Italian confidence data points to soft growth patch in the fourth quarter

Italy's November confidence data batch shows increasing weakness in construction, services and among consumers. The small improvement in manufacturing is not enough to dispel concerns about the current soft growth patch

Today's release suggests that the Italian economy is unlikely to exit its current soft patch in the fourth quarter

The overall message coming from today's November batch of confidence data is that the Italian economy is still treading through an economic soft patch. The picture is mixed on the business front, where a deterioration in services and construction contrasts with an improvement in manufacturing and retail. The deterioration in consumer confidence should be closely monitored.

In manufacturing, confidence slightly improved for the first time in five months, reflecting a small improvement in orders. The small decline in the inventory component does not support expectations of an imminent start of the inventory cycle, though. Recent developments in the international backdrop with the threat of new tariffs from the US made more credible by Donald Trump's clean sweep victory in the November election are obviously complicating things. The decline in the production expectations sub-component, which was marked among producers of investment goods, might reflect a more uncertain backdrop. All in all, there is not enough evidence just yet of an end to the manufacturing recession but hopefully hints of a plateau.

The weaker confidence in the construction sector is not surprising, nor is the breakdown. Weakness is very much relegated to the dwellings sector, where the phasing out of the Superbonus incentive is showing up. Interestingly, confidence improved in the infrastructural component, as improving orders are likely driven by the implementation of the investment part of the EU-funded national recovery plan. We expect this divergence between the two components to continue over the next few quarters.

The decline in services confidence is very much concentrated in services to businesses, while tourism, transport and communication services all posted monthly gains. Overall confidence in services has reached the lowest level since October 2022. Respondents in the services domain show increasing concerns about the future state of the economy and signal a deterioration in current order books. These developments deserve close monitoring, given the key role that services played as a growth driver over the last quarters.

Consumer confidence also signals increasing stress among households. Consumers are growing more worried about current and future economic developments and consistently report increasing concerns about future unemployment. Interestingly, they do not show increasing concerns about their budgetary position, suggesting more willingness to save and a decreasing interest in purchasing durable goods. The improvement in confidence among retailers might suggest that, for the time being, consumers are prioritising non-durable goods.

All in all, today's release suggests that the Italian economy is unlikely to exit its soft patch in the fourth quarter.

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