Italian business confidence softens in June but consumers are more upbeat

The decline in business sentiment is widespread but might reflect temporary factors in services. Consumers, instead, are increasingly upbeat. The complete picture still looks consistent with a deceleration of GDP growth in the second quarter

Italy's financial district in Milan

Manufacturers remain downbeat, burdened by worsening orders

As is often the case, the June batch of confidence data is a mixed bag. Confidence has deteriorated in all broad business sectors except construction but has improved among consumers, suggesting that the economic recovery is not yet firing on all cylinders.

The first highlight comes from manufacturing, where confidence has fallen to the lowest level since November 2020. The contraction is particularly marked in instrumental goods, where decelerating orders match with an increase in the stocks of finished goods. The manufacturing soft patch is still in place and poor demand conditions (insufficient demand looks set to emerge as the single most powerful obstacle to production also in the second quarter) still seem to be delaying the start of a re-stocking cycle.

Weather-related tourism weakness likely weighed heavily on services

Services are not providing comfort in June, but the monthly contained fall in the aggregate indicator seems to reflect a severe contraction in the tourism component- possibly penalised by unfavourable weather conditions in the northern part of Italy over the month- rather than broad-based weakness. Indeed, all the other sub-components, transport and storage, information and communication, and services to businesses, posted monthly gains in June.

Strength in construction sector harder to rationalise

The three-point monthly gain in confidence in the construction sector is harder to rationalise. If strength in the structures component seems consistent with the implementation of investments as part of the European Recovery Plan, the gain in the residential building component conflicts with the expiry of very generous tax incentives and poor house transaction data. A late completion of existing works might offer an explanation.

Consumers increasingly upbeat

The good news comes from consumer confidence, which gained more than three points on the month, reaching the highest level since February 2022. Consumers are more upbeat about the economic situation and consistently report sharply decreasing worries about future unemployment. Interestingly, they also show a sharp increase in their willingness to purchase durable goods; we suspect this might depend to a good extent on the introduction, early in June, of generous incentives for the purchase of electric/hybrid vehicles. This might bring about a temporary recomposition of consumption towards durables over the second half of 2024.

Confidence data still consistent with slight GDP growth deceleration in the second quarter

All in all, today's confidence data provide additional evidence the economic recovery is still in place, at different speeds across sectors. While industry could still act as a supply side drag in the second quarter, services should compensate, but quarterly GDP growth could slow down to 0.2% from 0.3% in the first quarter.

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