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REROUTING OF CHINESE PRODUCTS IN RESPONSE TO US TRADE TARIFFS: EVIDENCE FROM ITALIAN FIRMS' EXPECTATIONS

by Tiziano Ropele*

Abstract

We study how Italian firms perceive the potential rerouting of Chinese products, as a result of US trade restrictions, and its implications for prices, business conditions, investment and macroeconomic expectations. Using firm-level data from the Survey on Inflation and Growth Expectations, we show that while most firms do not anticipate a significant reallocation, a sizeable minority – around 30 per cent, concentrated among manufacturers and exporters – expect an increase in Chinese supply. Exposed firms foresee modest reductions in intermediate input prices and downward pressures on selling prices, particularly when competition is the dominant channel for transmitting the rerouting shock, while labour costs are found to exert upward pressures in some service sectors. The anticipated rerouting of Chinese products also generates long-term uncertainty about business conditions and dampens investment expectations. At the aggregate level, firms view the rerouting shock as denting short-term macroeconomic confidence, while leaving inflation expectations largely unchanged.

JEL Classification: F13, F14, D22.

Keywords: trade rerouting, firms' expectations, tariffs.

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1 Introduction[1]

International trade shocks are a key driver of macroeconomic dynamics. They shape business cycles by influencing producers and consumers through multiple channels and pose challenges for policymakers seeking to stabilize activity. In today's highly interconnected global economy—where supply chains span borders and sales markets are diversified—such shocks quickly spill over to third countries. Their effects propagate not only through trade and financial linkages but also through expectations, amplifying their impact on the real economy.

A growing literature has documented the deep and persistent consequences of trade shocks. The "China shock" significantly disrupted local labor markets and wages in many advanced economies, reflecting slow worker reabsorption and sectoral adjustment (Autor et al., 2013; Pierce and Schott, 2016; Federico, 2014). Rising import competition also compresses firms' price growth and profit margins (Chen et al., 2009; Auer and Fischer, 2010; Auer et al., 2013; Bugamelli et al., 2015), while tariffs directly alter consumer prices, trade flows, and firm behavior, and indirectly reshape sourcing strategies and production costs (Amiti et al., 2019; Fajgelbaum et al., 2019). These effects extend beyond targeted countries, propagating through global value chains, supply-chain reallocation, and shifts in market competition (Antràs, 2020).

In this paper, we study the consequences of the recent U.S. trade policy under the Trump administration, with a focus on tariffs imposed on Chinese imports. Beginning in early 2025, the United States announced and implemented several rounds of tariff increases on Chinese goods, often accompanied by threats of retaliation. Although the policy stance has gradually become clearer, uncertainty over its broader implications remains high. Our analysis centers on a specific but crucial dimension of these shocks: the potential rerouting of Chinese products away from the U.S. market and into alterna-

[1]The views expressed in this article are my own and do not necessarily represent the views of the Banca d'Italia or the Eurosystem. I would like to thank Fabrizio Venditti, Giordano Zevi and Roberta Zizza for useful suggestions and comments.

tive destinations. We investigate how such reallocation may affect Italian firms, which are both integrated into global value chains and highly exposed to international competition.

To address this question, we use novel firm-level evidence from the *Survey on Inflation and Growth Expectations*, conducted quarterly by the Bank of Italy. In the second quarter of 2025, the survey included a specific section on the potential rerouting of Chinese products, asking firms directly about their expectations and perceived implications. Leveraging these unique questions, together with the rich background information available in SIGE, we examine how Italian firms anticipate rerouting to affect their costs, competitive environment, and broader business outlook as well their macroeconomic expectations. Our empirical strategy combines descriptive analysis with econometric evidence based on difference-in-differences specifications that compare firms expecting rerouting with otherwise similar firms that do not. This approach isolates differences in expectations that are plausibly linked to perceived exposure to Chinese competition, rather than to other firm characteristics.

Our findings can be summarized as follows. First, the descriptive evidence shows that while most Italian firms do not expect Chinese products to be re-routed toward their reference markets, a sizable minority—around 30 percent, primarily manufacturers and exporters—anticipates an increase in Chinese supply. Within this group, expectations are shaped by two main channels. On the one hand, many firms foresee stronger competitive pressures in product markets, suggesting downward pressure on selling prices. On the other hand, a smaller but significant share expects lower prices for intermediate inputs, pointing to potential cost-side benefits. These effects are most pronounced among manufacturing exporters, while service-sector firms report weaker exposure overall, consistent with the more localized and less trade-intensive nature of their activities.

Second, the regression-based results confirm and deepen these descriptive findings. Firms expecting rerouting report systematic differences in their business outlook compared with those that do not. On the cost side, exposed firms anticipate modest declines in input prices, with the largest effects concentrated in export-oriented industrial firms. On the competition side,

they expect significant downward pressure on their selling prices, especially when they anticipate direct competition from Chinese products in international markets. At the same time, some firms—particularly in some services—report upward pressures from labor costs, which may partly offset the deflationary effects from input and output prices. This pattern likely reflects firms' perceived need to upgrade workforce skills and service quality to remain competitive, especially in knowledge-intensive and technology-oriented services where Chinese firms are rapidly improving their capabilities. Similar skill-upgrading responses to trade exposure have been documented in the U.S. context by Kandilov (2009) and others.

Third, the consequences extend beyond costs and prices to broader business dynamics. Firms anticipating rerouting do not report significant changes in their short- or medium-term outlook, nor do they perceive greater short-term uncertainty. Instead, the main effect materializes over a longer horizon: long-term uncertainty about business conditions rises significantly. This pattern suggests that firms view the adjustment as gradual rather than immediate. The increase in long-term uncertainty translates into weaker investment plans, particularly among industrial firms and exporters, which are more directly exposed to international competition. By contrast, service firms register higher long-term uncertainty but show no corresponding adjustment in investment, underscoring the sectoral heterogeneity of the response.

Finally, at the macroeconomic level, firms exposed to trade rerouting report a pronounced deterioration in the outlook for the Italian economy. These firms assess current conditions more negatively and assign a lower probability to near-term improvement, with both effects highly significant. The decline in confidence is broad-based, spanning industry and services, and affecting both exporters and non-exporters. By contrast, aggregate inflation expectations remain largely unchanged: when pooling all firms, no significant effects are observed at the six months, twelve months and two years horizons. Disaggregated results, however, reveal some heterogeneity with industrial firms lowering their expectations, while services firms showing no significant adjustment.

Overall, our analysis reveals how firms in a third country perceive and

anticipate the global transmission of trade shocks. By focusing on expectations rather than realized outcomes, the paper complements existing work on the real effects of import competition and offers new insights into how trade uncertainty shapes firms' pricing, investment, and macroeconomic outlook. An important caveat applies to our findings. SIGE targets only firms with at least 50 employees, thereby excluding smaller firms that may be more vulnerable to rerouting shocks in domestic markets. Consequently, the effects on firm decisions could be larger than those documented in our sample.

This paper contributes to several strands of the literature. First, it relates to the large body of work on the real effects of trade shocks, which has documented how import competition and tariffs reshape labor markets, firm performance, and aggregate outcomes (Autor et al., 2013; Pierce and Schott, 2016; Amiti et al., 2019; Fajgelbaum et al., 2019). Our analysis complements this literature by focusing not on realized outcomes but on firms' forward-looking expectations in a third-country setting. Second, it connects to research on global value chains and the reorganization of production in response to trade policy uncertainty (Antràs, 2020). We add to this literature by showing how firms perceive potential rerouting of goods as altering both their cost structures and competitive environment, thereby providing micro-level evidence on the mechanisms through which supply-chain reallocation may propagate internationally. Third, it contributes to the growing literature on expectations and firm behavior, which emphasizes how beliefs about the future shape decisions today (Coibion et al., 2020; Grasso and Ropele, 2018). In this respect, our findings show that global shocks influence not only price-setting and cost expectations but also investment plans and uncertainty assessments. Finally, our paper adds to the evidence on Italy's exposure to Chinese competition, which provides a valuable setting to study the domestic transmission of global trade shocks. Bugamelli et al. (2015) document that rising Chinese import penetration between 1994 and 2006 significantly compressed Italian manufacturing firms' output prices highlighting the strong pro-competitive effects of trade integration on price dynamics. Furthermore, Federico (2014) shows that import competition reshaped Italian industry structure, reducing employment in exposed sectors and reallocating activity

toward higher-skill, less trade-intensive industries.[2] Our paper complements these studies by focusing on the expectations margin rather than on ex-post adjustments and also by considering the effects on services firms. In doing so, we connect the evidence on actual price compression and employment reallocation to firms' forward-looking beliefs about costs, competition, and the broader macroeconomic environment.

The remainder of the paper is organized as follows. Section 2 introduces the SIGE survey and the key questions underlying our empirical analysis. Section 3 provides descriptive evidence on firms' expectations regarding the potential rerouting of Chinese products and the channels through which these effects may influence firms' business activity. Section 4 outlines the econometric strategy. Section 5 presents results on firms' expected price adjustments, while Section 6 examines expectations about business conditions, investment, and uncertainty. Section 7 considers firms' macroeconomic expectations. Finally, Section 8 summarizes the main findings and discusses policy implications.

