

Italian confidence data in January sends mildly positive signals

Gains in consumer confidence and in construction and manufacturing sentiment seem to suggest that the Italian economy started the year on a mildly positive note. It's too early to call for a turnaround in manufacturing, though



According to the batch of January confidence indicators released earlier today by Istat, the Italian economy started the new year on a decent footing. Confidence improved for consumers, businesses in the manufacturing sector, and the construction sector, and softened very slightly in market services and retail.

Consumers more upbeat

The first good news comes from the consumer, where the index gained two points reaching levels last seen in September. Consumers were more upbeat about the current economic situation and the outlook, consistently reporting markedly lower concerns about future unemployment. This is, in principle, favourable for prospective consumption. At the same time, rising inflation expectations might have a negative bearing. On the other hand, the increase in the current opportunity to save and expected inflation indices signals a risk of more prudence ahead.

Positive surprise from construction, notwithstanding the lack of superbonus

On the business front, the positive surprise comes from the sharp increase in the construction component, where confidence recovered the losses of the last six months. Worth noting was the improvement in both the current and expected orders sub-indices. This is more soft evidence pointing to the fact that the negative impact on the residential component from the phasing out of the superbonus incentive might ultimately turn out to be smaller than feared.

Manufacturing confidence improves, but it is still moving along the bottom

The improvement in the manufacturing confidence index is also good news, but should not be overemphasised as it points to stabilisation rather than to an imminent turnaround. The current level of production remains subdued and orders have posted only a marginal improvement, while the levels of stocks have fallen only slightly. With order expectations stuck at very low levels and inventory depletion still only partially completed, it is too early to call for a recovery in industrial activity in the first quarter. Interestingly, orders seem to be improving only among producers of consumer goods. This is some tentative evidence supporting our view that private consumption will be the main growth driver in 2025. The further small decline in capacity utilisation to 74.8% (from 75%) confirms that barring the impact of a temporary incentive scheme, the current picture is not particularly conducive to stronger machinery investments. The lack of demand is by far the most powerful obstacle to production.

The small decline in services and retail confidence not a reason for concern

The small decline in confidence in the service sector is not a reason for concern, as it only slightly diminishes the significant improvement recorded in December 2024. Current reported activity is actually increasing, and orders remain solid, although expectations about future orders have deteriorated. On the sub-sectors, tourism services and information and communication remain strong, transport and storage have improved and only services to businesses have posted a decline in confidence.

The same holds true for retailers. Here, confidence has posted a small decline but remains very close to the high levels seen at the end of 2024.

We still believe that Italy can post a small positive GDP gain in the first quarter of 2025

All in all, today's confidence release seems to suggest that the Italian economy started the year on a mildly positive note. To be sure, this is not yet a departure from the soft patch of the second half of 2024 but provides some support to our view that Italian GDP might post a small positive gain in the first quarter.

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