

Confidence data shows Italy still mired in stagnation

August confidence indicators paint a picture of economic inertia, with growth momentum still concentrated in the services sector



The Italian service sector was the only bright spot in the latest confidence data

Italy's economy remains in a holding pattern

August data confirms Italy is navigating a transitional phase. Consumer confidence declined, while the composite business index remained flat -masking a split between rising sentiment in services and weakening outlooks elsewhere.

Consumer confidence dips

Consumer sentiment fell back to June levels, driven by deteriorating perceptions of both the economic and personal climate. Expectations for future unemployment edged higher, though intentions to purchase durable goods held steady. Despite resilient employment and subdued inflation supporting a recovery in purchasing power, external uncertainty continues to weigh on household spending. The sharp drop in retail sector confidence suggests that in the third quarter, consumption growth may remain subdued.

Manufacturing confidence softens

Manufacturing sentiment dipped slightly, consistent with ongoing stagnation. Domestic orders improved modestly, but rising inventories of finished goods dampened production expectations. A new inventory cycle appears to have been postponed once again. Trade tensions - particularly US tariffs - continue to cloud demand visibility and investment decisions. In the short run, any rebound likely hinges on increased demand from Germany, spurred by investment plans under the Merz administration.

Construction confidence still falling

Confidence in construction declined further in August, albeit moderately. Residential building held firm, while civil engineering and specialised works deteriorated. The phase-out of the Superbonus has so far proven less disruptive than feared, but infrastructure investments under Italy's National Recovery and Resilience Plan (PNRR) have yet to deliver their full impact.

Services sector offers a bright spot

Services provided the only positive surprise. Confidence rose in transport and communications, while tourism sentiment fell - suggesting a lacklustre summer season, especially in domestic demand. However, anecdotal evidence and industry feedback point to robust foreign tourism flows.

Recovery remains elusive

Overall, the data underscores Italy's struggle to kickstart a recovery, despite the European Central Bank's monetary policy normalisation. On the supply side, manufacturing is stagnating, leaving the services sector to drive growth. On the demand side, consumption and investment remain constrained by global uncertainty. Tomorrow's full second-quarter GDP estimate will offer more clarity, following a preliminary -0.1% quarterly contraction. Based on current indicators, we expect a modest rebound in the third quarter, with annual growth averaging around 0.5%.

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