

## Italian consumers and businesses increasingly pessimistic in July

The deterioration in confidence data does not reflect the impact of the government crisis. Expect more softness ahead, but thanks to NextGenEU investments and good tourism flows, Italy might manage to avoid a GDP contraction in 3Q22



### Confidence already deteriorated before the government crisis

The deterioration of the general macro picture is being increasingly reflected in confidence data. If until June, Italian data had pointed to relative resilience in business confidence with respect to peer countries, July data shows an unambiguous deterioration across sectors with the exception of builders and retailers. It's also worth noting that this data was collected before the government crisis materialised.

### Consumers still suffering most

Given the continued climb in inflation, the fall in consumer confidence is hardly surprising. The index lost almost four points on the month, recording the lowest level since May 2020. Consumers are getting gloomier about the Italian economic outlook and about their household's financial conditions, and see a smaller likelihood of saving in the future. Also, unemployment is an increasing concern. The impact of rising inflation on real disposable income is clearly biting and will likely show up in weak consumption data over the third quarter.

## Manufacturers hit by falling orders

On the business front, manufacturing marks a change with respect to the recent past. Italian manufacturers had proved more resilient than their eurozone peers to supply chain disruptions, helped by well-filled order books. In July, the order component turned weaker across the board, including investment goods which have been benefiting from the NextGenEU effect. As stocks of finished products are being slowly depleted, Italian manufacturers are only marginally revising down their production plans.

## Construction sector still propelled by EU funds and generous tax incentives

Where the NextGenEU effect and generous tax incentives are still working at full speed is in the construction sector. Here, confidence climbed again, propelled by increasing orders and employment expectations. As incentives will remain fully in place over the rest of 2022, we expect the construction sector to remain a growth driver over the rest of the year.

## Services softening, but tourism holds up better

In June, we welcomed the increase in confidence recorded in services. That gain has been almost fully lost in July on the back of a sharp decline in transport and storage, and services to businesses, possibly reflecting developments in manufacturing. However, the tourism sector seems to be holding up better, supported by good orders. For the time being, the available data seems to support our view that tourism might temporarily support Italian economic activity over 3Q22, helping to avoid a quarterly contraction.

## Still pencilling in 2.9% GDP growth in 2022 but uncertainty is growing

All in all, today's confidence data suggests that Italy is not immune to negative external developments, and particularly to the consequences of high inflation. The third quarter looks set to be weaker than the second, but the joint effect of NextGenEU investments and a good tourism season, should help to avoid a quarterly contraction, which will likely materialise over 4Q22, possibly accentuated by political uncertainty. We are currently pencilling in average GDP growth at 2.9% in 2022, but political developments are making such a forecast increasingly uncertain.

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