

## Italy: Confidence improves broadly in December, except for manufacturers

The last batch of confidence data for 2022 points to extra resilience in fourth quarter GDP. We are still pencilling in a small contraction, but a flat reading cannot be ruled out



The latest batch of confidence data for 2022 shows that both consumer and business sentiment has improved, with the sole exception of manufacturers.

### Consumers more upbeat and less concerned by future unemployment

The consumer confidence index posted the second consecutive substantial improvement in December, reaching back to the level seen in May. The drivers of the four-point gain were sharp increases in the economic conditions and future climate components, reflected in a clear improvement in unemployment expectations. In our view, two factors can explain the surprisingly strong resilience of consumer spirits, irrespective of the ongoing erosion of real disposable incomes caused by the inflation spike. The first is a favourable development in the labour market, with an improving employment rate and a falling unemployment rate. Whilst a possible side effect of demand/supply mismatch and of unfavourable demographic developments, these are nonetheless positive short-term factors. The second is the fact that the Meloni government has prioritised providing continuous fiscal support to households to weather the energy inflation shock,

refinancing most of the measures until the end of March 2023 in the budget. Interestingly, for the second month in a row, consumers express an increasing willingness to purchase durable goods.

## Manufacturers confirm they're not immune to external developments

The business front looks more diversified, with manufacturers more pessimistic and builders, retailers, and, importantly, service providers, more upbeat. The fall in manufacturing confidence, more pronounced among producers of investment and consumer goods, reflects softening orders and increasing stocks of finished goods, consistently mirrored in declining production plans. Italian industry, still outperforming its big eurozone peers, is apparently not immune to recent unfavourable developments in global trade nor to growing uncertainty about the risk of renewed supply chain issues related to Covid developments in China.

## Services likely benefiting from stronger-than-expected reopening effects

Perhaps the biggest surprise comes from the fourth consecutive confidence improvement in the service sector, notwithstanding an expected setback in the tourism component. The reopening effect seems to be lasting longer than expected, with a possible bearing on 4Q22 GDP developments.

## Still pencilling in a negative 4Q22 GDP change, but a flat reading cannot be excluded

All in all, the end-of-year confidence data release adds upside risks to 4Q22 GDP developments. We continue to believe that manufacturing will confirm a supply-side growth drag in the quarter, but acknowledge the risk that services might fare better than expected. The demand side counterpart might have a smaller negative correction in consumption than previously anticipated. We are currently pencilling in a 0.2% quarter-on-quarter GDP contraction in 4Q22, but a flat reading could be a distinct possibility.

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