Mixed signals from Italian confidence data

The available batch of qualitative data for the first quarter of 2024 suggests that the expected improvement in economic conditions will be only gradual, and possibly uneven across sectors

Confidence data for February, published today by Istat, paints a picture characterised by light and shadow. Consumer confidence continues to recover whilst business confidence is receding, with different speeds across sectors.

Consumer confidence still increasing in February

Consumer confidence posted a fourth consecutive monthly gain. While hit by the cumulated effect of past rate hikes, Italian consumers are apparently benefiting from the sharp decline in headline inflation. When combined with very resilient employment and higher wage growth, this is helping to support real disposable income. This improvement in the state of household balance sheets is showing up in the survey through improving opportunities to buy durable goods and the opportunity to save. Interestingly, the survey shows that consumers perceive a deterioration in the economic situation of the country, but don't believe this will translate into higher unemployment. This is potentially good news for consumption developments over the rest of the year, provided inflation remains well-behaved.

Weakening confidence in the residential construction sector likely reflects evaporating incentives

The news flow coming from businesses is not positive, though. Confidence declined in the construction sector and in the retail sector, and less markedly in manufacturing and services.

The confidence decline in the construction sector, more marked in the residential construction domain, looks consistent with the phasing out of the generous “super bonus” tax incentive at the beginning of 2024. For the time being, weakness in the residential component is not compensated for by the other construction domains which should, in principle, benefit from the implementation of the investment part of the EU-funded national recovery plan.

Manufacturing weakness more evident among producers of investment goods

Indications coming from manufacturers do not validate optimism about short-term production developments in the sector, particularly among producers of investment goods, where orders are deteriorating and inventories are building up. The picture is brighter among producers of consumer goods, where de-stocking is reported. All in all, the soft patch in the manufacturing sector still seems to be in place, hit by weakness in the German and Chinese economies and by the supply chain disruptions caused by developments in the Red Sea and the Suez Canal.

Confidence in services took a breather after two consecutive increases, mainly reflecting a deterioration in current business activity. Order books seem to be holding up decently, but employment expectations are showing some sense of fatigue.

No GDP growth acceleration in sight for 1Q24

All in all, confidence data suggests that we should not expect an acceleration in GDP growth over 1Q24. After the surprisingly strong 0.2% quarterly GDP growth of 4Q23, we suspect that the first quarter of 2024 could still be positive, but slightly softer, helped by private consumption and possibly burdened by softer construction investment. The supply angle will likely confirm a soft patch in manufacturing and more resilient services. Interestingly, both service producers and manufacturers continue to show rising pricing intentions. Food for thought for the European Central Bank, which is gathering evidence to support a prudent approach to the future rate cut cycle.

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