

Italian confidence data confirms divergence between consumers and businesses

As has often been the case recently, Italy's data is proving something of a mixed bag. Consumers' high spirits and deteriorating tourism confidence are the main highlights to note - and it looks as though the second half of the year might be off to a soft start



Consumer confidence improves further in July, likely helped by wage growth and employment

Consumer confidence posted the third consecutive improvement in July, reaching its highest level since February 2022 and indicating that consumers are now growing more confident in the current and future state of the economy. This might be the result of resilient employment and decent wage growth.

However, the small uptick in unemployment expectations seems to be keeping consumers on the prudent side. The rising saving ratio is not yet translating into increased intentions to purchase durable goods such as cars and houses. We still believe that the consumption of durables (helped by generous car scrapping incentives) will eventually pick up over the second half of the year, but the starting point seems a relatively soft one. The slight improvement in retailers' confidence looks consistent with this picture.

Manufacturing confidence improves slightly, but the soft patch seems far from over

Manufacturing confidence posted a timid rebound in July but remains at low levels. A slight improvement in order books apparently could not compensate for the increase in inventories, with the current production component deteriorating further. Interestingly, employment expectations also fell, reaching the lowest level since February 2021 as expected production failed to pick up. The manufacturing soft patch seems far from over and has not yet been helped by the inventory cycle.

The modest decline in construction confidence is not a reason for concern. For the time being, the expiration of the super bonus tax incentive seems to have impacted orders, but not construction activity. Expectations for employment are holding up well.

Tourism drives a drop in services confidence

The fall in services confidence deserves close scrutiny. In June, it had been driven by the tourism component, where a monthly fall could be attributed to uncharacteristically bad weather. In July, the weakness seems more broad-based and is again more marked in tourism. The relevant index also took another dive and this should not be downplayed. As current account balances point to healthy foreign tourism inflows, any signs of weakness likely have something to do with domestic demand. A clear decline in the orders sub-component sounds like a warning that this summer might be a soft one for tourism as well.

Our 2024 outlook

All in all, today's batch of confidence data suggests that the second quarter had a relatively soft start in Italy. This is, however, the first bit of qualitative evidence and things might change over the summer months. Conditions remain favourable for private consumption, and construction investment might be less of a drag than anticipated.

However, there seems to be little room for sharp accelerations over the next few months. The effective implementation of the investment part of the recovery plan is becoming increasingly essential for backing existing growth forecasts. For the time being, we stick to our call for an average GDP growth of 0.9% in 2024.

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