2 The Survey on Inflation and Growth Expectations

To examine how firms in Italy perceive the potential rerouting of Chinese products in response to U.S. tariffs and its effects on their business activity and the macroeconomic implications we use the information collected through the Survey on Inflation and Growth Expectations (SIGE). The SIGE is a quarterly business survey conducted by the Bank of Italy since December 1999.[3] The reference universe consists of firms headquartered in Italy that operate in industry, in nonfinancial private services and in construc-

[2] A more recent survey evidence for the United States by Coibion et al. (2025), shows that the prospect of new tariffs under the Trump administration had already shaped expectations and behavior among both households and firms. Americans widely anticipated tariffs on key trading partners - particularly China - expecting higher prices for imported and domestic goods and increased uncertainty about future economic conditions.

[3] Until October 2018, the survey was run jointly with the economic newspaper *Il Sole 24 Ore*.

tion[4] and that employ at least 50 employees. The sample is stratified along three dimensions: sectors of economic activity (industry, nonfinancial private services, and construction), geographical areas (northwest, northeast, center, and south and islands), and classes of size in terms of number of employees (50-199, 200-999, and 1,000 and over).

Before 2024, each wave saw the participation of about 1,050 firms (400 in industry, 450 in nonfinancial private services, and 200 in construction). Since the first quarter of 2025 the participation rose to about 2,500 firms reflecting an increase in the design of the sample size. The list of firms used to extract the sample is drawn from INPS and InfoCamere databases. Sampling weights are provided to ensure that the distribution of firms in the sample represents the distribution of firms in the reference population.

The survey is carried out by a specialist firm that distributes the questionnaire to company managers who are best informed about the topics covered in the survey. About 90 percent of the data is collected through computer-assisted web interviews in the form of an on-line questionnaire featuring a purpose-designed interface, while the remaining 10 percent is collected through computer-assisted telephone interviews. Data are collected largely in the first three weeks of March, June, September, and December. The average response rate is about 45 percent. The purpose of the survey is to elicit information on firms' expectations concerning inflation, the general economic situation, own-product prices and demand, investment, and employment. Most of the data – except for price developments on purchases and sells of goods and services (past and expected), inflation expectations, and current number of employees – are qualitative and relate to firms' assessments about their own business activity as well as about macroeconomic matters in the reference quarter and looking ahead. Most of the questions are repeated throughout the various waves. On occasion, the survey contains questions on specific aspects of the economy that warrant further investigation. The questionnaire used in the second quarter of 2025 is presented in Figure A1.

[4]Construction firms have been included in SIGE since the first quarter of 2013.

2.1 Questions on potential rerouting of Chinese products

In the second quarter of 2025, a thematic section was added to the SIGE survey to investigate, among other issues, how Italian firms perceive the potential rerouting of Chinese products in response to the recent U.S. tariffs. In particular, two questions were included:[5]

H3 Considering the trade restrictions recently imposed by the United States on China, do you expect a greater supply of Chinese products in the markets where your company operates over the next 12 months**?** **DAZOFF1**
☐ No ☐ Yes, to a modest extent ☐ Yes, to a significant extent

Only answer H4 if you answered "Yes" to H3
H4 How do you think that this increased supply of Chinese products could influence your business? (select one or more options)
☐ by reducing the prices of intermediate inputs purchased by my firm **DAZOFF2**
☐ by increasing competitive pressure on the products sold by my firm (and thus on selling prices) **DAZOFF3**
☐ other **DAZOFF4**

Question H3 is designed to assess the extent to which firms expect an increase in the supply of Chinese products in their markets over the next twelve months, offering three possible responses. Question H4, presented only to firms responding "Yes" to question H3, explores the channels through which the greater supply of Chinese products could affect their business activity. Firms can select from three options: (i) a reduction in the prices of intermediate inputs (capturing a cost-side effect), (ii) stronger competitive pressure on their own products and selling prices (capturing a competition-side effect), or (iii) an open-ended "other" category. These two questions were posed to all firms except those in the construction sector. Descriptive evidence on response frequencies is discussed in Section 3.

2.2 Questions on pricing expectations

The SIGE questionnaire contains several questions designed to elicit firms' expectations regarding price dynamics. Question D5 asks firms to report the

[5] In the box reporting the survey questions, names in **capital blue bold** letters denote acronyms for the questions. These acronyms are also used in the Tables to refer to the corresponding variables. The same convention applies to the other boxes.

expected average percentage change in the prices of their goods and services purchased over the next twelve months:

D5. In the next 12 months, what do you expect will be the average change in your firm's prices of goods and services bought in Italy and abroad?
|__|__|__|.|__|% DPREZ_INT

Responses are numerical and expressed to one decimal point. A set of questions focuses instead on firms' own selling prices:

D2. For the next 12 months, what do you expect will be the average change in your firm's prices? DPREZ |__|__|__|.|__|%

Please indicate direction and intensity of the following factors as they will affect your firm's selling prices **in the next 12 months**:

Factors affecting your firm's prices in the next 12 months	***Effect on firm's selling prices***			***Intensity*** *(if not nil)*		
	Downward	*Neutral*	*Upward*	*Low*	*Average*	*High*
D3.1. Total demand DPR	1|__|	2|__|	3|__|	1|__|	2|__|	3|__|
D3.2. Raw materials prices MPPR	1|__|	2|__|	3|__|	1|__|	2|__|	3|__|
D3.3. Intermediate Input IICT	1|__|	2|__|	3|__|	1|__|	2|__|	3|__|
D3.4. Labour costs CLPR	1|__|	2|__|	3|__|	1|__|	2|__|	3|__|
D3.5. Pricing policies of your firm's main competitors PRPR	1|__|	2|__|	3|__|	1|__|	2|__|	3|__|
D3.6 Inflation expectations dynamics AINF	1|__|	2|__|	3|__|	1|__|	2|__|	3|__|
D3.7 Financial conditions CFIN	1|__|	2|__|	3|__|	1|__|	2|__|	3|__|

Specifically, question D2 asks firms to report the expected percentage change in their selling prices over the next twelve months, expressed numerically to one decimal point. A subsequent series of questions (D3.1-D3.7) explore the underlying determinants of expected price changes. Specifically, firms are asked to assess the influence of several factors. For each, firms are asked to indicate both the direction ("downward," "neutral," "upward") and intensity ("low," "moderate," "high") of the expected impact. For the econometric analysis, we translate these qualitative responses into a three-point numerical scale ranging from -1 to $+1$, capturing only the direction of the expected impact and abstracting from its intensity.[6]

2.3 Further questions on firms' own activity

To broaden the analysis of firms' expectations and perceptions about their own activity, we extend the focus beyond prices to cover business outlook and

[6]Results are virtually unchanged when instead using a seven-point scale ranging from -3 ("downward high") to $+3$ ("upward high"). We adopt the more parsimonious scale to facilitate the implementation of parallel trends tests in case of qualitative outcome variables, discussed in detail in Section 4.

investment plans. With respect to business outlook, the SIGE questionnaire includes the following set of questions:

How do you think business conditions for your company will be:

C1. in the **next 3 months**? ☐ Much better ☐ Better ☐ The same ☐ Worse ☐ Much worse SITIMP5

C2. in the **next 3 years**? ☐ Much better ☐ Better ☐ The same ☐ Worse ☐ Much worse SIMP36C5

For each of the above forecasts imagine there are 100 points available; distribute them among the possible forecasts according to the probability assigned to each one. How do you think business conditions for your company will be:

	Better SITM3M SITM3A			The same SITU3M SITU3A			Worse SITP3M SITP3A			Total		
C3. In the next **3 months**										**1**	**0**	**0**
C4. In the next **3 years**										**1**	**0**	**0**

Questions C1 and C2 elicit firms' qualitative assessments of expected business conditions over two horizons: the short term (next three months) and the medium term (next three years). Responses are collected on a five-point ordinal scale ("much worse," "worse," "the same," "better," "much better"), which we recode into a numerical scale from -1 to $+1$ by collapsing the two negative categories into -1 and the two positive categories into $+1$. Questions C3 and C4 adopt a probabilistic format: firms are asked to allocate 100 points across three outcomes for their business conditins, i.e. "worse," "the same," and "better", over the three-month and three-year horizons. From these distributions, we construct firm-level measures of subjective uncertainty using the following expression:

$$\text{Uncert}_{it}^{h} = \sqrt{p_{it}^{(+,h)} + p_{it}^{(-,h)} - \left(p_{it}^{(+,h)} - p_{it}^{(-,h)}\right)^2}, \tag{1}$$

where $p_{it}^{(+,h)}$ and $p_{it}^{(-,h)}$ denote the probabilities assigned to the "better" and "worse" outcomes, respectively, and $h \in \{3 \text{ months}, 3 \text{ years}\}$ indicates the horizon. We denote the resulting indicators by UNCERT3M and UNCERT3Y.

Turning to investment expectations, Question E1 asks firms to report the expected change in their nominal investment expenditure in fixed capital between the current calendar year and the previous calendar year:

E1. What do you expect will be the nominal expenditure on (tangible and intangible) fixed investment in 2025 compared with that in 2024?

☐ Much higher ☐ A little higher ☐ About the same ☐ A little lower ☐ Much lower INVPRE

As in C1 and C2, responses are given on a five-category ordinal scale,

which we again map to the interval $[-1, +1]$.

