

## 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.

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