

Italian business confidence holds up in September

Confidence in manufacturing and the service sector is still close to historic highs, and extremely upbeat consumers point to another strong reading for 3Q21 GDP



Good confidence reading in September, led by services and construction

Italian businesses seem more resilient than their core European peers to supply chain disruptions. Business confidence data for September shows a minor decline among manufacturers and a small gain in services. Confidence rebounded again in construction but fell quite markedly in the retail business.

Manufacturing resilient to supply chain disruptions, services propelled by tourism

The broad picture continues to show confidence very close to recent highs. Resilience in manufacturing can possibly be ascribed to the nature of the goods produced which tend to be less dependent on semiconductors, while the stable order component provides additional comfort. The strength in the service sector index seems to be reflecting the spreading impact of

reopenings following a successful vaccination campaign. In fact, the monthly gain in the aggregate index is mainly driven by a 15-point jump in the tourism services sub-index, another bit of evidence of a very successful summer season. The concurrent decline in the retail index could point to a temporary re-composition of consumption towards experience-based goods most affected by Covid-related lockdowns.

Consumers also upbeat and less concerned about future unemployment

Consumer confidence data seems to confirm this. The aggregate index posted the highest reading since July 2018, sustained by a strong current economic climate component, but consumers say they are not so eager to spend money on durable goods. Cash rich households (deposits remain well above pre-Covid-19 historic levels) are likely adapting their spending patterns. Interestingly, the September release also shows a decline in reported concerns about future unemployment, at a time when Covid-related labour protection schemes are being gradually lifted. Indeed, recently published Inps data shows that in July 2021 less than a million workers were using the Covid CIG furlough scheme compared with the 5M+ of April 2020. We had then expressed our concern that a normalisation could induce a substantial setback in the labour market, possibly pushing the unemployment rate back to the 11% area. Things are turning out much better than that, likely helping to support consumer confidence and, ultimately, prospective private consumption.

We now see upside risks to our 5.7% average 2021 GDP growth

All in all, today's confidence readings look comforting. Businesses and consumers remained fairly upbeat in the last month of the third quarter, which is good news for growth. We now see upside risks to our current forecast of a 5.7% average GDP growth in 2021, and believe that 6% could be well within reach.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

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