2.4 Questions on macroeconomic expectations

In addition to firm-specific economic conditions, the SIGE questionnaire elicits expectations about key macroeconomic outcomes:

	...in December 2025? IT6	...in June 2026? IT12	...in June 2027? IT24	... on average between June 2028 and June 2030? IT48
B1a. (about 3/5 of the sample) In January consumer price inflation, measured by the 12-month change in the harmonized index of consumer prices, was 2.0 per cent in Italy and 2.2 per cent in the euro area. What do you think it will be in Italy...	|__| |__|,|__|%	|__| |__|,|__|%	|__| |__|,|__|%	|__| |__|,|__|%
B1b. (about 1/5 of the sample) What do you think consumer price inflation in Italy, measured by the 12-month change in the harmonized index of consumer prices, will be…	|__| |__|,|__|%	|__| |__|,|__|%	|__| |__|,|__|%	|__| |__|,|__|%
B1c. (about 1/5 of the sample) Based on the most recent forecasts by leading private economic analysts, the consumer price inflation rate in Italy will be 1.8 per cent over the next 12 months. What do you think the consumer price inflation rate in Italy will be…	|__| |__|,|__|%	|__| |__|,|__|%	|__| |__|,|__|%	|__| |__|,|__|%
B3. Compared with 3 months ago, do you consider Italy's general economic situation is…? SITGEN ☐ Better ☐ The same ☐ Worse				
B4. What do you think is the probability of an improvement in Italy's general economic situation **in the next 3 months**? PROMIG ☐ Zero ☐ 1-25 per cent ☐ 26-50 per cent ☐ 51-75 per cent ☐ 76-99 per cent ☐ 100 per cent				

Questions B1a–B1c collect firms' numerical forecasts of consumer price inflation in Italy at four horizons: six months ahead, one year ahead, two years ahead, and the average rate over the two-year period starting two years from now. For brevity, we refer to this last horizon as the four years ahead horizon. Responses are reported in percentage terms to one decimal point. These questions are varied across firms through randomized information treatments. Specifically, three-fifths of respondents are shown the most recent official inflation figures for Italy and the euro area; one-fifth are provided instead with forecasts from leading private-sector analysts; and the remaining group receives no additional information. In the present analysis, we abstract from these differences and pool responses into single measures of inflation expectations at each horizon.[7]

[7]For further discussion of these information treatments and their use as sources of exogenous variation in expectations, see Grasso and Ropele (2018) and Coibion et al. (2020).

Questions B3 and B4 elicit firms' assessments of the general economic situation in Italy. Question B3 asks whether the current situation is better, worse, or unchanged relative to three months earlier. We recode responses into a trichotomous variable taking the value +1 for "better," 0 for "the same," and −1 for "worse." Question B4 asks firms to report the probability of an improvement in Italy's economic situation over the next three months. Responses are given on a six-category scale: 0, 1–25%, 26–50%, 51–75%, 76–99%, and 100. For interval responses, we assign the midpoint of the range.[8]

3 Preliminary evidence on the rerouting of Chinese products

In this section, we present preliminary descriptive evidence on Italian firms' expectations regarding the rerouting of Chinese exports in response to U.S. trade restrictions. Figure 1 and Figure 2 show how likely this rerouting is among firms and the potential channels through which it may affect their activity.

Figure 1 shows the distribution of responses to question H3. Several results are worth highlighting. First, the majority of firms across all sectors do not anticipate an increase in the presence of Chinese products, yet a sizable minority—around one-third overall—does expect such an increase. Among manufacturing firms (orange bars in the left-hand panel), roughly 27 percent expect a modest increase and about 7 percent a significant one, bringing the total share to nearly one-third. Notably, this number is higher among exporting manufacturers, with nearly 37% anticipating an increase in Chinese products. By contrast, only 19.4% of non-exporting manufacturers expect any increase. A similar pattern emerges among services firms (green bars,

[8]Since the third quarter of 2024, the questionnaire has also included questions on firms' numerical inflation expectations for the euro area as a whole, formulated over the same four horizons as in questions B1a–B1c and incorporating several randomized information treatments. Given the short sample period, we do not assess the effects of the rerouting of Chinese products on these inflation expectations.

right panel), though the overall perceived relevance is slightly lower. While 23.7% of all service firms expect an increase in Chinese supply, this figure rises to 34.9% among exporters and falls to 18.7% among non-exporters.

Figure 2 illustrates how firms expect an increase in Chinese supply to impact their business, given the anticipation of such a reallocation. The responses suggest that firms are primarily concerned with two factors: competitive pressures and cost implications. Among manufacturing firms (Panel A), the majority (59.8%) believe that Chinese reallocation will increase competitive pressure, possibly leading to downward pressure on selling prices while a significantly smaller proportion (19.7%) expect instead lower input costs. Only 6.8% of respondents selected both channels. Services firms (Panel B) show a somewhat more balanced distribution, though the competition channel still dominates. Almost 48% anticipate stronger competitive pressure, while 22.7% foresee lower input costs. While these findings provide interesting descriptive insights into firms' perceptions, they do not quantify the potential effects of the rerouting on firms' expectations and assessments. The following sections address this issue by outlining the econometric strategies employed to evaluate these effects.

4 Econometric Analysis

To quantify the effects of anticipated rerouting of Chinese products, triggered by U.S. trade restrictions, on Italian firms' expectations, we employ a difference-in-differences (DiD) econometric framework. Our identification strategy exploits variation in firms' subjective exposure, elicited from question H3 of the survey. Specifically, firms reporting a modest or significant increase in Chinese products in their domestic markets are classified as the *treatment group*, while firms reporting no such increase constitute the *control group*. We refer to the former as the *general exposure* treatment group.

We begin with a standard two-way fixed effects model:

$$Y_{it} = \gamma_i + \lambda_t + \beta_1 \left(\text{Treated}_i \times \text{Post}_t\right) + \mathbf{X}'_{it}\delta + \varepsilon_{it}, \tag{2}$$

where Y_{it} denotes the outcome of interest for firm i in quarter t, γ_i and λ_t are firm and time fixed effects, and $\mathbf{X}_{it}$ is a vector of time-varying firm-level controls that may confound the estimation of causal effects if omitted. The latter includes firms' contemporaneous assessments of total demand, credit access, investment conditions, and macroeconomic outlook and the (log) number of employees. The variable ε_{it} represents the error term. The coefficient β_1 captures the average treatment effect on the treated, after controlling for firm-invariant unobservables, aggregate shocks, and observed time-varying heterogeneity.

To assess how the effects may vary across firms, we extend the model with triple interactions. Let Status_i denote a firm characteristic of interest, such as (i) sector of economic activity (industrial vs. services) or (ii) external orientation (exporters vs. non-exporters). We then estimate:

$$\begin{aligned} Y_{it} = \gamma_i + \lambda_t + \beta_1 \left(\text{Treated}_i \times \text{Post}_t \times \text{Status}_i\right) \\ + \beta_2 \left(\text{Treated}_i \times \text{Post}_t \times (1 - \text{Status}_i)\right) + \mathbf{X}'_{it}\delta + \varepsilon_{it}. \end{aligned} \tag{3}$$

This specification allows treatment effects to differ systematically by firm type, reflecting the idea that exposure to global trade shocks is mediated by production structure and trade openness.

A key identifying assumption in our econometric framework is that, absent the trade shock, treated and control firms would have evolved along parallel trends. We test this assumption using an event-study specification:

$$Y_{it} = \gamma_i + \lambda_t + \sum_{k \neq -1} \beta_k \cdot \text{Treated}_i \times \mathbb{1}\{t = k\} + \mathbf{X}'_{it}\delta + \varepsilon_{it}, \tag{4}$$

where $\mathbb{1}\{t = k\}$ is an indicator equal to one if period t is k quarters from the baseline ($k = -1$ is the omitted period). The coefficients β_k trace the dynamics of treatment effects before and after exposure. Failure to reject the joint null that all pre-treatment coefficients ($k < 0$) are equal to zero supports the parallel trends assumption.

In the case of a categorical outcome variable, which as anticipated we recode numerically on a three-point scale (-1, 0, $+1$), we adapt the event-study

approach as follows. Since categorical outcomes cannot be treated as continuous without imposing strong assumptions on the distances between categories, we create separate binary indicators for each category, equal to one if the outcome falls in that category and zero otherwise. We then estimate separate event-study specifications for each category, effectively obtaining three distinct sets of coefficients. This strategy allows us to test the parallel trends assumption individually for each category by reporting the p-values of three corresponding F-tests. By doing so, we assess whether the pre-treatment dynamics are consistent with parallel trends across all outcome categories, providing a more granular validation of our identifying assumption.

Finally, to disentangle the channels through which firms anticipate the consequences of rerouting, we refine the treatment definition using responses to question H4. This distinction yields two mutually exclusive subgroups: (i) the *cost exposure* treatment group, consisting of firms expecting rerouting to lower input costs, and (ii) the *competition exposure* treatment group, consisting of firms expecting intensified competitive pressure and lower selling prices. Estimating equation (2) separately for these subgroups allows us to identify whether supply-side cost reductions or demand-side competition effects dominate in shaping expectations.

All regressions are estimated by ordinary least squares (OLS), with standard errors clustered at the firm level to account for serial correlation. The sample spans the period from 2021Q1 to 2025Q2. All quantitative outcomes are winsorized at the 1% tails to mitigate the influence of outliers.

