

## Italian inflation breaks the 11% threshold, driven by energy

The energy component was the driver of the surprisingly strong leap in headline inflation. Possible government interventions could increase volatility in inflation numbers over the rest of the year



These shoppers in Rome are facing the highest inflation numbers in decades

### Highest inflation reading since June 1983

According to preliminary Istat data, Italy's headline inflation figure shot up to 11.9% (from 8.9% in September), widely beating expectations, and marking the highest level since June 1983. The harmonised measure reached 12.8% (from 9.4% in September).

### An energy driven inflation acceleration

The upwards surprise was mainly due to the energy component (+73% in October from +44% in September), with both the regulated and non-regulated components shooting up. The transmission to electricity bills of past gas increases went well beyond expectations. Beyond energy, the other inflation driver was food (+13.1% from 11.4% in September), which confirmed its recent trend. Interestingly, we note a widening gap between goods inflation (+17.2% from 12.5% in September) and services inflation (+3.7% from 3.9% in September), and that looks to be some evidence of the re-opening/tourism effect finally ending.

The energy bias is confirmed by the contained increase in core inflation to 5.3% (from 5% in September). Core inflation remains a reason for concern, but its deceleration is tentatively encouraging and will have to be assessed over the coming months. On the one hand, it is possible that demand concerns will limit the scope for future accelerations; on the other, there remains ample scope for pass-through in the pipeline. This is confirmed by September producer price data, also released earlier today, which also points to inflation increases in the non-energy component.

In the October business confidence survey, businesses (with the exception of manufacturers) revealed non-declining expectations of future prices, again suggesting that the pass-through might not be over. All this will very much determine the degree of stickiness of inflation as the energy peak is passed.

## More inflationary volatility ahead and the government may intervene

Looking ahead, conditions don't seem to be there yet to call the inflation peak. What we will likely see is more volatility in headline numbers over the next few months. Recent declines in gas prices might already be partially reflected in the November inflation release, possibly bringing about a softer inflation print. Furthermore, after such a shocking inflation release, the Italian government will likely feel compelled to speed up the launch of a new package of dedicated compensating measures. We tentatively expect inflation to average 8.1% in 2022, and upgrade our forecast for 2023 to 6.3% on the back of a higher statistical carryover.

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