

Italian confidence edges higher as modest growth path holds firm

The current confidence picture in Italy is mixed, with visible improvements among consumers and manufacturers and a small deterioration in services and construction. This still seems consistent with positive GDP growth in the third quarter of 2025



We see the Italian economy posting marginal growth rates over the second and third quarters, and picking up slightly in the fourth

Consumers more upbeat in July

Italian consumer confidence improved in July, with most components posting monthly gains except expectations of future economic developments. Interestingly, this did not impact expectations of future unemployment, which remained stable at the June level, confirming past declines. A steady belief in labour market resilience is reflected in improved expectations of household balance sheets and rising intentions of purchasing durable goods. If confirmed, these indications might point to stronger consumption over the summer months. Interestingly, this seems consistent with the improvement in confidence among retailers, driven by better sales expectations.

Signs of improvement in the manufacturing domain confirmed in July

The picture is also slowly improving among manufacturers. Here, confidence saw a fourth consecutive monthly gain, with a slight decline in inventories and a timid increase in orders, mirrored in improving production expectations and possibly hinting at the start of an inventory cycle. This seems more evident among producers of investment goods, who are reaping the benefits of recovery and resilience fund spending. Despite the lingering uncertainty related to the US tariff saga, the stabilisation of manufacturing is now morphing into a slow prospective recovery, which will presumably be fuelled by stronger demand originating from the substantial German investment plan.

Construction confidence softer, with mixed signals from components

On a less positive note, confidence had a modest setback in the construction sector. Unsurprisingly, the fall was mainly driven by a decline in the residential construction component, which had proved surprisingly resilient over the past few months despite the phasing out of the generous Superbonus tax incentive. The infrastructural component is holding up well, though, fuelled by the implementation of investments funded by EU recovery funds.

Confidence softer also in services, within a volatile downward path

Confidence data came in on the weak side among market service providers, with the exception of tourism services. Confidence in the service sector has been somewhat volatile over the last few months, with a downward trend suggesting that the sector cannot indefinitely bear the brunt of economic growth in isolation. Tourism itself is showing some signs of fatigue, particularly in the domestic component.

July confidence data still consistent with low but positive GDP growth in the third quarter

All in all, today's confidence data releases point to a continuation of the low growth path for the Italian economy in the third quarter. Consumption might in principle play a bigger role, given labour market resilience, decent wage growth, and sub-2% inflation. The investment front will still reflect an infrastructural push and a residential drag, with developments in the machinery part very much linked to the end point of the tariff saga.

Should this prove bearable, the reduction in uncertainty would likely translate into a recovery in this component over the last part of 2025. We still believe that the Italian economy will post only marginal growth rates over the second and third quarters and accelerate slightly in the fourth, but we also acknowledge an upward risk emerging if a trade deal with the US is reached soon.

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