5 Results on firms' expected prices

5.1 Expected intermediate input prices

Table 1 shows the estimation results for the impact of anticipated Chinese products rerouting on firms' expectations regarding input price developments over the next twelve months.[9] Panel A reports the results using specification

[9]P-values of the F-statistics from the parallel trends tests are reported at the bottom of each panel. In the main text, we comment only on cases where the null hypothesis of par-

(2). In Column (1), where the treatment group comprises all firms anticipating an increase in Chinese product supply, the estimated effect is negative but not statistically significant. However, focusing specifically on firms expecting the impact to materialise through lower input prices (column (2)) reveals a statistically significant effect at the 5% level: these firms report an expected decline in input price growth of approximately 1.1 percentage points. By contrast, no significant effect is observed on expected input prices for firms that envisage Chinese reallocation to operate primarily through heightened competition (Column (3)).

Panel B examines differences between sectors by estimating the effects of Chinese products rerouting on industrial and service firms using specification (3). The negative effect on input prices expectations is concentrated among industrial firms, with the point estimate reaching -1.6 percentage points in Column (2) and statistically significant at the 5% level. In contrast, the estimates for service firms are statistically insignificant across all specifications.

Panel C considers heterogeneity by export orientation. The effects are negligible and statistically insignificant among non-exporting firms in all columns. Among exporting firms, however, the estimates are substantial and statistically significant (see Column (2)), suggesting that firms engaged in international trade may be more sensitive to global supply chain dynamics and anticipate cost benefits from Chinese products rerouting.

Overall, these results suggest that the consequences of Chinese export rerouting are far from uniform. While the aggregate effect on input price expectations is modest, the heterogeneity across sectors and firm types is pronounced. Those most directly embedded in global value chains — industrial and exporting firms — anticipate significant reductions in the cost of intermediate inputs, whereas service and non-exporting firms remain largely unaffected.

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allel trends is rejected, highlighting potential departures from the identifying assumption. This reporting approach is used for the current table and all subsequent tables presenting parallel trends tests.

5.2 Expected selling prices

Table 2 shows the estimated effects of anticipated Chinese products rerouting on firms' own selling price developments over the next twelve months. As in Table 1, columns (1) to (3) vary the definition of the treatment group in order to distinguish between general, cost-driven and competition-driven exposure to the increased Chinese supply. As shown in Panel A, general exposed treated firms (Column (1)) expect a statistically significant reduction of approximately 0.3 percentage points in their selling prices growth over the next twelve months, compared to the control group. The magnitude increases for firms that explicitly expect stronger competitive pressures (column 3). In this case the effect is nearly -0.5 percentage points and is significant at the 5% level. By contrast, firms that report input price reductions as the main channel (column 2) report a smaller, though statistically insignificant, decline in their expected selling prices.

Panel B explores sectoral heterogeneity. The negative effect on expected selling prices is concentrated among industrial firms, which show significant treatment effects in both Column (1) and Column (3), with the largest decline (nearly -0.6 percentage points) occurring when competitive pressure is the identified channel. In contrast, service firms exhibit no significant treatment effects in any specification.

Panel C examines heterogeneity by exporting status. For non-exporting firms, treatment effects are statistically insignificant. By contrast, exporting firms display consistently negative coefficients, which reach statistical significance in Columns (1) and (3). The magnitudes, on the order of 0.4 to 0.5 percentage points, are comparable to those observed for industrial firms, with the largest impact again concentrated in the competition-driven specification.

The results presented in Table 2 reinforce the notion that expected increases in Chinese supply triggered by U.S. trade restrictions affect not only firms' input prices expectations but also shape their selling price expectations. These effects are most pronounced for industrial and exporting firms, particularly those anticipating intensified competition, and highlights a potential deflationary channel stemming from trade diversion that could prop-

agate through both cost and pricing expectations. Building on this evidence, we next turn to a more detailed exploration of the mechanisms behind firms' own pricing expectations. In particular, we examine the specific factors that firms identify as influencing their expected selling prices over the next twelve months.

5.3 Factors underlying expected selling prices

In this section we analyze the specific factors that firms report as influencing their selling price expectations over the next twelve months. Building on the previous findings, we focus on the competition-channel treatment group. Table 3 presents the results.

A first observation is that, for several outcome variables — specifically total demand (DPR), raw material prices (MPPR), and intermediate input costs (IICT) — the F-tests for pre-treatment periods often reject the parallel trends assumption. This raises concerns about the validity of the identifying assumption for these variables, and the corresponding estimates, which are in virtually all cases statistically insignificant, should therefore be interpreted with caution.

More robust and consistent patterns emerge for the contributions of competitors' pricing policies (PRPR) and labor costs (CLPR). Across all panels, PRPR exerts a negative and often statistically significant effect, suggesting that treated firms expect intensified competitive pressures to push their selling prices downward. This effect is particularly strong among industrial firms (Panel B) and exporting firms (Panel C), in line with the interpretation that exposure to trade reallocations heightens competition.

By contrast, CLPR shows positive and sometimes significant coefficients, indicating that firms expect labor costs to contribute to upward pressure on selling prices. This effect is concentrated among service firms (Panel B) and non-exporting firms (Panel C). The emergence of upward labor cost pressures in these groups is noteworthy and deserves further exploration, as it runs counter to the otherwise dominant downward pressure stemming from competitive dynamics.

To further investigate the positive contribution of labor costs to expected selling price developments over the next twelve months, we re-estimate specification (3) focusing exclusively on service firms, where the treatment group comprises firms that anticipate increased competitive pressure due to the rerouting of Chinese products. This allows us to uncover more granular heterogeneity across service sectors, using the classification of economic activities according to the ATECO 2007 sections (G through U). The results, reported in Table 4, reveal striking sectoral differences in how labor costs are perceived to influence selling price expectations. The positive effect of labor costs is particularly pronounced in the professional, scientific, and technical services sector, where the coefficient is large and highly significant, as well as in the trade and vehicle repair sector. A smaller but statistically significant positive effect also emerges in education, health, and other services. A tentative interpretation is that in these sectors, firms anticipating stronger competition may fear that Chinese service providers will increasingly offer higher-quality services, prompting them to upgrade the skills and quality of their workforce in order to remain competitive, thereby pushing labor costs upward. This concern appears particularly relevant in knowledge-intensive and technology-related services, where Chinese firms are indeed rapidly improving their capabilities, while it seems less pressing in more traditional service activities.[10] Consistent with this distinction, we find significant negative effects in sectors such as hospitality and food services, where the treatment appears to reduce the extent to which labor costs are perceived as a driver of selling price increases.

[10]This pattern is consistent with Kandilov (2009), who shows that trade with developing countries, including China, raises the regional demand for skilled labor in the U.S., indicating that exposure to low-wage competitors can prompt firms to upgrade their workforce. Our findings extend this insight by indicating that Italian firms anticipate similar skill and quality adjustments in advance.

6 Results on general business conditions and investment expectations

Table 5 examines how the rerouting of Chinese exports affects firms' forward-looking assessments of business conditions, perceived uncertainty and investment plans. The analysis is restricted to firms that explicitly identify intensified competition as the relevant transmission channel.

Starting with expectations of future business conditions (Columns (1) and (2)), there is little evidence of systematic effects as neither short-term outlook (SITIMP5, three months ahead) nor medium-term outlook (SIMP36C5, three years ahead) respond significantly to the treatment. Similarly, short-term uncertainty about business conditions (UNCERT3M, Column (3)) remains unaffected. Hence, these findings suggest that firms do not anticipate trade reallocation triggering an immediate deterioration in aggregate conditions, nor do they perceive heightened risks in the near future.

By contrast, the treatment significantly increases long-term uncertainty about business conditions (UNCERT3Y, Column (4)). This effect is both statistically and economically significant, indicating that firms expect the competitive landscape to become more unpredictable in the long term. The asymmetry between the response of short- and long-term measures of uncertainty may partly reflect that the rerouting of global trade flows is a gradual process: a three-month horizon is likely too short for such changes to materialize, whereas over a multi-year horizon firms anticipate more profound and uncertain shifts in market structure, pricing power, and the persistence of competitive pressures.

Investment expectations (INVPRE, Column (5)) provide an important behavioural counterpart. The estimates reveal a statistically significant decline in expected investment expenditure over the next calendar year, suggesting that firms respond to heightened long-term uncertainty driven by Chinese trade reallocation by adopting a more cautious investment stance. This pattern is consistent with the evidence that uncertainty increases the value of waiting, thereby delaying or reducing capital expenditure.

Panels B and C show that these effects are not evenly distributed among

firms. Among industrial firms, both long-term uncertainty and investment decline significantly, highlighting their direct exposure to the tradable goods sector and their vulnerability to external shocks. By contrast, service firms only register a significant effect for long-term uncertainty, with no corresponding adjustment in investment. Finally, the results by trade orientation (Panel C) show that exporters, who are already more engaged in global markets, experience heightened long-term uncertainty and reduced investment, whereas non-exporters remain largely unaffected.

7 Effects on macro expectations

Having examined firm-level outcomes in response to the anticipated rerouting of Chinese exports, we now turn to macroeconomic perceptions and expectations. Specifically, we investigate firms' assessments of current and future macroeconomic conditions in Italy, as well as their inflation expectations for both Italy and the euro area.

Table 6 reports the estimation results for Italy using the general exposure treatment group, i.e., all firms that expect to be affected by the rerouting of Chinese products. Several findings are noteworthy.

