

## Risks of a growth slowdown in Italy after latest confidence data

A weaker reading in Italian services' confidence in the fourth quarter is adding to a softness in manufacturing. And that means risks of a marked deceleration in GDP growth in the fourth quarter



Shoppers in Rome

Confidence data released earlier today by Istat deteriorated both on the business and the consumer front, suggesting that an economic deceleration in the last quarter remains a very reasonable assumption.

### Consumer confidence softens but remains solid

In the consumer domain, confidence declines on the month while remaining at high levels with respect to its long-term average. Consumers are signalling a deterioration in economic conditions and are showing concerns about future economic developments. This is reflected in a sharp increase in expectations of future unemployment to the highest level since February 2023.

Consumers are less worried by their budgetary position but are being prudent, showing a smaller willingness to purchase durable goods. We continue to think that the ongoing improvement in real

disposable income ensuing from the combination of a resilient labour market, declining inflation, and accelerating wages will take time to translate into sharply accelerating consumption. In the short run, consumers in the lower income bracket might be more sensitive to high price levels of frequently consumed goods (energy and food) than to declining headline inflation. However, this still looks compatible with a decent performance of retail sales, as suggested by an improvement in confidence among retailers.

## **Manufacturing is still soft with few chances of an imminent rebound**

On the business front, the picture is mixed. Confidence declines in Italian manufacturing and services but improves in construction and retail.

The fourth consecutive decline in manufacturing confirms that the sector's soft patch is far from over. As for the components, we note a clear deterioration in orders (both domestic and foreign) and small declines in current production and inventories. It's not exactly the best mix for an imminent rebound in manufacturing production.

Today's release also signals that in the third quarter, capacity utilisation in manufacturing declined further to 75.1%, the lowest level since the second quarter of 2020, in full pandemic times. It also adds that the main obstacle to production is, by far, the lack of demand, with the role of manpower availability gradually receding. This limits the scope for an imminent acceleration in machinery investments, otherwise stimulated by renewed incentives.

## **Construction the bright spot, for now**

This brings us to construction, possibly the bright spot of today's release. Here, confidence improved throughout the sector, including dwellings. The tail effect of the super bonus is apparently proving a long-lasting one and combines with the good dynamics of infrastructure, propelled in turn by the implementation of the investment part of the EU-funded Recovery Plan. The construction investment drag might thus be delayed, benefiting GDP growth over the second half of 2024.

## **Services are sending a warning signal**

The big disappointment is services. Here, confidence declined by five full points on the month, reaching 95.3, the lowest level since November 2023. The contraction affects the transport and information sectors more markedly, but also services to businesses and tourism.

## **Risks of a very soft fourth quarter are increasing**

Today's release provides a bad opening to the fourth quarter. The service sector drive, which so far has more than compensated for the weakness in manufacturing, seems less of a given in the fourth quarter. This makes the slowdown we already expected in the coming months more liable to downside risks. We are currently forecasting an average GDP growth of 0.7% in 2024, as in 2023.

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