

Italy: Restrictions illustrate divergences in confidence indicators

The manufacturing/services dichotomy was still in place in March, and will be at the heart of a 1Q21 GDP contraction. While the key to the consumption recovery is closely tied to future progress on vaccinations, Italian manufacturers/builders seem to be looking beyond it, possibly eyeing the flow of demand which will come with the recovery plan



Restrictions are weighing differently on sectors

The path to recovery continues to be dominated by the pattern of restrictions in place. The batch of confidence data released earlier today provides clear evidence of this.

In manufacturing and construction, unaffected by current restrictions, confidence posted relevant gains in March, reaching back to levels last seen in the summer of 2019. Where restrictions are still biting, confidence stepped back, softly in services, and more markedly in retail, where small retailers are suffering the most.

Intermediate and investment goods producers are driving manufacturing confidence gains

The manufacturing confidence breakdown is showing that the improvement was driven by gains among intermediate and investment goods producers, while those in the consumer goods business were less confident than in February. This is encouraging good news, as it suggests that Italian manufacturers remain well anchored in global value chains and that some form of stockpiling is in the making to satisfy growing demand for investment goods. To be sure, the latest Bank of Italy bank lending survey was still flagging that in 1Q21 the main reason for borrowing was to fund working capital and to restructure/renegotiate existing loans, but things might be changing as we get closer to the implementation of the recovery and resilience plan, which is expected to start over 3Q21.

And tourism demand concerns is a drag on services

The services breakdown provides fresh evidence that the tourism-related services suffered a dip, dragged down by worsening expectations on orders, the inevitable result of mobility restrictions which, de facto, canceled the upcoming Easter Holiday opportunity. On the other hand, confidence posted a substantial gain among those supplying services to businesses, a likely reflection of the good demand from manufacturers.

Consumers still concerned, and much less confident than in pre-Covid-19 times

Consumer confidence has barely moved since October 2020 and remains far below pre-Covid-19 levels. In March, consumers were increasingly concerned about the current state and future developments in their general and personal economic situation, but concerns about future unemployment stopped increasing, possibly reflecting the impact of the last government package which extended the deadline of furlough schemes and of the redundancy ban.

Another GDP contraction in the making in 1Q21

All in all, the batch of confidence data confirms that the dichotomy between manufacturing/construction and services/retail remained in place through March. It is yet to be seen whether the high spirits of manufacturers will be mirrored in industrial production data for February and March; we suspect there might be a mild disappointment in the making there.

We look for a 0.8% QoQ contraction in 1Q21 and for the recovery to start softly in 2Q

On the other hand, we are much less doubtful about the heavily negative effect of restrictions on services' value added: the winter tourism season has been wiped out and retailers (and particularly small retailers) have been feeling the pain of distancing, only very partially compensated by public money handouts. We anticipate a 0.8% quarter-on-quarter contraction in Italian GDP over 1Q21, and forecast the recovery to start softly in 2Q21 and accelerate over the next two quarters as the expected strong acceleration in vaccinations will allow more consistent re-openings and the

recovery plan will start rolling out.

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