Italian confidence recovery continues unabated in June

The broad-based improvement continues signalling the ongoing catch-up of the services sectors as the economy reopens faster than expected. Provided, we don't see any severely adverse developments from the Delta variant, upside risks to our current growth forecasts are increasing

Italian statistical agency, Istat's confidence data, published earlier today, continues to paint a rosier picture of Italian economic developments.

Manufacturing seems to be running on all cylinders, but lagging sectors such as services and retail reflect the combined impact of vaccination successes and of the ensuing accelerated re-openings.

Manufacturing confidence sets new highs, services and retailers catch up

The manufacturing sector, where confidence reached the highest level since the year 2000, seems scarcely affected by supply chain bottlenecks and by cost pressures.

The order book subcomponent continued improving strongly, in particular in the intermediate and capital goods domains, where also production expectations grew faster given depleting inventories. With the Italian recovery plan now approved by the EU Commission and the relevant money looking set to start flowing in since August, the investment good bias looks set to stay for some time.

Crucially, the recovery in confidence is strengthening also in the services ad retail sectors, most affected in the recent past by containment measures. In services, confidence reached back to the June 2018 level, while in the retail domain it almost filled the gap with pre-Covid levels for both large and small retailers.

Consumers also more upbeat and inclined to purchase durables

Another comforting confirmation comes from the consumer realm.

In June confidence made another relevant leap, posting the highest reading since August 2018. The five-point monthly increase was driven by the current and economic climate components. With expectations about future unemployment almost stable since May, consumers showed sharply higher intentions to purchase durable goods: an encouraging signal for 3Q21 private consumption.

Hard data set to improve over 2H21, barring pandemic adverse developments

When trying to draw conclusions about the implications for 2Q21 GDP growth, we need to confront the scarcity of available hard data. Data for April shows that industrial production started the quarter on a strong footing, while retail sales were soft-ish, suggesting that the existing restrictions were still weighing on contact-intensive sectors. Labour market data was also mixed, with a very small increase in employment, which remained some 800K units lower than in pre-Covid times and the unemployment rate on the rise. The cross-sector acceleration in confidence seen in May and June suggests that the re-openings should have done more than bringing higher spirits inducing a clear acceleration in value-added generation also in services over the second half of the quarter.

Looking further out into 2H21, with the vaccination campaign running at target cruising speed and barring a new round of widespread restrictions due to the Covid-19 delta variant, the macroeconomic picture looks set to improve further. All good, but we will have to keep an eye on labour market developments: starting from July, the redundancy ban currently in place will be lifted for many sectors, potentially adding some cautiousness in consumers spirits.

Today's confidence data release adds upside risks to our current forecast of a 4.3% GDP growth in 2021.

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