

## Italian business confidence improves in March as consumers take a breather

Overall this is a positive reading, marking an improvement among manufacturers and a surprising resilience among builders. Consumers are taking a breather, showing tentative concerns about future unemployment for the first time in months



### Consumers taking a breather

After posting four consecutive gains, Italian consumer confidence backtracked slightly in March to 96.5 (from 97 in February), burdened by a deterioration in current and personal conditions components. Concerns about future unemployment had started to re-emerge for the first time in five months, and this looks consistent with the reported increasing willingness to save and decreased willingness to purchase durable goods. Times do not seem to be ripe enough yet for a strong rebound in private consumption after the sharp contraction recorded in the fourth quarter of 2023.

The picture looks brighter on the business front, where the aggregate sentiment index grew to 97 from 95.9 in February, with gains seen in all sub-components.

## Manufacturers more upbeat, but not more willing to hire

Among manufacturers, confidence ticked up to 88.6, the highest level since September 2023. This was propelled by intermediate and investment goods components. The monthly gain reflected a less negative assessment of domestic orders. The decumulation of inventories is moving along slowly, and this has not yet translated into stronger current production, but has resulted in a tentative pick-up in expected production. Interestingly, manufacturers show declining expectations for future hirings.

## Construction confidence continues to surprise to the upside

Surprisingly, the March gain in the aggregate construction index was driven by the residential component, which in principle should be heavily penalised by the phasing out of the very generous Superbonus tax incentive. While we acknowledge that in the beginning of this year we might still see the tail effect of the rush to complete existing projects, we are a bit puzzled to see a sharp increase in orders and in hiring intentions. We remain convinced that construction investment will act as a drag on GDP growth in 2024, but March confidence data and construction production data for January do not support this view as yet.

## Confidence rebounds only slightly in services

The soft rebound in services confidence was driven by transport and storage and by the information and communication components, while tourism and services to businesses acted as a drag. A softer tourism component could soon be reverted, though, if the improving order component is of any guidance.

All in all, the March batch of confidence data struck a positive tone. Is it transforming the picture for GDP growth perspectives over the first quarter? No, we don't believe so. Still, in our view, the resilience seen in the construction component adds upside risk to the contribution of the gross fixed capital formation.

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