Italian business and consumer confidence deteriorate in April

The negative impact of global trade tensions showed up in Italy's April confidence data, particularly for market services and consumers. Risks of a soft second quarter are increasing for the country's economy

Milan's business district

Trade tensions likely weighing on confidence and maybe consumption

The escalation of the US tariff issue and the high level of uncertainty it's causing the economic system are now showing up in Italian confidence data. The latest Istat numbers show that the impact was overall negative, affecting both consumers and businesses.

Consumer confidence fell for the second consecutive month in April, reaching the lowest level since May 2024, driven by a sharp deterioration in the perception of the current and future economic environment. While expectations on future unemployment softened somewhat, prudence seems to prevail as the reported opportunity to purchase durable goods retreats. In the fourth quarter of 2024, we had seen a decline in households' saving ratio to close to pre-Covid levels, a move which had helped consumption and might have continued doing so over the first quarter of 2025. The picture might be changing now, as increased uncertainty seems to be inducing new prudence among consumers, notwithstanding a resilient labour market.

Manufacturing inevitably trapped in a soft patch

Given the obvious vulnerability of the Italian manufacturing sector to US tariffs, we would have expected a more meaningful decline in confidence. There was a softening in the relevant index to 85.7 (from 86 in March), which marks a continuation of a long-lasting soft patch rather than a new plunge. A small improvement in orders on the month and stable inventories might have helped here, but a deterioration in the expected production component suggests that a clear exit from the manufacturing soft patch is not imminent and that some positive news flow from the tariff front will be needed for it to materialise. Italian manufacturers might eventually benefit from the German investment pull, but this will likely only prove tangible from 2026 onwards.

Residential and structural sectors still moving in opposite directions

The construction sector continues to show evidence of relative resilience. The moderate decline in aggregate confidence is the result of a sharp decline among residential builders and improvements in the infrastructural domain. In our view, the balancing act between the evaporating impact of the super bonus and the push of recovery fund investments looks set to continue throughout 2025, with a slightly negative overall balance.

Services a reason for growth concerns

The most concerning part of the April confidence release is the market services domain, where confidence fell for the fourth time in a row. To be sure, the monthly deterioration in confidence is contained, but it comes at a time when the support of services to value-added generation would be highly valued, given the persistent manufacturing soft patch. Worryingly, the decline is particularly marked for tourism, in a month when the distribution of holidays should have proved favourable for the sector.

All in all, the April batch of confidence data is not surprising, given the external backdrop. It highlights the risk that, as GDP growth is concerned, the second quarter could be softer than the first in 2025, which is what we are already pencilling in in our forecasts. For the whole of 2025, we are currently forecasting GDP growth at 0.5%, as in 2024.

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