First, as shown in Column (1), firms report a significant deterioration in their assessment of current macroeconomic conditions in Italy (SITGEN). This negative sentiment is broad-based, affecting both industrial and services firms, as well as exporters and non-exporters, highlighting widespread concern about the domestic implications of Chinese trade diversion. Second, Column (2) shows that firms revise down their short-term expectations for improvement in macroeconomic conditions (PROMIG). The probability of an improvement over the next three months declines significantly, with the largest reductions observed among services firms and non-exporters. Taken together, these results indicate that the rerouting shock not only worsens contemporaneous sentiment but also erodes firms' immediate optimism, pointing to a generalized loss of confidence in Italy's near-term outlook.

Third, turning to inflation expectations (Columns (3)–(5)), we find no statistically significant effects at the six-, twelve-, or twenty-four–month hori-

zons when considering all firms together. This suggests that, on average, the perceived rerouting of Chinese goods does not lead firms to revise their short- or medium-term inflation expectations. When disaggregating by sector, however, a more nuanced pattern emerges. Manufacturing firms exhibit small but significant declines in short-term inflation expectations (at six and twelve months), whereas service-sector firms display no systematic response at any horizon. Similarly, when distinguishing between exporters and non-exporters, the estimated effects remain statistically insignificant across all maturities. [11]

Taken together, these findings indicate that the perceived rerouting shock mainly affects firms' macroeconomic short-term outlook—heightening uncertainty and weakening confidence—while leaving their longer-term inflation expectations largely unchanged. This pattern suggests that firms interpret the shock as transitory rather than indicative of a persistent shift in inflation dynamics.

8 Conclusions

Using detailed firm-level data from the Survey on Inflation and Growth Expectations, this paper examined how Italian firms perceive the potential rerouting of Chinese products in response to U.S. trade restrictions, and how these perceptions shape expectations for prices, business conditions, investment, and macroeconomic outcomes. Three key findings emerge.

First, while the majority of firms do not anticipate a significant inflow of Chinese products, a non-negligible minority—especially exporters and industrial firms—expect notable reallocation. For these exposed firms, competition is the dominant transmission channel: they foresee stronger downward pressure on selling prices and, to a lesser extent, modest reductions in input costs. Sectoral heterogeneity is evident: industrial and exporting firms an-

[11] We also examined the effects on forty-eight–month-ahead inflation expectations. While results remain insignificant for the full sample, they turn positive and weakly significant for service-sector and exporting firms. However, this pattern is not robust to minor variations in model specification, particularly regarding the set of included controls, and should therefore be interpreted with caution rather than taken at face value.

ticipate deflationary pressures, while certain service sectors report offsetting upward pressure from labor costs.

Second, the rerouting shock heightens long-term uncertainty and dampens investment plans, particularly among industrial and exporting firms. Although short-term business outlooks remain broadly stable, firms anticipate a gradual erosion of conditions and greater difficulty in long-term planning. This precautionary response highlights uncertainty as a key channel through which trade shocks affect real activity, beyond direct cost or price effects.

Third, firms exposed to the rerouting of Chinese products sharply downgrade their assessment of current economic conditions in Italy, reflecting broad-based losses of confidence. Short-term optimism falls, particularly among services firms and non-exporters, while aggregate inflation expectations remain largely unaffected. Heterogeneity appears across firm characteristics: industrial firms lower their inflation expectations expectations, whereas services firms show no adjustment .

These results carry important policy implications. Policymakers should recognize that Chinese supply reallocation may generates downward price pressures, with potentially adverse aggregate effects. For monetary policy, this calls for close monitoring of expectation dynamics and attentiveness to the possibility that uncertainty-induced investment slowdowns could amplify macroeconomic risks. Policy measures that support investment resilience and account for heterogeneous sectoral impacts could help mitigate the broader consequences of trade reallocation.

Finally, our analysis points to several avenues for future research. Linking expectations to realized outcomes would shed light on the persistence of rerouting effects and the credibility of firms' forecasts. Extending the analysis to smaller firms—currently excluded from the survey—could reveal even greater vulnerabilities. Cross-country comparisons would help establish whether the Italian experience reflects broader European exposure to U.S.–China trade tensions.

Overall, while most Italian firms do not expect to be directly affected, the minority that does anticipates meaningful changes in costs, competition, and investment. This caveat is crucial: the aggregate impact of Chinese reallocation will depend on whether such expectations remain confined to a subset of firms or spread more widely as trade tensions persist.

Tables and Figures

Table 1: Effects of the rerouting of Chinese products on firms' expected prices of purchased goods and services over the next twelve months

	Panel A. All firms (by treatment groups).		
	(1)	(2)	(3)
	General	Cost	Competition
Treat x Post	-0.160	-1.105**	0.174
	(0.248)	(0.499)	(0.267)
Parallel trends (p-value)	0.241	0.377	0.331
Observations	20,846	17,873	19,265
Adjusted R^2	0.355	0.357	0.355
	Panel B. Industrial vs. services firms (by treatment groups).		
	(1)	(2)	(3)
	General	Cost	Competition
Treat x Post (Industry)	-0.289	-1.364**	0.010
	(0.305)	(0.598)	(0.353)
Treat x Post (Services)	0.031	-0.700	0.424
	(0.357)	(0.930)	(0.323)
Parallel trends (p-value)	0.241	0.377	0.331
Observations	20,846	17,873	19,265
Adjusted R^2	0.355	0.357	0.355
	Panel C. Non-exporting vs. exporting firms (by treatment groups).		
	(1)	(2)	(3)
	General	Cost	Competition
Treat x Post (Non-exporters)	0.237	-0.409	0.379
	(0.398)	(0.831)	(0.396)
Treat x Post (Exporters)	-0.280	-1.378**	0.121
	(0.279)	(0.589)	(0.303)
Parallel trends (p-value)	0.241	0.377	0.331
Observations	20,846	17,873	19,265
Adjusted R^2	0.355	0.357	0.355

Note: This table reports the effects of the rerouting of Chinese products on Italian firms' expected change in the prices of goods and services purchased domestically or abroad over the next twelve months (DPREZ_INT). Panel A presents estimates obtained using specification (2), while Panels B and C report estimates obtained using specification (3), accounting for heterogeneity by sector and export status, respectively. The treatment group includes firms that, in response to U.S. trade restrictions on China, anticipate a greater inflow of Chinese products into their markets. Column (1) uses the broad definition of general exposure, Column (2) restricts the treatment group to firms expecting lower input prices and Column (3) focuses on firms anticipating stronger competitive pressures. The reported p-values are from F-tests of the null hypothesis that all pre-treatment coefficients in specification (4) are jointly equal to zero (i.e., no differential pre-trends). Estimation sample is from 2021Q1 to 2025Q2. Standard errors, clustered at the firm level, are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Table 2: Effects of the rerouting of Chinese products on firms' expected own selling price changes over the next twelve months

	Panel A. All firms (by treatment groups).		
	(1)	(2)	(3)
	General	Cost	Competition
Treat x Post	-0.318*	-0.227	-0.491**
	(0.170)	(0.286)	(0.200)
Parallel trends (p-value)	0.858	0.623	0.225
Observations	20,846	17,873	19,265
Adjusted R^2	0.315	0.314	0.318
	Panel B. Industrial vs. services firms (by treatment groups).		
	(1)	(2)	(3)
	General	Cost	Competition
Treat x Post (Industry)	-0.464**	-0.369	-0.584**
	(0.210)	(0.362)	(0.251)
Treat x Post (Services)	-0.103	-0.006	-0.349
	(0.242)	(0.549)	(0.285)
Parallel trends (p-value)	0.858	0.623	0.225
Observations	20,846	17,873	19,265
Adjusted R^2	0.315	0.314	0.318
	Panel C. Non-exporting vs. exporting firms (by treatment groups).		
	(1)	(2)	(3)
	General	Cost	Competition
Treat x Post (Non-exporters)	-0.058	0.215	-0.496
	(0.250)	(0.448)	(0.320)
Treat x Post (Exporters)	-0.397**	-0.401	-0.490**
	(0.193)	(0.346)	(0.226)
Parallel trends (p-value)	0.858	0.623	0.225
Observations	20,846	17,873	19,265
Adjusted R^2	0.315	0.314	0.318

Notes: This table reports the effects of the rerouting of Chinese products on Italian firms' expected own selling price changes over the next twelve months (DPREZ). Panel A presents estimates obtained using specification (2), while Panels B and C report estimates obtained using specification (3), accounting for heterogeneity by sector and export status, respectively. The treatment group includes firms that, in response to U.S. trade restrictions on China, anticipate a greater inflow of Chinese products into their markets. Column (1) uses the broad definition of general exposure, Column (2) restricts the treatment group to firms expecting lower input prices and Column (3) focuses on firms anticipating stronger competitive pressures. The reported p-values are from F-tests of the null hypothesis that all pre-treatment coefficients in specification (4) are jointly equal to zero (i.e., no differential pre-trends). Estimation sample is from 2021Q1 to 2025Q2. Standard errors, clustered at the firm level, are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Table 3: Effects of the rerouting of Chinese products on underlying factors contributing to firms' expected own selling price changes over the next twelve months

