

Italian inflation hits 26-year high

January headline inflation came in at 4.8% year-on-year, the highest level since 1996



Prices increased by 4.1% YoY in the hotel and restaurants domain, despite Omicron's impact on tourism and leisure

Inflation accelerates further, still mainly driven by energy prices

According to Istat preliminary data, January headline inflation came in at 4.8% year-on-year (from 3.9% in December 2021), the highest level since 1996, while the core measure was stable at 1.5% YoY. After January's release, the statistical carryover for 2022 inflation is 3.4%.

Once again, data confirms that the ongoing inflationary spell is for the time being very much an energy story, but tentative signs of inflationary spells in other compartments such as food and services suggest that some pass-through of energy-originated price pressures is already materialising. The energy component was up +38.6% YoY, driven mainly by the regulated price component (+93.5% YoY). Food prices were also up 3.8% YoY, driven by the fresh food component, and, surprisingly, prices increased by 4.1% YoY in the hotel and restaurants domain, despite Omicron's impact on tourism and leisure. Within the services domain, the recreational component, for the time being, remains a notable exception.

Compensating measures already in place, but not enough to weather the shock

Late in December, Arera (the Italian regulatory authority for energy, networks and the environment) had already announced that regulated prices would dramatically increase in January, with standard household monthly gains in regulated bills of +55% month-on-month for electricity and +41.8% for gas. These already took into account the impact of compensating measures (the reduction of value-added tax on gas and the introduction of a social bonus for low-income households) taken by the government as part of the 2022 budget to attenuate the impact of higher energy prices on households and micro businesses' balance sheets. As these extraordinary measures will last until the end of March, they should stabilise regulated prices over the quarter.

Normalisation of headline inflation profile will take more time

The January inflation release will likely revive the debate about the extent to which the current inflationary patch is a temporary phenomenon. We believe that it will ultimately be, but that the transition will be slower and the endpoint higher than we thought a few months ago. Structural reasons such as the high dependence on gas for electricity generation (circa 40%) make Italy particularly vulnerable to the vagaries of energy commodity prices. At the same time, labour market developments suggest that the risk of imminent second-round effects on the labour cost front are not likely. Slack in the labour market remains relatively ample (unemployment was at 9% in December), and the gains recorded on the employment front over the last year are mostly ascribed to temporary jobs, which are typically less protected. Manpower scarcity is being increasingly signaled by surveys as an obstacle to production but, for the time being, it seems to be limited to a few sectors. Should energy prices eventually slow down over the rest of the year, this could be partly compensated by increases in the core inflation component. This might postpone the return of headline inflation to the 2% level in December 2022.

With high uncertainty about energy price developments in mind, we tentatively raise our forecast for average inflation to 3.6% (from 3%), which adds downside risks to our growth forecasts.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose

possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.