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.

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