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ITALY

# Sharp fall in Italian consumer confidence in March, while businesses proved more resilient

March confidence data shows that the impact of the Ukrainian war has so far been more marked on households, whose consumption decisions might drag Italian GDP growth into negative territory in the first quarter of this year

Today's business and consumer confidence survey is the first since the start of the Russia-Ukraine war. Unsurprisingly, it signals a deterioration across the board, but also highlights marked differences among sectors.

## Households are taking a heavy blow

Households have been the most impacted. Consumer confidence fell in March by twelve points, the biggest one-month fall on record, reaching the lowest level since January 2021. The shock of energy-driven inflation on households' balance sheets was particularly severe, as it coincides with flat wage dynamics. Growing pessimism about the economy drove the fall and is well-reflected in sharply rising unemployment expectations and in a strong decline in durable goods purchasing intentions.

## Retailers suffer and manufacturers show increasing supply risks

On the business front, the confidence decline was more contained, and the construction sector even managed to post a small gain. Unsurprisingly, retailers recorded the sharpest fall in confidence among business sectors together with the retail sector, driven by a steep fall in current and expected sales. There has also been a fall in manufacturing confidence, now at the lowest level since March 2021. Orders held up decently, but production expectations turned lower for consumer, intermediate and investment goods. This somehow confirms that the energy story has also morphed into a supply issue. Anecdotal evidence of production stops among intensive gas-users such as paper mills, steel, tiles and glass producers, due to skyrocketing energy prices, has been confirmed over the last few weeks.

## Services more resilient, mostly thanks to tourism

Confirming a recent trend, confidence in the services sector turned out resilient, with transport services and communication services recording declines, almost fully compensated by the sharp confidence rise in the tourism sector. The latter can be at least partially interpreted as a relief-driven confidence rally, justified by the government announcement that the pandemic emergency regime will indeed cease at the end of March and restrictions will be lifted.

## Construction still benefiting from ongoing tax incentives

Interestingly, construction confidence managed to improve, despite rising construction costs. Apparently, the very powerful tax incentives for energy-saving house renovations are still working well, notwithstanding bureaucratic stop-and-goes and constrained availability in some building materials.

## A consumption-driven 1Q22 GDP contraction is our base case

All in all, today's confidence data provide additional evidence that risks to growth are severely increasing. In the short run, the main channel of transmission will likely be private consumption. In our view, the compression of real disposable income resulting from accelerating inflation and stable wage growth will translate into a non-trivial contraction in household consumption already in 1Q22. From the supply angle, manufacturing will likely act as a growth drag in 1Q22, putting the onus on the services sector for growth. We anticipate a quarterly contraction in 1Q22 Italian GDP and believe a technical recession would not come as a surprise.

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