

Italian confidence data points to a significant slowdown in growth

There has been a marked deterioration in confidence across most sectors of the Italian economy. In our view, a GDP contraction might just be avoided in the third quarter, but it is almost inevitable in the fourth



September confidence data points to a broad-based deterioration in the Italian economic picture

Consumers are getting gloomy again

Data from Italy's National Institute of Statistics (ISTAT) shows that in September, consumer confidence fell back to July's level, which was the lowest level since May 2020 during the peak of the pandemic. Consumers are increasingly concerned about economic developments and expect a deterioration in household economic conditions. Combined with growing concerns about future unemployment, this translates into a reduced willingness to purchase durable goods.

Further fall in manufacturing confidence

Confidence in the manufacturing sector fell for the third consecutive month, recording the lowest level since February 2021, driven by weakening demand for consumer and intermediate goods, where orders fell for the third month in a row. The fall was much more contained in the investment goods sector, possibly reflecting the ongoing support of the European Recovery Fund. Production expectations fell markedly across the board, pointing to a further deterioration in industry's

supply-side push over the fourth quarter of 2022.

Construction was the only sector to post a monthly gain, partially recouping August's lost ground. The impact of generous tax incentives on building construction is clearly still at play, and firms' rising employment expectations seem to reflect confidence that favourable conditions will remain in place.

Services no longer a safe haven, as the re-opening effect fades away

Today's release seems to mark a break in developments in the service sector. After stabilising over the summer, confidence in the service sector fell abruptly in September, reaching the lowest level since February 2022. This involved all subsectors, suggesting that the re-opening effect, helped by revamped tourism flows, is fading away. This seems to be confirmed by the decline in retailer confidence.

A GDP contraction in the fourth quarter looks inevitable

All in all, September's confidence data points to a broad-based deterioration in the Italian economic picture. The jury is still out about whether the third quarter of this year will mark the start of a recession: we still believe that, notwithstanding a very likely manufacturing drag, services and construction might have managed to generate a minor GDP expansion. However, the combined effect of budget-constrained consumption and softer industrial production will make a GDP contraction in the fourth quarter almost unavoidable, marking the start of a technical recession. The new Italian government is set for a tricky start: in a no-growth environment, it will immediately have to craft a budget in which electoral promises will have to come to terms with evaporating fiscal space.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.