Snap | 1 February 2023 ITALY

Italian headline inflation decelerates in January, courtesy of energy

Today s release shows a divergence between the headline and core measures, which could continue for a few months. This pattern is unlikely to revive consumption, for the time being, but might start affecting supply

In some eurozone countries, the cost of a 50 litre tank of petrol has risen to levels last seen in 2022 when Russia invaded Ukraine

Regulated energy prices push down headline inflation

The headline inflation peak should now be behind us. According to the preliminary estimate, headline inflation declined in January to 10.1% year-on-year (from 11.6% in December), in line with expectations. Unsurprisingly, the inflation decline was mainly driven by the sharp fall in regulated energy goods inflation (down to -10% YoY from +70.2% YoY), but also non-regulated energy goods, fresh food and recreational services contributed marginally to cool down headline inflation. The expiration of excise cuts on fuels had the expected upwards effect on transport inflation.

The core measure inches up again at a non-accelerating pace

However, the most interesting part of the release, from the European Central Bank perspective,

was the core inflation part. The core measure inched up once again to 6.0% (from 5.8% in December), signalling that the pass-through of past energy price pressures is yet in place, albeit at a non-accelerating pace. This might continue for a few months more, but if energy prices continue to be well-behaved, chances are that the peak in core inflation might be reached by mid-year.

The pattern should continue if gas prices remain well-behaved

Looking ahead, we expect the divergence between headline and core inflation to continue in February, once again courtesy of the energy-related component. With TTF gas prices now hovering in the 60 €/MWh area, we expect retail gas prices to fall markedly in the month. The expected modest increase in the core measure should not prevent headline inflation from decelerating to the 9%+ area in February.

No short-term positive impact on consumption expected

All in all, the inflation picture seems to follow the expected profile. Notwithstanding the headline deceleration, the stubbornness in the core measure remains an issue for short-term growth developments. True, resilience in employment represents a crucial safety net for households, but with contractual hourly wages increasing at a very modest 1.5% yearly pace, it can only limit damages on real disposable incomes. For the time being, consumption looks set to remain under pressure.

Interesting signals on the supply front worth monitoring

Where the energy deceleration might have a more immediate positive effect is on manufacturing, and particularly on energy-intensive sectors. The PMI indicator for January, also released earlier today, was back in expansion territory at 50.4, interrupting a six-month run of sub-50 readings. This is a tentative indication that something might happen on the supply side front already in the first quarter.

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