

Italian confidence data only partially hit by Middle East tensions in March

The impact of the war in the Middle East – and its energy price fallout – is clearly visible in confidence data in the consumer and retail domains, while still largely absent in other sectors. At least in the short run, private consumption looks set to remain the weak spot in Italy's growth profile



Milan, Italy

The release of March confidence data – collected over the first 15 days of March – was expected to reflect the widespread impact of the US-Israel attack on Iran and its consequences on energy goods. Data shows that this was true only for consumer and retail business confidence; among manufacturers, service providers and construction businesses, instead, confidence inched marginally up.

Confidence takes a hit among consumers and retailers

Consumer confidence lost almost five points in March, reaching the lowest level since October 2023. The deterioration is widespread among subcomponents, and particularly pronounced in assessments of Italy's current economic conditions and near term outlook. In line with this, expectations for future unemployment have increased markedly, reaching their highest level since

December 2024. Unsurprisingly, against such an uncertain backdrop, consumers report a lower propensity to purchase durable goods and an increasing inclination to save. Consumers have quickly felt the impact of the war on fuel prices at the pump – the average price of petrol increased by 10 cents and that of diesel by 15 cents per litre over the first half of March. Coming at a time when a gradual recovery in purchasing power was still under way, this shock is likely to keep the savings rate close to recent highs in the short term, continuing to weigh on private consumption.

The concurrent fall in retailer confidence to the lowest level since February 2024 looks fully consistent with this picture, and reflects a sharp deceleration in current sales, while expectations for future orders have so far remained largely unaffected.

Confidence marginally up in manufacturing, services and construction

The resilience in confidence in the other business sectors is somewhat surprising, given the long-standing vulnerability to external oil and gas shocks.

Manufacturers report slightly improving orders, slightly lower inventories and a deceleration in expected production, with differences among types of goods.

In construction, where the link to oil and gas prices is more diluted, we note that confidence in civil engineering continues to edge up only slowly. This likely reflects the final push to complete infrastructure projects funded under the EU backed national recovery plan, which expires at the end of August. More surprising is the rebound in confidence in residential construction, where both order books and hiring intentions have improved.

The resilience in the residential sector, notwithstanding the expiry of the most generous tax incentives, might reflect solid underlying demand for housing as mortgage rates have followed the normalisation of monetary policy rates. Households might be prioritising investment in housing over spending on durable goods.

The rise in confidence among service providers is driven solely by tourism, while transport and storage, information and communication, and business services all recorded monthly declines. The tourism exception may still reflect a tail effect from the Milano–Cortina Winter Olympics, although the sharp improvement in expected orders is encouraging for the sector's short term outlook.

We expect growth to decelerate over the first two quarters, with average growth of 0.6% in 2026

All in all, March confidence data confirms that the most immediate impact of the ongoing war in the Middle East on the Italian economy will likely be through private consumption, while investment might respond with a delay. Confronted with a very uncertain geopolitical backdrop, we had already slightly trimmed our forecast for average Italian 2026 GDP growth to 0.6%, on the back of a likely deceleration in the first and the second quarters. March confidence data released today seems consistent with such a profile.

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