Italy: Confidence data had a soft start in January

The weak-ish reading might reflect some uncertainty related to the ongoing vocal electoral campaign. We forecast quarterly growth at 0.3% in 1Q18 (from an estimated 0.4% in 2017)

Small retreat in consumer confidence, which remains elevated

The battery of confidence data published today by Istat came in softer than expected. Consumer confidence retreated a full point to 115.5, driven by the decline in the economic condition indicator and in the future conditions. Consumers were less optimistic about developments in unemployment and sharply revised upwards their expectations on inflation over the next twelve months. Notwithstanding the monthly decline, January's consumer confidence remains elevated, equalling the average level recorded over 4Q17. In our view, continued positive developments on the employment front are still exerting a positive impact on the current components of consumer confidence.

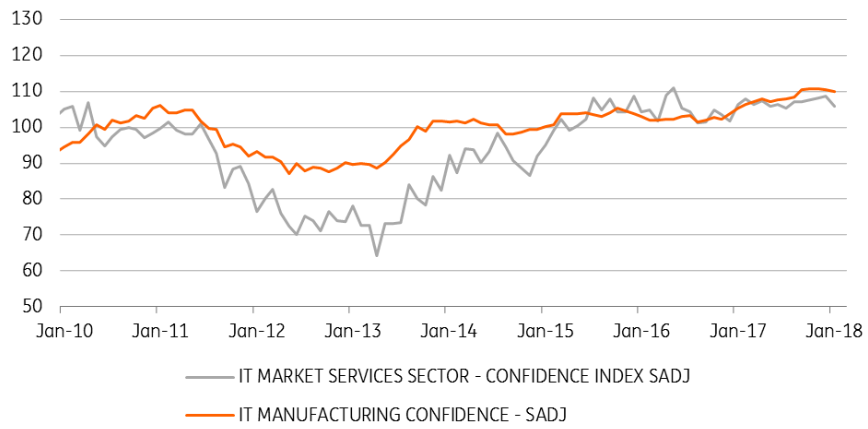
A deeper slide in the composite business index, driven by services and retailers

The correction in the composite business confidence sentiment indicator (to 105.6, a 6-month low) was surprisingly strong, but reflected diversified dynamics in the components. The service sector and retail sub-indices proved the main drivers of the fall, followed at a distance by the manufacturing component, while construction was the sole sector posting an increase in confidence. Digging into the details, we note that the marked fall in the services domain was mainly determined by a sharp fall in the tourism component, not compensated by the improvements in information and communication and in other services. In the retail domain, where the decline in large establishments outweighed the improvement among small retailers, we note growing signals of inventory accumulation.

Manufacturing confidence only slightly down

Interestingly, the manufacturing breakdown shows more resilience among consumer and investment goods producers, which might signal that the export pull is still in place. We also suspect that the domestic investment recovery, which has characterized the Italian growth pattern over 2017, might still be benefiting from tax incentives as foreseen by the 2018 budget.

Confidence softness very much a services story



Source: Thomson Reuters

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com