Mixed signals from Italian confidence figures

The combined reading of confidence data from May continues to support our view of a continuation of Italy's gradual recovery in the second quarter, possibly at a slightly softer pace than in the first

People enjoy the May Rome sunshine

Consumers more upbeat in May

The May batch of confidence data offers a mixed picture, confirming that the exit from the economic soft patch will likely be gradual.

Consumer confidence rebounded in May, reaching back to March levels. Households are more optimistic about the state of both the economic environment and their financial situation, consistently reporting diminishing concerns about future unemployment. Both the 'opportunity to save' and the 'opportunity to purchase' durable goods indices improve marginally on the month.

A possible interpretation lies with the coexistence of a resilient labour market and the realisation that if the current disinflationary environment continues, a recovery in real disposable income can also progress. If confirmed, we could expect a gradual acceleration in consumption activity over the second half of 2024, with a possible boost coming from the recently approved incentives for car purchases.

Manufacturing confidence improvement driven by investment goods

On the business front, the picture is more nuanced. Confidence is improving among manufacturers and stable among retailers, but it's deteriorating in services and construction. The manufacturing boost is very much driven by the investment goods component, as confidence is stable for intermediate goods and falls for consumer goods.

The broad manufacturing picture is one of soft current production, a very marginal improvement in orders and a small reduction in inventories. Manufacturers expect a minor improvement in orders and production, and their pricing expectation index increases in May to the highest level since September 2023.

Overall, there's no clear signal that the current manufacturing soft patch is set to improve markedly in the short run.

Construction confidence declines as 'super-bonus' effect evaporates

After the tightening of conditions to get the so-called super-bonus incentives for dwellings, the further contraction of confidence in the construction sector is not surprising. In May, the index fell to its lowest level since December 2022, driven by a deterioration in the orders/construction plans component. Instead, expected orders improve slightly, as does expected employment. There might be a re-composition of activity at play here, with the dwelling component setting back after the superbonus euphoria and the infrastructural component improving as investment projects foreseen as part of the EU recovery plan are realised.

Confidence softens in services, but not in tourism

On the services front, confidence contracted in May for the second consecutive month, driven by a deterioration in transport and storage and information and communication services, while it's stable in tourism services. Order expectations are generally improving, notably again in tourism. As noted with manufacturing, services' pricing expectations also pick up on the month.

Today's confidence data supports our view that the Italian economy is in for a gradual recovery. The phasing out of superbonus incentives might tilt the balance of risks for 2Q24 quarterly growth towards a slightly softer reading than the 0.3% recorded in the first quarter. Overall, the growth picture for the second half of the year remains solid enough, fostered by the support provided by a resilient labour market to real disposable income in a disinflationary environment.

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