

## Italian business and consumer confidence improves in March

The improvement in confidence points to a positive GDP reading in the first quarter, but is no guarantee of a strong acceleration thereafter, when the impact of cumulated rate hikes will bite



The post-Covid re-opening effect is not over yet in Italy

After contracting by 0.1% quarter-on-quarter in the fourth quarter of 2022, the Italian economy might avoid a temporary technical recession in the first quarter of 2023. Today's release of March confidence data, of both consumers and businesses, provides additional tentative evidence of a broad-based improvement in the economic sentiment, possibly due to falling gas prices.

### Consumers less worried by unemployment but see less room to save

Consumer confidence increased for the second consecutive month, almost closing the gap with pre-pandemic levels. Households are more confident about the current economic situation and its future evolution, and are consistently less worried about future unemployment, but are less convinced about current and prospective possibilities to save. Our reading is that employment resilience is helping to support income generation, but that the ongoing inflation wave, where the core measure is still increasing, continues to impact real disposable income negatively. Under

pressure, households might still be forced to cut savings to smooth consumption.

## Manufacturers surprisingly more upbeat

On the business front, the main surprise comes from the manufacturing sector, where confidence posted an unexpected gain. Here orders saw a small improvement, but it was the expected production component which posted the most relevant gain for the month. Sector-wise, the monthly improvement is due to the consumer goods domain, with confidence stable in intermediate goods and slightly declining in investment goods.

The rebound in construction confidence is mainly due to a gain in the residential component, which is still benefiting from the tailwind of very generous tax incentives, whose future expiration is putting pressure on specialised labour demand.

On the services front, the improvement in headline confidence is mainly driven by the tourism component, where current and expected orders posted substantial monthly gains. The post-Covid re-opening effect is apparently not over yet.

## Marginally positive GDP growth in the first quarter is our new base case

All in all, the main takeaway from today's confidence data is that the Italian economy is proving more resilient than originally expected. Consumers remain under pressure, but a resilient labour market and a tentative acceleration in hourly wage dynamic is likely helping to weather the inflation storm. Construction investment is still supported by tax incentives, while the manufacturing picture is less clearcut, being more exposed to developments in the external environment.

We now believe that the Italian economy will manage to post a minor positive quarterly improvement in the first quarter of the year. With the impact of past monetary tightening yet to hit the economy, economic developments over the rest of the year remain uncertain, though, with limited scope for substantial accelerations. Having said that, our current forecast of a 0.7% average GDP growth for 2023 is now subject to upside risks.

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