

Snap | 28 September 2023

ITALY

## Confidence deteriorates across the board in Italy

The deterioration in confidence is affecting all sectors except construction. Consumers are also being impacted, as a weakening economic environment starts to raise unemployment concerns



September confidence data increasingly point to a weak economic environment in Italy, with manufacturers, service providers and retailers turning gloomier and builders just about holding up.

### Manufacturers report order book issues

Manufacturing confidence posted the sixth consecutive monthly decline, reaching 96.4 in September, the lowest level since November 2020.

Here, the decline in the order component comes alongside an increase in inventories, leading to a decline in the production expectation component. Worryingly, the decline is particularly relevant for both consumer goods and investment goods producers. This suggests that softer demand in key export destination countries such as Germany is taking its toll, but also that domestic consumption is increasingly under pressure.

The deterioration in the investment goods component might mean that the negative impact

of higher interest rates on investment goods demand is currently prevailing over the positive impact of investment flows activated by incoming recovery and resilience funds from the EU.

### **Service providers also gloomier**

Confidence in the services sector is also down, falling two full points in September to 103.6, overriding any improvement made in August.

There are no bright spots here, with tourism, information services and transport and storage all posting losses. The fall in the transport and storage component might reflect the weakening consumption backdrop, which seems to be confirmed by softer retail sales.

### **Construction confidence holds**

The only business sector posting a monthly gain is construction. At 160.9, the index remains close to historic highs. The reduction of generous tax incentives for energy-efficient renovations is being temporarily compensated by a big backlog of orders, which is supporting confidence.

### **Consumers also gloomier, as unemployment concerns rise**

Consumer confidence fell to 105.4 in September, the fourth consecutive monthly contraction. Consumers are increasingly concerned by current economic conditions and this translates into increasing concerns about future unemployment.

On the back of a slowly improving inflation backdrop, we believe the reason for the fall in consumer sentiment is due to signs of deterioration coming from the labour market. When matching this with the increase in the current opportunity to save sub-index, we have evidence of a possible ongoing increase in the Italian saving ratio with a negative bearing on private consumption.

### **Why our 1% GDP growth target for 2023 looks overly optimistic**

Today's confidence release wraps up data for the third quarter, which combines manufacturing softness with increasing concerns in services and among consumers. A small GDP gain is still possible for the quarter thanks to tourism, but our current base case forecast of 1% average growth for 2023 will likely undergo a downward revision.

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