			Panel A. All firms.		
	(1) DPR	(2) MPPR	(3) IICT	(4) PRPR	(5) CLPR
Treat x Post	-0.048	-0.051	0.012	-0.112**	0.069**
	(0.039)	(0.048)	(0.037)	(0.047)	(0.035)
Parallel trends (p-value) (-1)	0.015	0.048	0.030	0.137	0.492
Parallel trends (p-value) (0)	0.000	0.023	0.044	0.552	0.074
Parallel trends (p-value) (+1)	0.001	0.000	0.260	0.003	0.102
Observations	19,010	19,051	18,946	19,001	19,041
Adjusted R^2	0.297	0.301	0.276	0.328	0.378
			Panel B. Industrial versus services firms.		
	(1) DPR	(2) MPPR	(3) IICT	(4) PRPR	(5) CLPR
Treat x Post (Industry)	-0.074	-0.074	-0.009	-0.181***	0.058
	(0.049)	(0.068)	(0.051)	(0.060)	(0.046)
Treat x Post (Services)	-0.007	-0.016	0.045	-0.007	0.087*
	(0.060)	(0.057)	(0.045)	(0.072)	(0.048)
Parallel trends (p-value) (-1)	0.015	0.048	0.030	0.137	0.492
Parallel trends (p-value) (0)	0.000	0.023	0.044	0.552	0.074
Parallel trends (p-value) (+1)	0.001	0.000	0.260	0.003	0.102
Observations	19,010	19,051	18,946	19,001	19,041
Adjusted R^2	0.297	0.301	0.276	0.328	0.378
			Panel C. Non-exporting versus exporting firms.		
	(1) DPR	(2) MPPR	(3) IICT	(4) PRPR	(5) CLPR
Treat x Post (Non-exporters)	-0.066	-0.066	0.125**	0.070	0.116**
	(0.077)	(0.070)	(0.057)	(0.096)	(0.058)
Treat x Post (Exporters)	-0.043	-0.047	-0.015	-0.160***	0.057
	(0.044)	(0.056)	(0.042)	(0.052)	(0.040)
Parallel trends (p-value) (-1)	0.015	0.048	0.030	0.137	0.492
Parallel trends (p-value) (0)	0.000	0.023	0.044	0.552	0.074
Parallel trends (p-value) (+1)	0.001	0.000	0.260	0.003	0.102
Observations	19,010	19,051	18,946	19,001	19,041
Adjusted R^2	0.297	0.301	0.276	0.328	0.378

Notes: This table reports the effects of the rerouting of Chinese products on underlying factors contributing to firms' expected own selling price changes over the next twelve months (DPR, MPPR, IICT, PRPR and CLPR; see Section 2.2 for a detailed discussion of these factors). Panel A presents estimates obtained using specification (2), while Panels B and C report estimates obtained using specification (3), accounting for heterogeneity by sector and export status, respectively. The treatment group includes firms that, in response to U.S. trade restrictions on China, anticipate a greater inflow of Chinese products into their markets. The reported p-values are from F-tests of the null hypothesis that all pre-treatment coefficients in specification (4) are jointly equal to zero (i.e., no differential pre-trends). Estimation sample is from 2021Q1 to 2025Q2. Standard errors, clustered at the firm level, are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Table 4: Effects of the rerouting of Chinese products on labor cost factor contributing to services firms' expected own selling price changes over the next twelve months

	(1) CLPR
Treat x Post (Trade and Vehicle Repair)	0.141**
	(0.061)
Treat x Post (Transport and Storage)	-0.084
	(0.128)
Treat x Post (Hospitality and Food Services)	-0.060**
	(0.028)
Treat x Post (Information and Communication)	-0.105
	(0.150)
Treat x Post (Real Estate)	-0.070**
	(0.034)
Treat x Post (Professional and Technical Services)	0.306***
	(0.023)
Treat x Post (Administrative and Support Services)	-0.122
	(0.074)
Treat x Post (Education, Health, and Other Services)	0.058**
	(0.028)
Parallel trends (p-value) (-1)	0.492
Parallel trends (p-value) (0)	0.074
Parallel trends (p-value) (+1)	0.102
Observations	8,459
Adjusted R^2	0.383

Notes: This table reports the effects of the rerouting of Chinese products on labor cost factor contributing to services firms' expected own selling price changes over the next twelve months (CLPR). The treatment group consists of firms that, in response to U.S. trade restrictions on China, anticipate a greater inflow of Chinese products into their markets, thereby facing stronger competitive pressures. Estimates are obtained using a specification similar to (3), where the status variable is defined by the classification of services activities under ATECO 2007 sections. The reported p-values are from F-tests of the null hypothesis that all pre-treatment coefficients in specification (4) are jointly equal to zero (i.e., no differential pre-trends). Estimation sample is from 2021Q1 to 2025Q2. Standard errors, clustered at the firm level, are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Table 5: Effects of the rerouting of Chinese products on firms' expectations regarding business conditions, uncertainty and investment expenditure

	Panel A. All firms.				
	(1) SITIMP5	(2) SIMP36C5	(3) UNCERT3M	(4) UNCERT3Y	(5) INVPRE
Treat x Post	-0.007	0.001	0.005	0.026***	-0.088
	(0.029)	(0.045)	(0.016)	(0.006)	(0.058)
F test (p-value) (−1)	0.001	0.666			0.639
F test (p-value) (0)	0.092	0.398			0.147
F test (p-value) (+1)	0.216	0.343			0.016
F test (p-value)			0.438	0.294	
Observations	19,233	19,057	18,911	18,914	19,176
Adjusted R^2	0.439	0.443	0.521	-0.127	0.258
	Panel B. Industrial versus services firms.				
	(1) SITIMP5	(2) SIMP36C5	(3) UNCERT3M	(4) UNCERT3Y	(5) INVPRE
Treat x Post (Industry)	-0.016	-0.008	0.002	0.025**	-0.158**
	(0.037)	(0.058)	(0.019)	(0.009)	(0.070)
Treat x Post (Services)	0.007	0.015	0.011	0.028*	0.019
	(0.039)	(0.063)	(0.025)	(0.014)	(0.090)
F test (p-value) (−1)	0.001	0.666			0.639
F test (p-value) (0)	0.092	0.398			0.147
F test (p-value) (+1)	0.216	0.343			0.016
F test (p-value)			0.438	0.294	
Observations	19,233	19,057	18,911	18,914	19,176
Adjusted R^2	0.439	0.442	0.521	-0.127	0.258
	Panel C. Non-exporting versus exporting firms.				
	(1) SITIMP5	(2) SIMP36C5	(3) UNCERT3M	(4) UNCERT3Y	(5) INVPRE
Treat x Post (Non-exporters)	-0.012	-0.057	0.017	0.025	0.091
	(0.055)	(0.068)	(0.028)	(0.019)	(0.107)
Treat x Post (Exporters)	-0.005	0.016	0.002	0.026***	-0.135**
	(0.032)	(0.052)	(0.018)	(0.007)	(0.064)
F test (p-value) (−1)	0.001	0.666			0.639
F test (p-value) (0)	0.092	0.398			0.147
F test (p-value) (+1)	0.216	0.343			0.016
F test (p-value)			0.438	0.294	
Observations	19,233	19,057	18,911	18,914	19,176
Adjusted R^2	0.439	0.443	0.521	-0.127	0.258

Notes: This table reports the effects of the rerouting of Chinese products on firms' expectations regarding their own business conditions (SITIMP5 and SIMP36C5), business condition uncertainty (UNCERT3M and UNCERT3Y) and investment expenditure. For a detailed discussion of these outcome variables see Section 2.3. Panel A presents estimates obtained using specification (2), while Panels B and C report estimates obtained using specification (3), accounting for heterogeneity by sector and export status, respectively. The treatment group includes firms that, in response to U.S. trade restrictions on China, anticipate a greater inflow of Chinese products into their markets. The reported p-values are from F-tests of the null hypothesis that all pre-treatment coefficients in specification (4) are jointly equal to zero (i.e., no differential pre-trends). Estimation sample is from 2021Q1 to 2025Q2. Standard errors, clustered at the firm level, are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

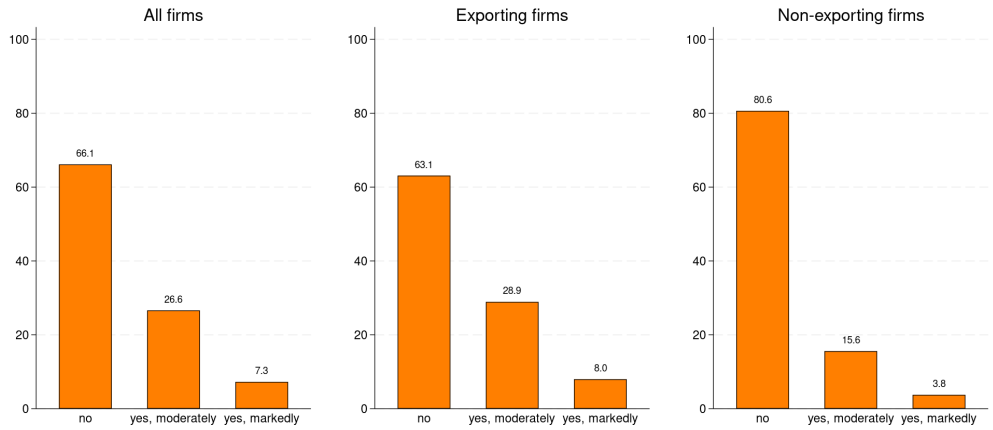
Table 6: Effects of the rerouting of Chinese products on firms' macroeconomic assessments and inflation expectations in Italy

