

A surprise big drop in Italian inflation

Italy's October inflation numbers show a marked deceleration. This is very much an energy and fresh food story, against stable core inflation. As we don't expect an imminent change to the pattern, we're trimming our forecast for average 2025 headline inflation to 1.6%



A marked slowdown in food price inflation helped the overall numbers

Preliminary data for October show Italian headline inflation slowing markedly to 1.2% year-on-year, down from 1.6% in September, a deceleration well beyond expectations. The main drivers were a pronounced slowdown in regulated energy and fresh food prices, more than offsetting the acceleration in prices for recreational, cultural, and personal care services. Core inflation, which excludes fresh food and energy, remained stable at 2%.

Goods prices slowed to just 0.2% year-on-year, while service inflation held steady at 2.6%, widening the gap between the two to 0.4 percentage points.

Today's data confirms that the energy component remains pivotal in shaping the overall inflation trajectory. A comparison with gas and electricity prices recorded over the last two months of 2024 suggests that this base effect is unlikely to fade soon.

The stability of core and service inflation, which are, of course, closely linked, also hints that, at the

start of the third quarter, consumer demand is not accelerating, at least on the services front. This is indirectly confirmed by the October business confidence survey for the services sector, which showed a clear slowdown in price change intentions for the next three months. The same indicator for manufactured goods pointed to stable pricing intentions.

In short, economic stagnation is bringing about a cooling of inflation that is unlikely to reverse sharply in the near term, unless there are unpredictable surprises in energy commodity prices.

As a result, we are revising down our forecast for average inflation in 2025 from 1.7% to 1.6%.

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