024 Q3	2024 Q2	2024 Q3
	per cent							
Inflation expectation 6 months ahead	1.4	1.7	1.4	1.7	1.5	1.7	1.4	1.7
Inflation expectation 12 months ahead	1.4	1.7	1.4	1.7	1.7	1.7	1.4	1.7
Change in own prices 12 months ahead	1.8	1.8	2.2	2.1	3.8	4.1	2.1	2.0
Balance between reports of improvement and deterioration (percentage points)								
Judgments on the previous quarter								
General economic situation	-17.7	-20.4	-11.0	-11.1	-7.7	-4.2	-13.8	-14.9
Total demand	-8.2	-16.6	10.3	8.1	30.6	19.1	3.1	-2.4
Foreing demand	-0.4	-5.5	18.8	11.2	—	—	5.3	-0.3
Investment conditions	-10.3	-12.2	-3.1	-3.9	-4.9	-3.2	-6.5	-7.7
Forecast 3 months ahead								
Total demand	16.3	9.4	30.7	20.1	39.9	35.3	24.8	16.2
Foreing demand	20.4	15.4	23.8	21.1	—	—	21.4	17.2
Firms' economic conditions	-7.2	-13.6	1.8	-2.3	3.4	5.8	-2.2	-6.9
Employment	14.6	5.5	20.3	8.2	31.4	25.6	18.4	8.0
Forecast of investment expenditure								
H2 2024 on H1 2024	13.5	4.1	21.6	17.6	19.0	18.3	17.8	11.5
2024 on 2023	0.8	0.4	23.8	21.0	16.6	14.7	13.0	11.2

(1) The statistical appendix is available at
http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2024-indagine-inflazione/09/dati_2024.09.zip?language_id=1

Figure 1

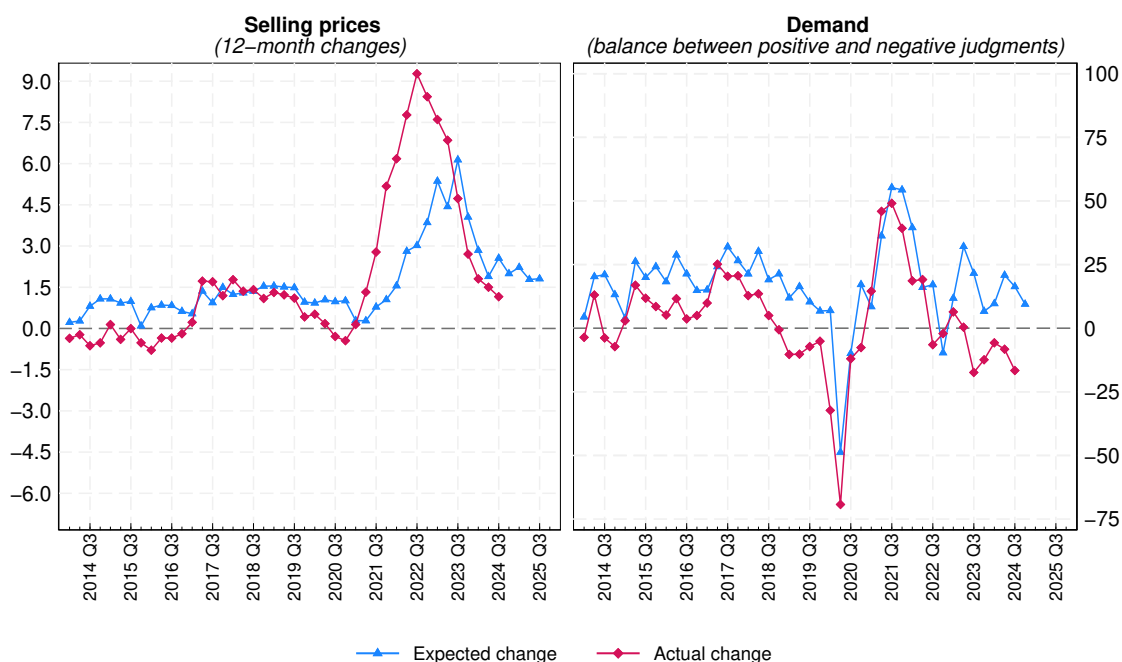
Three-month forecast of the firm's business conditions (1)
(percentage points)



(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)

