

## January confidence data points to soft start for Italian GDP

Households and service providers seem to be particularly hit by the combination of higher inflation and the Omicron wave. As other sectors fail to compensate for the shortfall, this supports our view of a minor GDP growth expansion in the first quarter of this year



Empty streets in Rome: Italy's tourism sector continues to be hard hit

The turn of the year has seen a combination of a fast spread of the Omicron variant and of unabated energy-sourced price pressures. Today's January confidence data, the first bit of evidence released by Istat for 2022, suggests that this mix of factors is indeed weighing on consumer and business spirits.

### Consumer confidence falls sharply, possibly reflecting the impact of higher inflation

According to that data, consumer confidence took the biggest hit, with the lowest reading since June 2021. On the back of recent inflation developments, a fall was clearly on the cards. The modest labour market improvements have so far left ample slack in the market, preventing any wage pressure from materialising. As gas-related inflation pressures can only partially be compensated by extraordinary measures on various components of the energy bill recently

approved by the government, real disposable income is subject to increasing pressures. Consumer expectations on the Italian economic situation fell sharply on the month and concerns about future unemployment increased consistently, but for the time being this translated into a contained fall in the current index of opportunity to purchase durable goods.

## Confidence in services also takes a plunge

The deterioration in confidence affected all business sectors, in a non-homogeneous way. Confidence in services took the biggest hit, with sharp falls in transport and tourism, particularly marked in both the current conditions and orders' components. With numbers of the Omicron wave still on the rise for most of the month, this was hardly a surprise, even without nationwide lockdowns. More encouragingly, confidence fell only modestly among retailers, where stable sales might reflect some substitution effect to the consumption domain out of services.

## Construction still resilient as is, to some extent, manufacturing

The construction sector, a key engine of the 2021 recovery proved to be a very solid performer. Confidence there was stable, with rising employment expectations and softening orders possibly signaling that the tax incentive-enhanced peak in activity might be close. After proving surprisingly resilient even at the peak of supply disruptions, manufacturing confidence took a breather in January, but the order component held up fairly well. This might possibly signal that production disruptions due to the combined effect of contagions/quarantines related to the Omicron wave and lingering supply chain issues are being felt as temporary in nature, and will still allow for a possible rebound when the situation normalises.

## A GDP growth slowdown in 1Q22 seems likely

All in all, today's data support our view that the Italian economy will experience a soft growth patch at the start of 1Q22, possibly driven by softening private consumption. Should the pandemic situation improve throughout February, as data is suggesting, conditions might progressively materialise for a sound rebound in the second quarter of this year.

### Author

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).