Italian confidence data takes a hit in March

The deterioration we're seeing in Italian confidence is broad-based, affecting consumers as well as businesses in services and manufacturing. Only those in the construction sector see an improvement

There's been a big drop in economic confidence in Italy

Sharp fall in consumer confidence

The most striking part about today's release is the sharp decline in Italian consumer confidence, which lost almost four points, dropping back to levels last seen in April 2024. The dip was most likely driven by growing concerns about the country's current and future economic situation.

Consumers have increasingly reported worries about future unemployment, a growing tendency to save and declining intentions to purchase durable goods. Rising visibility of the risks attached to a possible trade war is likely playing a role here.

Resilience in the labour market and the ongoing catch-up in purchasing power – a result of decent wage growth and relatively subdued inflation – are possibly perceived as temporary or at least highly uncertain, increasing the risk of a delay in the recovery in private consumption.

Confidence mildly down in manufacturing

On the business front, the contained decline in manufacturing confidence brings it back to the December 2024 level, after two mildly positive months. No big surprises from the details here; orders have deteriorated, and inventories are mildly up.

Interestingly, employment expectations have improved, possibly signalling that firms are not yet willing to do without precious "hard-to-find" workers in the current highly uncertain environment.

The considerable exposure of Italian exports to the US market is also taking its toll. We had warned against overemphasising the sharp rebound in industrial production in January (which outweighed December's fall) as it was likely due to working day adjustment at the turn of the year. Today's release seems to support such prudence, pointing to a stabilisation rather than an acceleration in February and March, net of some sectoral peaks related to limited frontloading of US imports in anticipation of tariffs.

…with improvements only seen in construction

Confidence only improved mildly in the construction sector, confirming the pattern of weakening residential construction following the phasing out of the superbonus tax incentive and strengthening infrastructural activity resulting from the implementation of the investment part of the EU-funded recovery plan.

Services businesses downbeat

Unfortunately, confidence deteriorated in the services sector, with the lowest reading since April 2022. Here, the deterioration is broad-based, with only transport and storage managing to post almost stable confidence. Services have recently acted as a safety net for domestic GDP growth; a weakening service sector raises risks for Italian growth.

Despite today's weak reading, we think a minor GDP expansion remains possible in the first quarter (after the +0.1% quarterly gain in the fourth quarter of 2024). Looking ahead, however, risks to our 0.7% average 2025 forecast now lie to the downside.

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