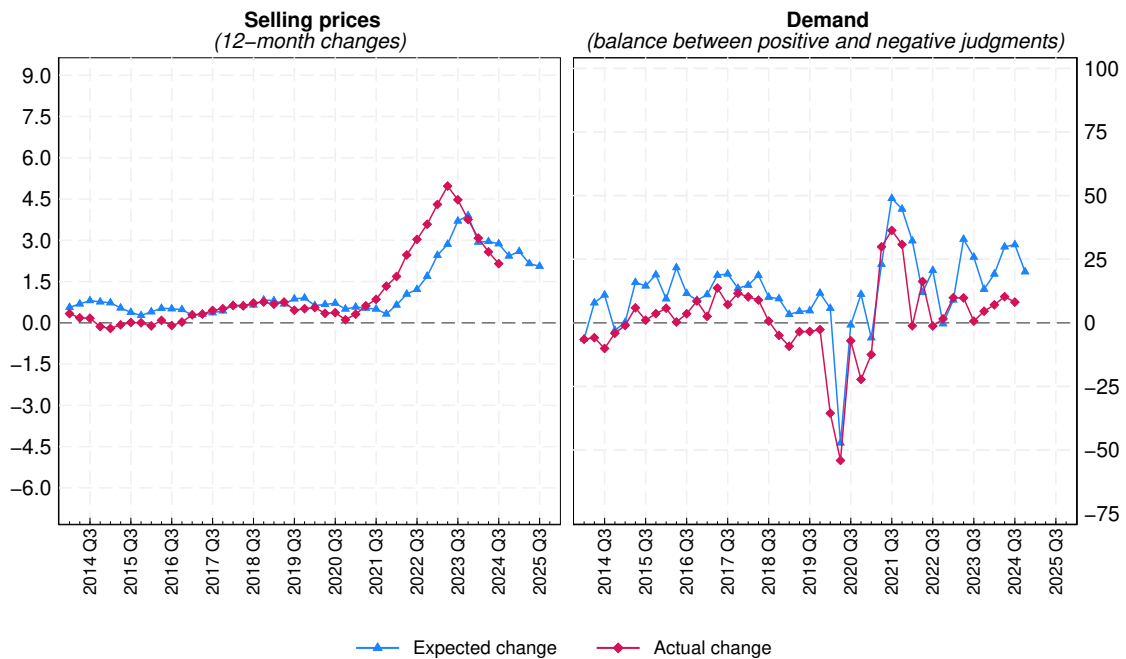
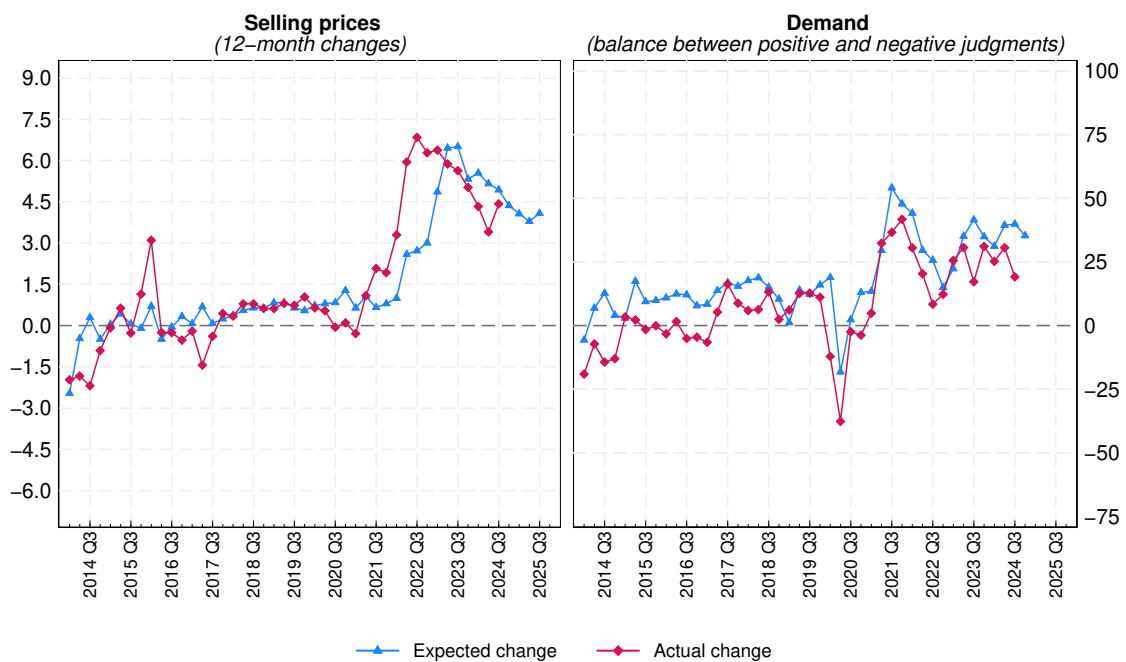


