Italian inflation surprises to the downside in November

This is still predominantly an energy story, but developments in the core measure and in some services suggest that the softening economic environment is increasingly having a role

Shoppers by the Corso Vittorio Emanuele Cathedral in Milan

Still mostly an energy story

The disinflationary process proved again more marked than expected in November. According to preliminary ISTAT data, the national headline inflation came in at 0.8% YoY (from 1.7% YoY in October), the lowest level since March 2021.

Once more, the main driver of the yearly decline was energy goods, both regulated ones (-36% YoY from -36% in October) and non-regulated (-22.5% YoY from -17.7%), helped to a smaller extent by non-fresh food, recreational services and transport services. These falls more than compensated for a moderate uptick in fresh food inflation. Thanks to the energy goods drag, in November goods inflation entered negative territory, widening the gap (now at 5 percentage points) with decelerating but still positive services inflation.

Core inflation developments suggest other things could soon be at work

A better picture of the underlying inflationary trend is offered by core inflation, which excludes energy and fresh food. Core fell to 3.6% (from 4.2% in October), confirming an accelerating disinflationary trend. Service price deceleration in recreational and transport services provides additional evidence that the re-opening effect is definitely tailing off. The softening economic environment should, in principle, favour the extension of the disinflationary pressures to other parts of the service sector domain.

Admittedly, this is not what the price intention component of the services survey was telling us in November (a second increase in a row of price increase balance), but should the economic slack continue, and energy price pressures remain contained over the winter, tamed pricing intentions should prevail.

The disinflationary process could prove stronger than expected in 2024

It seems that the softening economic environment is adding an extra boost to the disinflationary process beyond more obvious base effects in the energy component. The latter will continue impacting the headline inflation profile, and will likely push up the headline measure over the coming months, but an average 2024 inflation reading close to 2% looks now more than a distinct possibility.

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