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# Italy: Mixed signals from June confidence data

Consumer gloom and business resilience cannot be easily reconciled. A likely re-composition in consumption patterns and resilient industry could balance out. We suspect that a small positive growth surprise in 2022 would borrow some growth from 2023

Source: Shutterstock

The last batch of confidence data confirms that the inflation shock, supply chain constraints, and a reopening effect are hitting the Italian economy in different ways.

## Consumer gloom deepens

The first takeaway from the June release is that households are increasingly feeling the brunt of the inflation wave. Consumer confidence fell to 98.3, the lowest level since November 2020. Respondents are concerned about a deterioration in the economic situation of their household and signal more willingness to save, the consequence being a sharp decline in purchasing intentions of durable goods. However, the improvement in retailer confidence seems to suggest that there is an ongoing re-composition in consumption patterns in favour of non-durable goods.

## Service businesses more upbeat, possibly on the back of reopening effects

The second relevant takeaway is that services seem scarcely affected by recent developments. Confidence in services gained more than five points on the month, propelled by a strong gain in the transport services component. As confidence in tourism services confirmed recent gains, it seems that a reopening effect is still at work. Interestingly, the orders component also improved on the month, pointing to a continuation of the pattern.

## Manufacturers resilient, helped by improving orders

In industry, we would characterise the small confidence gains in both construction and manufacturing as a consolidation. Construction was marginally up, getting very close to recent highs. Generous tax incentives for energy-saving renovations and the inflow of Recovery Fund money in support of infrastructure investment are apparently working well and, based on the improved order component, are expected to do so in the near future. The small gain in manufacturing confidence is possibly more surprising if we factor in recent developments externally. Order books are improving and an increase in reported stocks of products goes together with increased production expectations in all main categories. For the time being, both the inflation backdrop and the sharp increase in market interest rates have scarcely affected manufacturer spirits. This is good news for the supply side angle of GDP growth.

## Possible upside risk to our 2.6% GDP forecast for 2022 would possibly borrow from 2023

Today's release highlights that the overlapping effects of new shocks and of the exit from past shocks do not allow a clear-cut view on 2Q22 GDP growth. Notwithstanding the consistent positive news flow coming from tourism, we suspect that the re-composition of consumption will not prevent private consumption from acting as a drag, while investment could confirm growth positive. International tourism flows might tilt the balance between a minor contraction (our base case) and a minor expansion in 2Q22 GDP. Our current forecast of a 2.6% average yearly growth in 2022 could be slightly conservative, but a positive surprise would probably borrow some growth from 2023.

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