Italy: Weaker confidence signals downside risks to growth

The fall in the manufacturing component, and the investment goods sub-aggregate, in particular, deserves close monitoring. As the political backdrop is unlikely to clear before the end of September, we suspect that the soft growth patch will continue at least through 3Q18, and revise our forecast for 2018 Italian average GDP growth down to 1.1%

Source: Shutterstock

Business confidence came in on the weak side driven by the manufacturing component

The batch of August confidence data, released earlier today by Istat, confirms on the weak side, both on the consumer and on the business fronts. This was to some extent expected, but the decline in the composite index of business confidence, now at an 18-month low, is a reason for concern. The manufacturing component confirmed the weak spot, driven down by soft orders and expected production all across the big aggregates of consumer goods, intermediate goods and investment goods. The marked decline in orders in the investment goods producers aggregate is particularly worrying, as it seems to dim hopes of an acceleration in investment activity in the last part of 2018. To be sure, given the uncertainty surrounding the future fiscal stance of the League/5SM government, a prudent investment strategy with domestic businesses is far from surprising.

Service sectors mixed, while construction and retail sectors rebounded

Business confidence turned out soft-ish also in the market service sectors aggregate, but here the order component edged up, leaving the onus of the decline to the current affairs component. Also, not all sectors saw confidence decline: it went down in the transport and in services for businesses but edged up in the information and communication sector and, more markedly, in tourism services.

On a more positive note, confidence edged up among retailers and in the construction sector, where it confirmed recent gains. Here the highlight is the pick-up in the residential buildings component, a sign of life after many false starts in the last few quarters.

Consumer confidence downtick no reason for concern, for the time being

As far as consumers are concerned, the small decline in the confidence index is driven by the economic climate component with the personal climate edging further up. Consumer confidence remains close to all-time highs and a small downtick is no reason for concern. A warning signal that deserves future monitoring comes from the second increase in a row in the expected unemployment component. As past gains in the personal climate component were likely linked to progress on the employment front, any softening in job creation might soon retroact on confidence and, ultimately, on private consumption, a key driver of the ongoing economic expansion.

As a soft growth patch looks set to remain in place in 3Q18, we revise our average 2018 Italian GDP growth forecast down to 1.1%

All in all, the last batch of confidence data seems to be pointing to a continuation of the current soft growth patch for the Italian economy. Additional evidence in this direction might soon come from the PMI releases, as the flash Eurozone release was scarcely consistent with upbeat German and French flash estimates. So far we have had no hard data out on 3Q18 economic activity, but we are inclined to think that these will unlikely provide any positive surprise. Taking all of this into account, we revise down our forecast for average Italian 2018 GDP growth down to 1.1% (from 1.2%).

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Disclaimer