

## Italian businesses upbeat in January, while consumer confidence wanes

Italian confidence data point to a decent start to 2023, with services a growth driver and manufacturing stabilising. Consumers, however, are more worried, still pressed by stubbornly high inflation



Italian manufacturers' confidence has risen since the start of the year

### Manufacturing and construction confidence consolidates

Manufacturing confidence continued to improve in January, suggesting that the negative trend which dominated until October 2022 might be over. Not a turnaround per se, but some form of stabilisation. Orders bucked the trend of continuous deterioration, both on the domestic and the external front, and declining stocks of finished goods point to a small improvement in future production. Interestingly, manufacturers' price expectations posted the third substantial decline in a row. Expectations of a significant deceleration in headline inflation over the rest of the year seem plausible. No doubt, the recent sharp decline in gas prices is starting to affect business pricing strategies.

Construction confidence also improved in January after a soft December reading, but this could be due to a possible consolidation at the top of a huge rally propelled by two years of very generous tax incentives. The details show the typical end-of-cycle features, with decelerating orders and improving employment after the sector has been affected by a marked shortage of employees.

## Services remain a growth driver

Confidence in services improved in January for the third month in a row, more markedly in the tourism, information and communication sectors. Interestingly, the improvement affects the current state of business but also current and expected orders, suggesting that the strong re-opening effect which has propelled economic growth in 2022 is not over yet.

## Consumers less upbeat

If businesses sound relatively upbeat, consumers are not. They seem to be increasingly worried about their household's economic situation. The sharp decline in the household saving rate to 7.1% recorded in 3Q22, which had allowed households to smooth consumption, is likely still in place in some form. Pressed by high inflation and flattish wage growth, consumers see little possibility to save and show a sharp decline in the desire to purchase durable goods. The shift of consumption from goods to services seems still in place and thus retailers expect slower sales ahead. The perception of inflation by consumers has taken a clear shift in January: while worries about the current state of inflation have increased further, the balance in price expectations has turned negative for the first time since June 2021. Apparently, the recent phasing out of the excise reduction on fuels which is still being felt at the pump is not impacting inflation expectations. All in all, consumers seem to anticipate that in the salary-employment trade-off, the defence of jobs will prevail.

## Italian economy in a soft patch

Today's confidence data suggest that the Italian economy might have made a decent start to 2023. Consumers are suffering balance sheet constraints, but remain supported by resilient employment. The data seem to confirm that from the supply side front, services are still leading over manufacturing.

Without any hard indicator available, it's still too early to make firm calls for the first quarter. Next week we will know whether the Italian economy contracted in the final quarter of 2022 (we anticipate a 0.1% quarter-on-quarter contraction). A minor contraction or a minor expansion would make little difference: whether you call it a technical recession or not, the Italian economy has entered a soft patch, from which it will likely exit at a slow speed.

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