

## Italian business confidence falls in August

The deterioration in confidence is more marked in industry and construction, but services are not immune either. Consumers remain relatively upbeat, possibly helped by a resilient labour market. This all points to a stagnating economic environment



### Consumers remain relatively upbeat

Consumer confidence only slightly edged down to 106.5 in August (from 106.7 in July).

The deterioration in the perception of the current and future economic climate contrasts with the improvement in personal circumstances. We believe this has to do with the combination of declining inflation and a very resilient labour market.

Indeed, the unemployment expectation component of the survey slowed down on the month. When matching this with an increase in the current opportunity to save sub-index, we sense that a possible stabilisation in the savings ratio might be in the making, limiting the scope for a strong pick-up in private consumption, at least in the short term.

## Manufacturing confidence softens further

On the business front, confidence unsurprisingly declined again among manufacturers to 97.8 (from 99.1 in July), the lowest level since January 2021. Here, softer orders coupled with a stable inventory component resulted in a decline in the production expectation component. Softer demand in key export destination countries such as Germany and, to a smaller extent, China, is apparently taking its toll, with the domestic component unable to compensate.

Interestingly, the investment goods segment seems less affected, suggesting that some demand linked to the implementation of the Recovery and Resilience Facility might still be in place.

## Construction confidence fall suggests that the effect of tax incentives is fading

The six-point decline in the construction confidence index to 160.2 (from 166.5 in July) sends a warning signal. While the index remains close to its historical highs, the push coming from the residential component is gradually fading as generous tax incentives come to an end. While the existing backlog of orders related to incentives looks set to keep the sector afloat into year-end, the exceptionally high contribution of construction investment to GDP growth looks set to vanish in 2024.

## Services only marginally down, with tourism relatively weak

Confidence in market services fell to 103.6 in August, from 105.5 the previous month. The decline affected all big aggregates, except information and communication. Interestingly, it also affects tourism services, where an improvement in the current affairs component contrasts with declining order expectations. This broadly fits with other evidence available pointing to a good summer tourism season.

## Modest GDP growth in the second quarter still possible

All in all, today's confidence data suggest that conditions are still ripe for the continuation of a soft economic environment. After the disappointing 0.3% GDP contraction in the second quarter (we will get the full details for this on Friday), a very small rebound still looks possible in the third quarter. Whether this will materialise or not will depend on whether services are strong enough to compensate for industrial weakness. We still hold average Italian GDP growth of 1% in 2023 as our base case.

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