	Panel A. All firms.				
	(1) SITGEN	(2) PROMIG	(3) IT6ALL	(4) IT12ALL	(5) IT24ALL
Treat x Post	-0.099***	-2.008***	-0.036	-0.022	0.022
	(0.023)	(0.686)	(0.072)	(0.072)	(0.074)
Parallel trends (p-value)	0.437	0.150	0.245	0.149	0.072
Observations	21,088	21,417	20,846	20,846	20,846
Adjusted R^2	0.281	0.092	0.686	0.616	0.528
	Panel B. Industrial versus services firms.				
	(1) SITGEN	(2) PROMIG	(3) IT6ALL	(4) IT12ALL	(5) IT24ALL
Treat x Post (Industry)	-0.089***	-1.127	-0.150*	-0.169**	-0.087
	(0.029)	(0.912)	(0.077)	(0.074)	(0.079)
Treat x Post (Services)	-0.113***	-3.307***	0.132	0.195	0.183
	(0.039)	(1.054)	(0.121)	(0.124)	(0.124)
Parallel trends (p-value)	0.437	0.150	0.245	0.149	0.072
Observations	21,088	21,417	20,846	20,846	20,846
Adjusted R^2	0.281	0.092	0.686	0.616	0.528
	Panel C. Non-exporting versus exporting firms.				
	(1) SITGEN	(2) PROMIG	(3) IT6ALL	(4) IT12ALL	(5) IT24ALL
Treat x Post (Non-exporters)	-0.138***	-2.926*	0.207	0.130	0.064
	(0.043)	(1.532)	(0.172)	(0.174)	(0.171)
Treat x Post (Exporters)	-0.088***	-1.742**	-0.110	-0.068	0.009
	(0.027)	(0.771)	(0.072)	(0.071)	(0.075)
Parallel trends (p-value)	0.437	0.150	0.245	0.149	0.072
Observations	21,088	21,417	20,846	20,846	20,846
Adjusted R^2	0.281	0.092	0.686	0.616	0.528

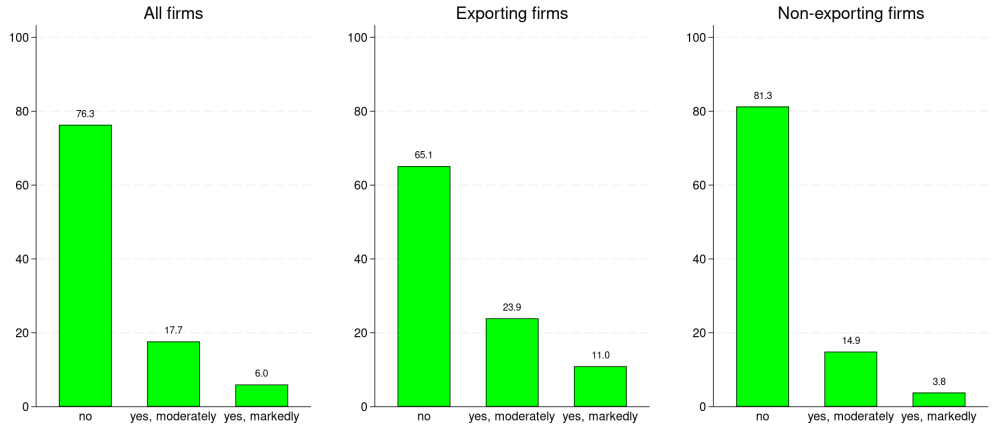
Notes: This table reports the effects of the rerouting of Chinese products on firms' macroeconomic assessments (SITGEN and PROMIG) and inflation expectations (IT6ALL, IT12ALL and IT24ALL) in Italy. For a detailed discussion of these outcome variables see Section 2.4. Panel A presents estimates obtained using specification (2), while Panels B and C report estimates obtained using specification (3), accounting for heterogeneity by sector and export status, respectively. The treatment group includes firms that, in response to U.S. trade restrictions on China, anticipate a greater inflow of Chinese products into their markets. The reported p-values are from F-tests of the null hypothesis that all pre-treatment coefficients in specification (4) are jointly equal to zero (i.e., no differential pre-trends). Estimation sample is from 2021Q1 to 2025Q2. Standard errors, clustered at the firm level, are shown in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Figure 1: Firms' assessments of rerouting of Chinese products following U.S. trade restrictions.

(a) Panel A. Manufacturing firms.

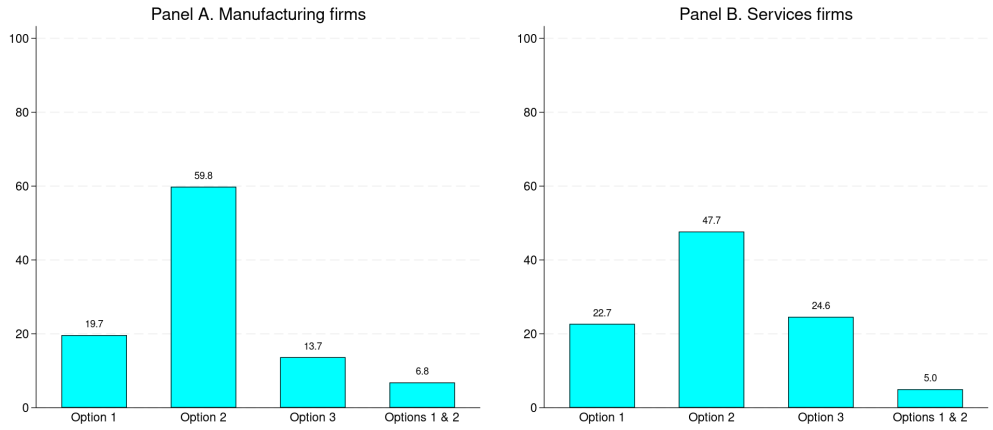


(b) Panel B. Services firms.



Note: This figure presents the distribution of firm-level responses (in percent) to question H3 presented in Section 2.1 that reads as: "Considering the recent trade restrictions imposed by the United States on China, do you expect a greater supply of Chinese products in the markets where your company operates over the next 12 months? ☐ no ☐ yes, to a modest extent ☐ yes, to a significant extent. Panel A reports results for manufacturing firms, while Panel B focuses on services firms. Within each panel, we also distinguish among exporting firms and non-exporting firms to capture potential heterogeneity in exposure to international markets. Frequencies are constructed using sampling weights.

Figure 2: Firms' assessments on the channels of Chinese supply reallocation.



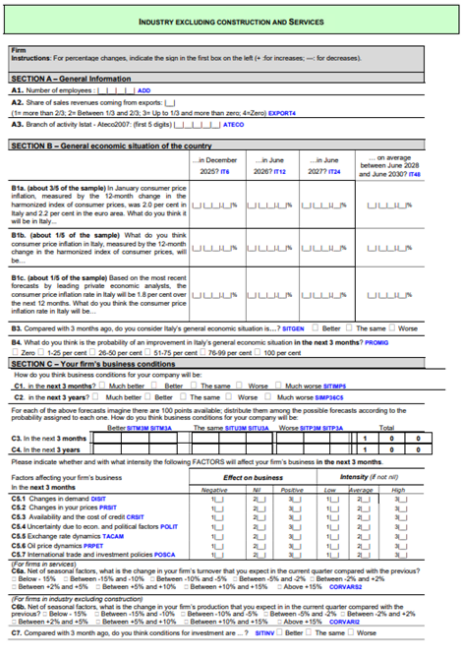
Note: This figure presents the distribution of firm-level responses (in percent) to the Question H4 presented in Section 2.1 that reads as: "How do you think this greater supply of Chinese products could affect your firm? (please select one or more options): ☐ by reducing the prices of intermediate inputs purchased by the firm ☐ by increasing competitive pressure on the firm's products (and therefore on selling prices) ☐ other". Frequencies are constructed using sampling weights. A few other combinations of responses were omitted from the figure due to their negligible frequency.

Appendix A Additional Tables

Additional material goes here.

Appendix B Additional Figures

Figure A1: Questionnaire of the Survey on Inflation and Growth Expectations conducted in 2025Q2



INDUSTRY EXCLUDING CONSTRUCTION AND SERVICES

Firm:

Instructions: For percentage changes, indicate the sign in the first box on the left (+ for increases; — for decreases).

