

## Italian confidence data softens across the board in May

The broad picture after the May release is one of slowing growth. Manufacturing remains the soft spot, but construction and services are also losing some steam. We expect this to translate into a clear deceleration in GDP growth in the second quarter after a surprisingly strong 0.5% in the first



### Consumer confidence recovery takes a breather in May, but remains relatively solid

Consumer confidence posted a modest fall after four consecutive improvements in a row, reflecting a decline in personal sentiment which outbalanced an improvement in the economic climate. The breakdown of the components confirms that consumers see very limited deterioration in future unemployment, but are increasingly concerned by their current household balance sheets. A decline in the reported opportunity to save seems to suggest that consumption smoothing is still in place, and that the return to higher saving ratios more aligned to the pre-Covid average might not be a quick process. Resilient employment is apparently still working as a shock absorber.

## Construction confidence softens, but remains very high

The construction sector is starting to reflect the phasing out of generous tax incentive schemes which have propelled activity in the residential segment for more than two years. With an ample backlog still in place, we do not expect sharp falls in the short run, but declining orders and employment expectations in the residential segment suggest that the peak is over. To be sure, resilient orders in civil engineering and specialised works, possibly reflecting demand emanating from the use of Recovery and Resilience European funds, might provide some compensation in the meantime, but we believe that the overall growth push coming from construction investment should gradually soften over the rest of the year.

## Manufacturing confirmed as the soft spot dragged down by orders

Manufacturing confidence fell back again in May, reaching the lowest level since October 2022, confirming that the sector is still in a soft patch. Softening domestic and foreign orders and slightly increasing inventories are translating into slightly softer current production and production expectations. Against an international backdrop which remains highly uncertain, industrial production is unlikely to improve over the second quarter. The ongoing normalisation in supply chain conditions and the fall of gas prices to the sub-30€/MWh area may provide some supply-side solace, but this should not be overstated, in our view.

## Services signal a sense of fatigue, also in the tourism component

The divergence between manufacturing and services confidence did not hold in May. Softer confidence in services to businesses and, more surprisingly, in tourism services more than offset the improvement in transport and information services. As far as tourism is concerned though, an increase in expected orders points to some resilience in demand ahead of the summer season. The same does not apply to services to businesses, which might increasingly reflect the lingering weakness in the manufacturing domain. Notwithstanding the small setback in May, confidence in the service sector remains at relatively comfortable levels, but some evidence that the surprisingly long-lasting reopening effect is decelerating is finally showing up in data.

## All sectors now expect less aggressive price setting

What about perceived inflation dynamics? Today's release unambiguously points to a continuation of the disinflationary process over the next few months. Price increase intentions declined in May across all sectors. While a decline has been in place for months among manufacturers, a pattern confirmed by sharp declines in PPI inflation, services have also started to see stronger price declines since March. This is good news for core inflation developments over the second half of 2023.

## Deceleration in second quarter GDP growth looks very likely

All in all, today's confidence report supports the idea that the Italian economy could still post positive GDP growth in the second quarter, if at a clearly softer pace than in the first. Services should be confirmed as a positive driver, whilst manufacturing is unlikely to contribute,

notwithstanding some supply-side push resulting from the supply chain normalisation and favourable gas price developments.

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