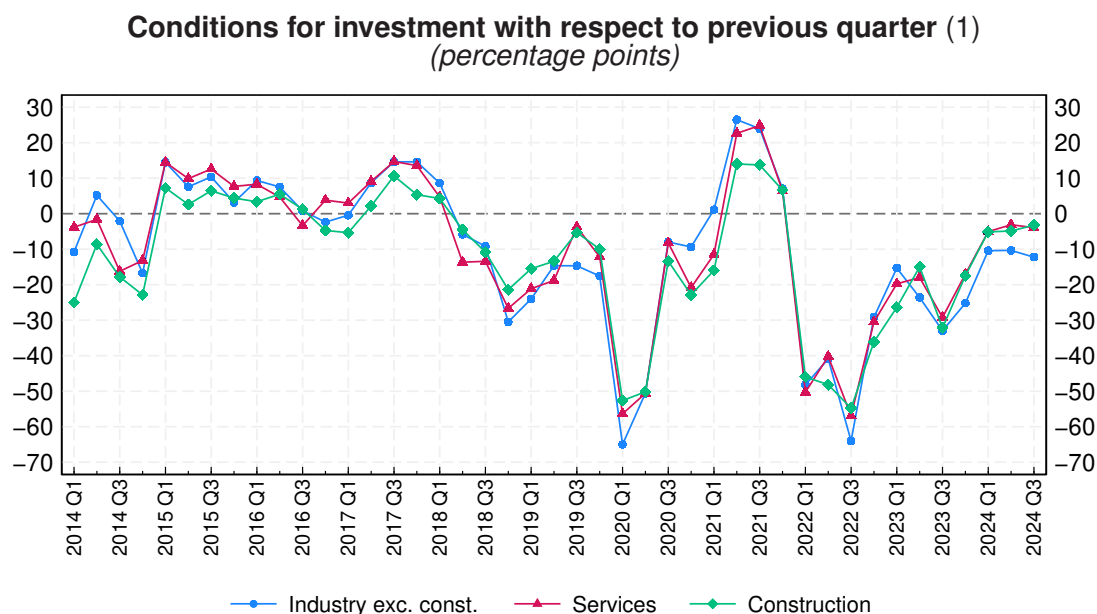
Figure 2.3

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



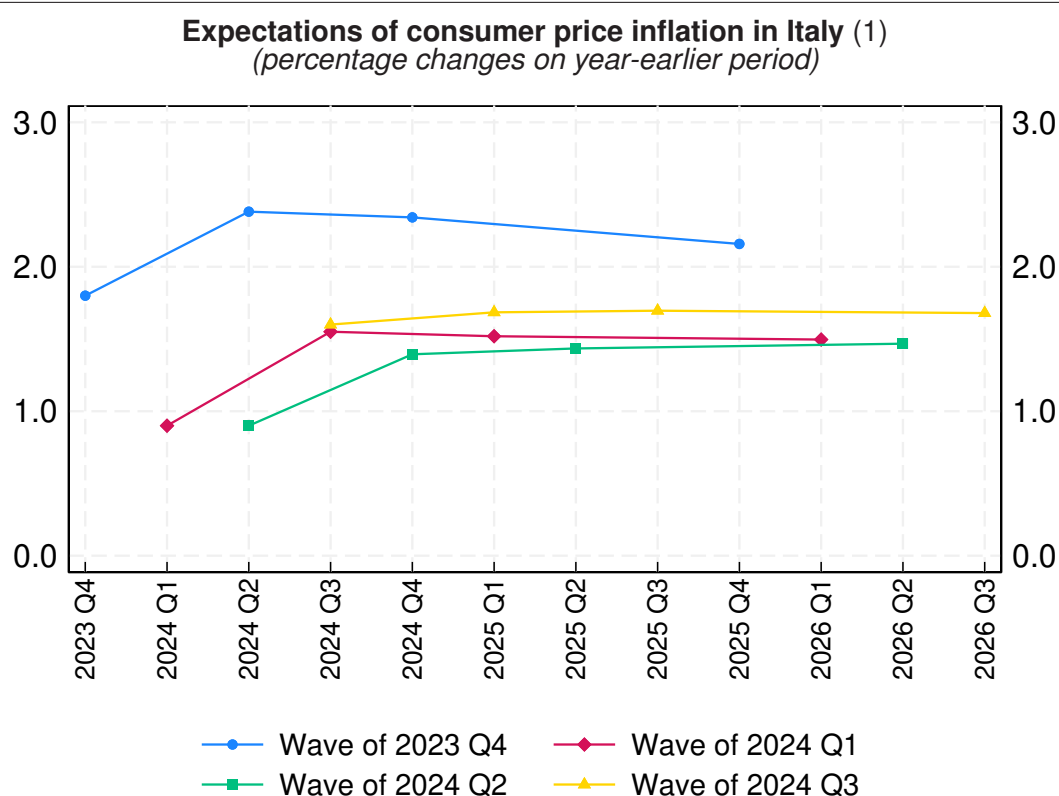
(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles. For selling prices, the actual change (red line) refers to price changes in the previous 12 months, while the expected change (blue line) refers to forecasts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