SECTION A – General information

A1. Number of employees: [ ][ ][ ] ADD

A2. Share of sales revenues coming from exports: [ ]

(1= more than 2/3; 2= Between 1/3 and 2/3; 3= Up to 1/3 and more than zero; 4=Zero) EXPORT4

A3. Branch of activity Istat - Ateco2007: (first 5 digits) [ ][ ][ ][ ][ ] ATECO

SECTION B – General economic situation of the country

	...in December 2025? IT6	...in June 2026? IT12	...in June 2027? IT24	... on average between June 2026 and June 2030? IT48
B1a. (about 3/5 of the sample) In January consumer price inflation, measured by the 12-month change in the harmonized index of consumer prices, was 2.0 per cent in Italy and 2.2 per cent in the euro area. What do you think it will be in Italy:...	[ ][ ],[ ]%	[ ][ ],[ ]%	[ ][ ],[ ]%	[ ][ ],[ ]%
B1b. (about 1/5 of the sample) What do you think consumer price inflation in Italy, measured by the 12-month change in the harmonized index of consumer prices, will be...	[ ][ ],[ ]%	[ ][ ],[ ]%	[ ][ ],[ ]%	[ ][ ],[ ]%
B1c. (about 1/5 of the sample) Based on the most recent forecasts by leading private economic analysts, the consumer price inflation rate in Italy will be 1.8 per cent over the next 12 months. What do you think the consumer price inflation rate in Italy will be...	[ ][ ],[ ]%	[ ][ ],[ ]%	[ ][ ],[ ]%	[ ][ ],[ ]%

B3. Compared with 3 months ago, do you consider Italy's general economic situation is...? SITGEN ☐ Better ☐ The same ☐ Worse

B4. What do you think is the probability of an improvement in Italy's general economic situation **in the next 3 months**? PROWIG

☐ Zero ☐ 1-25 per cent ☐ 26-50 per cent ☐ 51-75 per cent ☐ 76-99 per cent ☐ 100 per cent

SECTION C – Your firm's business conditions

How do you think business conditions for your company will be:

C1. in the **next 3 months**? ☐ Much better ☐ Better ☐ The same ☐ Worse ☐ Much worse SIMP3MC5

C2. in the **next 3 years**? ☐ Much better ☐ Better ☐ The same ☐ Worse ☐ Much worse SIMP3MC5

For each of the above forecasts imagine there are 100 points available; distribute them among the possible forecasts according to the probability assigned to each one. How do you think business conditions for your company will be:

	Better SITM3M SITM3A	The same SITUM SITUSA	Worse SITPM SITP3A	Total
C3. In the next **3 months**				1 0 0
C4. In the next **3 years**				1 0 0

Please indicate whether and with what intensity the following FACTORS will affect your firm's business **in the next 3 months**.

Factors affecting your firm's business In the **next 3 months**	*Effect on business* Negative	Nil	Positive	*Intensity (if not nil)* Low	Average	High
C5.1 Changes in demand DISIT	1☐	2☐	3☐	1☐	2☐	3☐
C5.2 Changes in your prices PRSIT	1☐	2☐	3☐	1☐	2☐	3☐
C5.3 Availability and the cost of credit CRSIT	1☐	2☐	3☐	1☐	2☐	3☐
C5.4 Uncertainty due to econ. and political factors POLIT	1☐	2☐	3☐	1☐	2☐	3☐
C5.5 Exchange rate dynamics TACAM	1☐	2☐	3☐	1☐	2☐	3☐
C5.6 Oil price dynamics PRPET	1☐	2☐	3☐	1☐	2☐	3☐
C5.7 International trade and investment policies POSCA	1☐	2☐	3☐	1☐	2☐	3☐

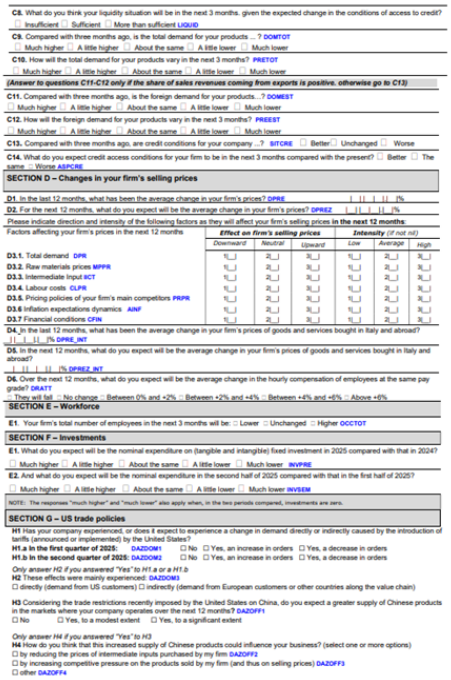
(For firms in services)

C6a. Net of seasonal factors, what is the change in your firm's turnover that you expect in the current quarter compared with the previous? ☐ Below -15% ☐ Between -15% and -10% ☐ Between -10% and -5% ☐ Between -5% and -2% ☐ Between -2% and +2% ☐ Between +2% and +5% ☐ Between +5% and +10% ☐ Between +10% and +15% ☐ Above +15% CORVARS2

(For firms in industry excluding construction)

C6b. Net of seasonal factors, what is the change in your firm's production that you expect in in the current quarter compared with the previous? ☐ Below - 15% ☐ Between -15% and -10% ☐ Between -10% and -5% ☐ Between -5% and -2% ☐ Between -2% and +2% ☐ Between +2% and +5% ☐ Between +5% and +10% ☐ Between +10% and +15% ☐ Above +15% CORVARS2

C7. Compared with 3 month ago, do you think conditions for investment are ...? SITINV ☐ Better ☐ The same ☐ Worse



C8. What do you think your liquidity situation will be in the next 3 months. given the expected change in the conditions of access to credit?
☐ Insufficient ☐ Sufficient ☐ More than sufficient LIQUID

C9. Compared with three months ago, is the total demand for your products ...? DOMTOT
☐ Much higher ☐ A little higher ☐ About the same ☐ A little lower ☐ Much lower

C10. How will the total demand for your products vary in the next 3 months? PRETOT
☐ Much higher ☐ A little higher ☐ About the same ☐ A little lower ☐ Much lower

(Answer to questions C11-C12 only if the share of sales revenues coming from exports is positive, otherwise go to C13)

C11. Compared with three months ago, is the foreign demand for your products...? DOMEST
☐ Much higher ☐ A little higher ☐ About the same ☐ A little lower ☐ Much lower

C12. How will the foreign demand for your products vary in the next 3 months? PREEST
☐ Much higher ☐ A little higher ☐ About the same ☐ A little lower ☐ Much lower

C13. Compared with three months ago, are credit conditions for your company ...? SITCRE ☐ Better ☐ Unchanged ☐ Worse

C14. What do you expect credit access conditions for your firm to be in the next 3 months compared with the present? ☐ Better ☐ The same ☐ Worse ASPCRE

SECTION D – Changes in your firm's selling prices

D1. In the last 12 months, what has been the average change in your firm's prices? DPRE [ ][ ],[ ]%

D2. For the next 12 months, what do you expect will be the average change in your firm's prices? DPREZ [ ][ ],[ ]%

Please indicate direction and intensity of the following factors as they will affect your firm's selling prices **in the next 12 months**:

Factors affecting your firm's prices in the next 12 months	*Effect on firm's selling prices* Downward	Neutral	Upward	*Intensity (if not nil)* Low	Average	High
D3.1. Total demand DPR	1☐	2☐	3☐	1☐	2☐	3☐
D3.2. Raw materials prices MPPR	1☐	2☐	3☐	1☐	2☐	3☐
D3.3. Intermediate Input IICT	1☐	2☐	3☐	1☐	2☐	3☐
D3.4. Labour costs CLPR	1☐	2☐	3☐	1☐	2☐	3☐
D3.5. Pricing policies of your firm's main competitors PRPR	1☐	2☐	3☐	1☐	2☐	3☐
D3.6 Inflation expectations dynamics AINF	1☐	2☐	3☐	1☐	2☐	3☐
D3.7 Financial conditions CFIN	1☐	2☐	3☐	1☐	2☐	3☐

D4. In the last 12 months, what has been the average change in your firm's prices of goods and services bought in Italy and abroad? [ ][ ],[ ]% DPREZ_INT

D5. In the next 12 months, what do you expect will be the average change in your firm's prices of goods and services bought in Italy and abroad? [ ][ ],[ ]% DPREZ_INT

D6. Over the next 12 months, what do you expect will be the average change in the hourly compensation of employees at the same pay grade? DRATT
☐ They will fall ☐ No change ☐ Between 0% and +2% ☐ Between +2% and +4% ☐ Between +4% and +6% ☐ Above +6%

SECTION E – Workforce

E1. Your firm's total number of employees in the next 3 months will be: ☐ Lower ☐ Unchanged ☐ Higher OCCTOT

SECTION F – Investments

E1. What do you expect will be the nominal expenditure on (tangible and intangible) fixed investment in 2025 compared with that in 2024?
☐ Much higher ☐ A little higher ☐ About the same ☐ A little lower ☐ Much lower INVPRE

E2. And what do you expect will be the nominal expenditure in the second half of 2025 compared with that in the first half of 2025?
☐ Much higher ☐ A little higher ☐ About the same ☐ A little lower ☐ Much lower INVSEM

NOTE: The responses "much higher" and "much lower" also apply when, in the two periods compared, investments are zero.

SECTION G – US trade policies

H1 Has your company experienced, or does it expect to experience a change in demand directly or indirectly caused by the introduction of tariffs (announced or implemented) by the United States?
H1.a In the first quarter of 2025: DAZDOM1 ☐ No ☐ Yes, an increase in orders ☐ Yes, a decrease in orders
H1.b In the second quarter of 2025: DAZDOM2 ☐ No ☐ Yes, an increase in orders ☐ Yes, a decrease in orders

Only answer H2 if you answered "Yes" to H1.a or a H1.b
H2 These effects were mainly experienced: DAZDOM3
☐ directly (demand from US customers) ☐ indirectly (demand from European customers or other countries along the value chain)

H3 Considering the trade restrictions recently imposed by the United States on China, do you expect a greater supply of Chinese products in the markets where your company operates over the next 12 months? DAZOFF1
☐ No ☐ Yes, to a modest extent ☐ Yes, to a significant extent

Only answer H4 if you answered "Yes" to H3
H4 How do you think that this increased supply of Chinese products could influence your business? (select one or more options)
☐ by reducing the prices of intermediate inputs purchased by my firm DAZOFF2
☐ by increasing competitive pressure on the products sold by my firm (and thus on selling prices) DAZOFF3
☐ other DAZOFF4

(c) Page 1.

(d) Page 2.

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