

Italian December confidence data points to continued economic soft patch

Manufacturing and construction confidence was confirmed as weak but improved in services. Softer consumer confidence is a stark reminder that the consumption drive we anticipate for 2025 is not immune to downside risks



The Italian confidence data framework remained mixed again in December, confirming the lack of a clear direction. Confidence weakened again among consumers and, on the business front, in manufacturing and construction, but improved in services.

Consumers increasingly concerned by economic developments and future unemployment

Consumer confidence has declined for the fourth consecutive month, driven by growing concerns about the future economic situation and future unemployment. The unemployment index has reached its highest level since November 2022. While consumers are not yet indicating a significant negative impact on household finances, they are becoming less willing to purchase durable goods. This trend is a warning signal for consumption patterns in 2025. We maintain the assumption that private consumption will be a key driver for GDP growth next year, based on the continued resilience of the labour market. However, if employment weakens, the risk of a negative surprise in consumption will increase.

Manufacturers report softening orders and increasing inventories

On the business front, the renewed weakening of manufacturing confidence is not surprising, given the recent developments in the external backdrop. In December, confidence was dragged down by a further softening in order books, both domestic and foreign, and by weaker expectations for economic developments. Manufacturers are signalling a marked increase in inventories, and a growing intention to reduce the workforce. The overall interpretation of these signals suggests that the conditions are not yet favourable for an end to the two-year-long manufacturing recession. Manufacturing has likely continued to hinder growth in the fourth quarter and is expected to remain weak in the first quarter of 2025.

Construction sector confirms divergence between dwellings and infrastructure

In the construction sector, confidence unsurprisingly fell on the month, reaching the lowest level since November 2022. Admittedly, the decline remains very gradual, despite the end of the generous Superbonus incentive. Two forces are likely at play here: a residual effect of the incentive as projects are being completed, and some momentum from the non-residential component as recovery fund money is being spent. The good news is that firms in the dwelling sub-sector do not signal any intention to reduce their workforce.

Services the bright spot, a potential growth driver

The obvious bright spot in today's confidence data is the service sector. After falling in November, confidence rebounded solidly in December, propelled by solid gains in information and communication and services to businesses, and by further improvements in tourism. Confidence in the retail sector confirmed recent gains, with assessments of current sales and expectations of future sales reflecting this positive trend. The service sector looks thus set to remain the growth driver of the Italian economy, at least in the short run.

Italian economy still in a soft patch as the year ends

Today's release confirms that the Italian economy ended the year in a soft patch. Whether it manages to post small positive quarterly GDP growth, which remains our base case, will depend on how well services can compensate for manufacturing weakness. This is likely to remain the main theme over the first part of next year. For the whole of 2025, given the likely backdrop of soft export demand, Italy's growth performance will likely depend on two factors: private consumption and the actual spending of recovery funds, where progress has been slow. We currently expect Italian GDP growth to be 0.7% in 2025 (from 0.5% in 2024) and see very limited room for upward surprises.

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