

Italy: May confidence boost points to stronger 2Q

A sharp improvement in confidence in Italy is seen in both businesses and consumers. Interestingly, the dichotomy between manufacturers and services seems to be over: another piece of evidence towards some sort of normalisation



Source: istock

Broad-based improvement in confidence in May

Confidence data for May, released earlier today by Istat, easily beat expectations, unambiguously signalling that a good rebound in growth is in the making. The ongoing reopenings at home and abroad and progress on the vaccination front are working their magic on both business and consumer morale.

Manufacturing business confidence has returned to 2018 highs, and, more importantly, confidence in services has now returned to pre-pandemic levels. The dichotomy between services and manufacturing seems to be over, paving the way for more balanced growth ahead. Confidence set a new high in construction, while the progress was less marked among retailers, with small shops benefiting more from the last round of reopenings.

Producers of consumer and investment goods particularly upbeat

A glimpse at the manufacturing breakdown shows that the gain affected all big aggregates, but was stronger for producers of consumer and investment goods. Pent-up consumer demand and the anticipation of more investment activity, in view of the inflow of EU recovery funds, are already emerging as potential drivers in the coming recovery phase. Throughout manufacturing, businesses are signalling that stocks of finished goods are being depleted, and anticipate higher production ahead. Manufacturing should thus be confirmed as a supply-side growth driver over the summer months.

Tourism and transport lift services spirits

In the service sector domain, confidence in May rose quickly in tourism-related activities, with transport and stocking also recording substantial gains. This is very likely linked to the ongoing reopening in view of the summer season. To be sure, lingering uncertainty about the pandemic, is still weighing on potential international tourism flows, but, as in 2020, domestic flows should offer a decent hedge, according to anecdotal evidence.

Consumers also very upbeat

Consumers have also closed the confidence gap with pre-Covid-19 levels. After lagging in the confidence recovery race over the first months of 2021, Italian consumers revved up in May, mainly on the back of a strongly improved perception of better current and future economic conditions. Consistently, they reported markedly smaller concerns about unemployment, and stated a much stronger willingness to buy durable goods. A reduction in the abnormally high savings rate induced by lockdowns seems imminent now, but its scope will depend on actual developments in the labour market. Here, we have not changed our mind, and remain convinced that the phasing out of support schemes, and the redundancy ban in particular, will eventually temper consumers' spirits.

Upward risks to 2021 growth forecasts now prevail

May confidence data is unquestionably positive and adds to the risk that 2021 GDP growth will turn out stronger than previously anticipated, possibly north of 1% QoQ. If this is the case, average 2021 GDP growth could also break the 4% threshold, which would be good news. Our current base case projects a similar growth rate for 2022, assuming that Italy will be able to advance at a decent pace on both reforms and the use of incoming recovery funds - a big challenge which Italy cannot afford to miss.

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