

Italian headline inflation bounces in April on base effects

The road to headline disinflation is proving a winding one, and the profile is affected by the timing of past administrative decisions. Stable core inflation is comforting, but we will likely need more time for a clear decline



After posting four consecutive declines, headline inflation surprisingly increased in April to 8.3% year-on-year (from 7.6% in March), according to the preliminary estimate released by Istat. The harmonised measure reached 8.8% YoY from 8.1% in March.

Once again, the driver was energy inflation, this time pushing up the headline measure due to an unfavourable base effect, which we had undervalued. More in detail, the culprit of the acceleration was the non-regulated part of the energy basket (+26.7% YoY from 18.9% in March), helped by recreational services and personal care. The disinflationary impact of regulated energy prices, which we had anticipated, and the small deceleration in food, lodging and travel service prices were not enough to compensate.

Core inflation was stable at 6.3% for the third consecutive month, suggesting that stickiness will likely make the disinflationary process a relatively slow one. After April's release the statistical

carryover for headline and core inflation for 2023 stand at 5.4% and 4.6%, respectively.

All in all, today's data confirms that the disinflationary process is not a linear one, with the profile conditioned by base effects determined by the timing of past administrative actions on energy prices. As a side effect, this adds so much noise to the data that short-term inter-country comparisons are almost useless. Also, the initial reopening effect on some services' prices is proving stickier than expected. Having said that, the path to a further deceleration of inflation remains solid. Producer prices are decelerating sharply and pricing intentions as reported by business surveys have lately extended from manufacturing to services. This is, in principle, good news for core inflation developments, but data is showing that the process will likely be slow, and should accelerate only over the second half of the year. After today's release, we will likely slightly revise up our forecast for average 2023 inflation, now at 5.7%.

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