Italy: April confidence data point to a decent second quarter

April's confidence data report is a relatively positive one, with confidence improving among consumers, builders and service providers, while falling back among manufacturers and retailers. Interestingly, they now all share expectations of a deceleration in inflation

Italian consumers are more upbeat

Consumers are more upbeat and less concerned about future unemployment

Consumer confidence in Italy rose in April for the fourth consecutive month, pushed up by an improvement in the perception of the current economic environment. While consumers are less optimistic about future economic developments, they don't believe this will translate into higher unemployment risks, according to the index sub-components. This might be due to the belief that there is increasing tightness in the labour market.

Interestingly, this confidence has not yet translated into an increased willingness to buy durable goods; consumers are instead choosing to save right now. This could suggest that the sharp decline in the saving ratio seen over the second half of last year (it fell to 5% in the fourth quarter of 2022) possibly reached alarming levels.

Builders still helped by incentive schemes

The increase in confidence in the construction sector, more marked among residential builders, suggests that the impact of generous tax incentive schemes (chiefly the so-called super bonus) is still translating into higher activity. With incentives remaining in place and the backlog ample, we expect such resilience to last throughout the year.

Services still improving, driven by tourism

Confidence in services improved again in April, reaching the highest level since July 2022. Unsurprisingly, the gain was driven by the tourism component, but services to businesses are also reportedly more upbeat. The long-lasting reopening effect seems to be still fully in place, and points to an ongoing re-composition in consumption patterns out of goods and into services. This is reiterated by softening confidence among retailers, who are reporting slower sales and slightly increased inventories.

Manufacturing confidence remains soft

After posting a temporary rebound in March, manufacturing confidence set back to January/February levels, confirming that the sector is still going through a relatively soft patch. Muted orders and slightly increasing inventories translate into slightly softer current production and production expectations. With the international backdrop still uncertain, industrial production is unlikely to accelerate meaningfully over the second quarter, notwithstanding the ongoing normalisation in supply chain conditions and declining gas prices, which are now flirting with the €40/MWh level.

Today's report also includes the first quarter's update on capacity use and production constraints for manufacturers. Capacity utilisation was stable at 77.5% and the constraints front confirms that in the current environment, the availability of plants and materials is the main obstacle, followed closely by insufficient demand (stable over the last three quarters) and by an increasing lack of manpower. Interestingly, the increasing relevance of the labour factor at a time when the post-Covid rebound has softened suggests that structural factors and possible supply-demand mismatch in the labour market are currently at play. Somewhat surprisingly, access to funding is still not deemed to be an obstacle to production. At least for industry, the full impact of higher funding costs is failing to show up in the numbers.

All sectors now expect declining inflation

A common feature among all sectors was the decline in price expectations. While this was, until recently, relegated to manufacturers, which are more exposed to energy price developments, it now also affects services. This is good news for core inflation developments over the second half of 2023.

April confidence data tentatively point to positive GDP growth in 2Q23

All in all, today's confidence report still supports the idea that the Italian economy could post positive GDP growth in the second quarter (we expect a positive reading in tomorrow's preliminary release for the first quarter). For the time being, indications are that this will be down to services, while the possibility of a positive push from industry is much more uncertain. The ongoing decline in inflation will obviously help, but for a more visible acceleration to materialise we will have to wait for an inversion of the core measure profile as well.

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