(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

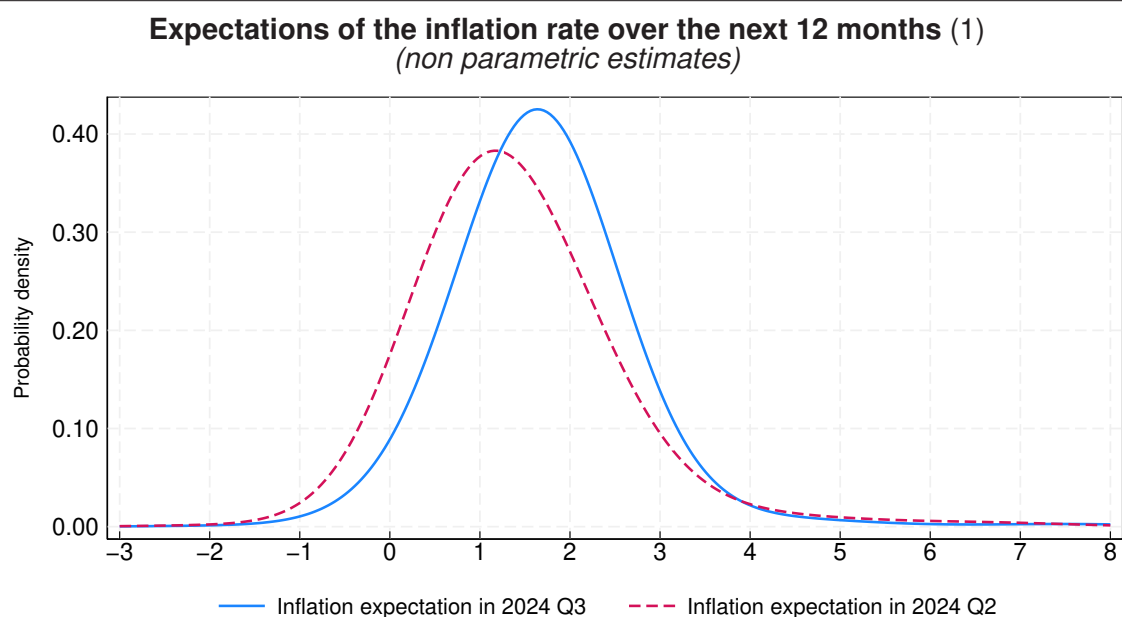
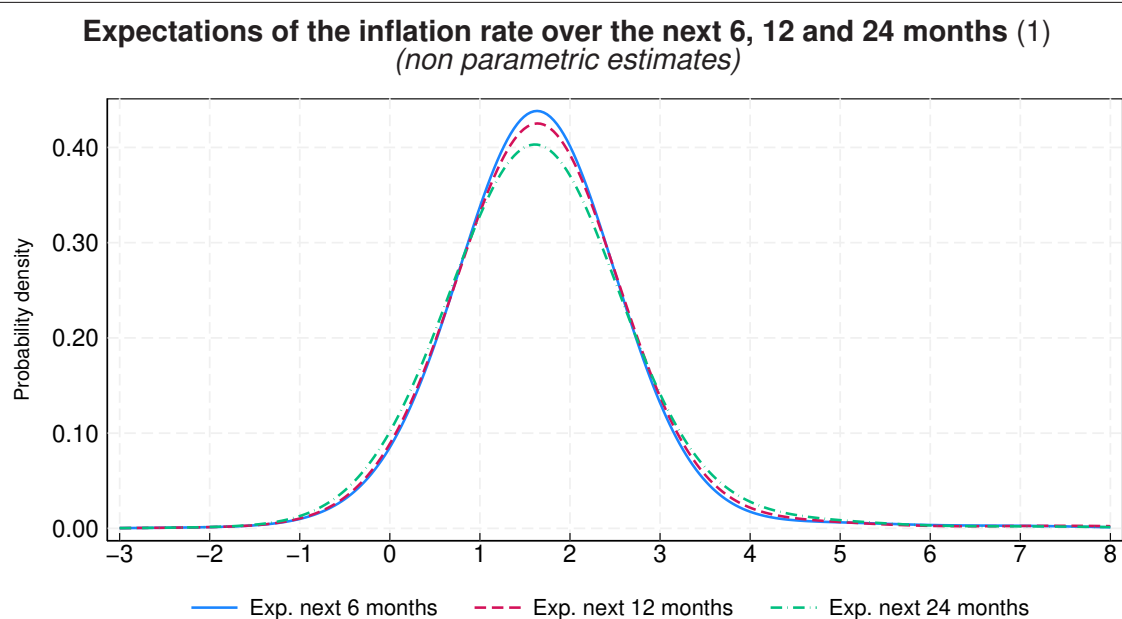


Figure 6



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

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