

Italy: Confidence data points to a mixed economic outlook

June's confidence data paints a mixed picture for Italy's economy, with consumers increasingly upbeat and businesses remaining less optimistic. We're hopeful for continued growth in the second quarter, but expect some softening off the back of weaker net exports



Today's confidence data releases point to solid potential for a positive second quarter

An upbeat outlook from consumers

The most striking element of June's data came from consumers. We had anticipated an improvement there, but not such a drastic development. The breakdown shows a marked improvement in both economic and personal climates which extends to expectation components. On the back of a slowly improving inflation backdrop, we believe the very reason for consumer optimism lies primarily with the resilience of the labour market.

The unemployment expectation component of the survey slowed markedly in June. When matching this with the decline in the current opportunity to save sub-index, we sense that the compression in the Italian saving ratio is still in place, with a possible positive bearing on private consumption.

Manufacturing confidence softens

On the business front, confidence unsurprisingly declined again among manufacturers, with the lowest levels recorded since January 2021. Here, the decline in orders coupled with a small increase in inventories led to the fourth decline in a row in the production expectation component. Softer demand in key export destination countries such as Germany is apparently taking its toll – and it doesn't seem as though the domestic component linked to the flow of investment activated by the recovery and resilience of European funds is able to compensate. Interestingly, the consumer goods segment seems less affected.

Construction confidence rebound

The only business sector that saw a positive reading was construction. With a three-point rebound, the index is back up close to historical highs, propelled by the residential building component. The tailwind of generous tax incentives for energy-efficient renovations is still at play, suggesting the backlog was so significant that the reduction of the incentives introduced at the beginning of the year has not yet resulted in an obstacle to supply.

Services only softly down, with tourism surprisingly weak

The small decline in services confidence resulted from an increase in the transport, storage and communication components, as well as a surprising decline in tourism services. The latter comes after two months of continued strength and has been driven by recent developments in both current affairs and a sharp fall in orders. It also flashes warning signals for the incoming tourism season.

Second quarter set for positive but softening GDP growth

All in all, today's confidence data release suggests that conditions are still there for a positive second quarter. We're hopeful for continued strength in consumption, which proved surprisingly strong in the first quarter. On the investment front, the construction component still appears able to provide some push. Net exports, however, look set to remain a drag on quarterly growth. We aren't expecting another repeat of the first quarter's 0.6% growth, but should still see a positive reading for the second quarter.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

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